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June 28, 2019

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA ELECTRONIC FILING

RE: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company, LLC; Docket No. R-2018-3006818, et al.

Dear Secretary Chiavetta:

Attached please find for filing with the Pennsylvania Public Utility Commission the electronic versions of the Peoples Industrial Intervenors' ("PII") Pre-Served Testimony in the above-referenced proceeding (as such Testimony has been accepted into the evidentiary record). The Testimonies are as follows:

1. PII Statement No. 1: Direct Testimony and Exhibits of James L. Crist;
2. PII Statement No. 2: Direct Testimony of Thomas Anderson;
3. PII Statement No. 1-R: Rebuttal Testimony and Exhibit of James L. Crist;
4. PII Statement No. 1-SR: Surrebuttal Testimony and Exhibits of James L. Crist; and
5. PII Statement No. 2-SR: Surrebuttal Testimony of Thomas Anderson

As shown by the attached Certificate of Service, all parties to these proceedings are being duly served. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By Alessandra L. Hylander

Alessandra L. Hylander

Counsel to Peoples Industrial Intervenors

Enclosure
c: Administrative Law Judge Joel H. Cheskis (via email and First Class Mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 28th day of June, 2019, at Harrisburg, Pennsylvania

PII Statement No. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

DIRECT TESTIMONY

AND EXHIBITS

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

APRIL 29, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

DIRECT TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

I. WITNESS BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am James L. Crist, President of Lumen Group, Inc., a consulting firm focused on regulatory and market issues. My business address is 4226 Yarmouth Drive, Suite 101, Allison Park, Pennsylvania, 15101. I am presenting testimony on behalf of the Peoples Industrial Intervenors ("PII").

Q. DO YOU HAVE ANY QUALIFICATIONS OR OTHER SPECIALIZED KNOWLEDGE THAT WOULD ASSIST THE COMMISSION IN ITS DELIBERATIONS IN THIS CASE?

A. Yes.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I have a B.S. in Chemical Engineering from Carnegie Mellon University and an MBA from the University of Pittsburgh. Additionally, I am a Registered Professional Engineer in the Commonwealth of Pennsylvania.

Q. BRIEFLY DESCRIBE YOUR RELEVANT BUSINESS QUALIFICATIONS.

A. I have run a consulting practice for the past 23 years focused on regulated and deregulated energy company strategy, market strategy, and regulatory issues. During 2004 and 2005, I undertook a consulting assignment as the Vice President of Consumer Markets for ACN Energy. ACN is a gas and electric marketer that is active in eight states. Prior to my consulting practice, I worked at three major energy companies for a total of 19 years. Most recently, I was Vice President of Marketing for Equitable Resources, Inc. In that function I was responsible for the development of the company's deregulated business strategy.

Prior to that, I was Vice President of Marketing for Citizens Utilities Company ("Citizens"), responsible for gas, electric, water and wastewater marketing activities in several service territories within the United States. The gas and electric utility operations were in Vermont, Louisiana, Arizona, Colorado, and Hawaii. Under my direction, Citizens initiated commercial and industrial transportation and supply services at its gas operation in Arizona. As a consultant for Citizens I designed a demand response program for its electric operations in Arizona.

Before that, during 1988 through 1994, I was the Marketing Director at the Peoples Natural Gas Company ("Peoples" or "Company") where I was actively involved in many gas transportation programs as the Company relaxed transportation requirements so that customers would have supply choices.

From 1977 through 1988, at Consolidated Natural Gas and the East Ohio Gas Company, I held several engineering and technical management positions encompassing work on energy conversion technology, coal gasification, and combined heat & power ("CHP") systems.

In summary, I have considerable experience in several states involving residential, commercial, and industrial customer utility issues, energy procurement and industry restructuring programs.

In addition to my current consulting practice, I am a Visiting Faculty Scholar at the Katz Graduate School of Business at the University of Pittsburgh.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS PUBLIC UTILITY COMMISSION?

A. Yes, I have appeared before the Pennsylvania Public Utility Commission ("PUC") or "Commission") in several gas and electric regulatory proceedings. Additionally, I provided testimony on a variety of issues relating to energy procurement, industry restructuring, and demand response before regulatory commissions in Arizona, Illinois, Maryland and the U.S. Virgin Islands. I have testified in several Peoples proceedings including the 2006 merger proceeding, the 2013 merger proceeding, and the current case involving the acquisition of Peoples by Aqua America.

In short, I have been involved with Peoples for 34 years, as both an employee and as a consultant and expert witness active in its regulatory filings.

II. THE PEOPLES INDUSTRIAL INTERVENORS

Q. WHO ARE THE MEMBERS OF THE PEOPLES INDUSTRIAL INTERVENORS?

A. In this proceeding, they are ArcelorMittal USA LLC ("ArcelorMittal"), Indiana Regional Medical Center ("IRMC"), and WHEMCO Steel Castings and Lehigh Specialty Melting, Inc. ("WHEMCO"). I will describe each of them in more detail.

Q. PLEASE DESCRIBE ARCELORMITTAL USA LLC.

A. ArcelorMittal's facility is located in Monessen and currently produces high quality coke used in the manufacture of steel. The facility is able to obtain natural gas supply through the Peoples or formerly Equitable distribution systems. After being shut down for several years due to market conditions, the facility is now operating again.

Q. PLEASE DESCRIBE INDIANA REGIONAL MEDICAL CENTER.

A. IRMC is a large regional hospital that has served Indiana County for over 100 years. Natural gas is used in boilers for production of steam and hot water used for space heating, sterilization, food service and laundry operation.

Q. PLEASE DESCRIBE WHEMCO STEEL CASTINGS AND LEHIGH SPECIALTY MELTING, INC.

A. WHEMCO is a steel manufacturer with three facilities in the Peoples service area. WHEMCO is a world class producer of heavy custom steel castings for the global steel making, metalworking, mining, material handling and power generation industries with plants in Midland and West Homestead. Lehigh Specialty Melting is located in Latrobe, has been in operation for more than 100 years, and specializes in the melting of vacuum degassed, argon shrouded carbon and alloy steel ingots for a variety of applications. Natural gas is used in boilers and process heating.

Q. WHAT ARE THE ISSUES YOU WILL BE DISCUSSING?

A. A review of the Company's filing shows that the requested rate increase is excessive, and the allocation based on the Cost of Service Study ("COSS") is inappropriate, in part by placing an unjustified burden on certain segments of large commercial and industrial customers receiving natural gas transportation service from Peoples. In addition, Peoples has not correctly implemented the terms of the PUC's Final Order in the Peoples/Equitable merger as these terms relate to negotiated contracts for customers with gas-on-gas competitive options. Specifically, I will be discussing the following topics.

1. I concur that the Design Day Demand Cost Allocation Method performed by Mr. Feingold is valid and should be utilized to allocate any increase granted by the Commission.

2. The proposed rate adjustments for several volumetric and customer charge blocks in Peoples' proposed Rate Large General Service ("LGS") are excessive and must be moved in line with other proposed increases.

3. Revenue requirements of competitive customers were wrongly assigned to the non-competitive customers in the same customer class and should have been assigned to all non-competitive customers because all customers benefit from the retention of competitive customers.

4. Members of PII were prematurely moved from their competitive rate pricing contacts to full tariff rates, instead of obeying the timetable pledged in Mr. Gregorini's rebuttal testimony in A-2013-2353647 and adopted in the Final Order in that proceeding.

III. COST OF SERVICE STUDY ISSUES

Q. WHAT PROCESS DID MR. FEINGOLD USE TO DETERMINE HIS RECOMMENDATION OF REVENUE ALLOCATION FOR PROPOSED RATES?

A. Mr. Feingold conducted multiple COSS to examine the relative rates of returns of the several customer classes and then formulate revenue allocation for the proposed rates. In examining the relative rates of return, the rate classes whose revenues are below allocated costs should be assigned a larger share of the proposed revenue requirement, and rate classes that show higher rates of return should be assigned a smaller share of the proposed revenue requirement. In some cases, it might be appropriate to decrease the total class revenues.

Q. HOW ARE COSTS ASSIGNED TO CUSTOMER CLASSES IN A COSS?

A. The principle used to determine cost assignments is known as cost causation and is used in COSS by identifying what costs are caused by customers in distinct customer classes and then assigning recovery of those costs to those classes. In natural gas utilities, there may be many costs that are caused by customers from several classes, and the appropriate share of those costs must be allocated among the classes based on cost causation criteria.

Q. WHAT TWO COSS METHODOLOGIES DID MR. FEINGOLD USE?

A. Mr. Feingold conducted a COSS using the Coincident Peak Demand method for allocating demand-related costs, and he also conducted a COSS using the Peak and Average method for allocating demand-related costs. Of the two methods to allocate demand costs, Mr. Feingold explained that average demand, which is the average daily commodity throughput, does not cause demand related costs and penalizes customers with efficient gas consumption characteristics as indicated by high load factors. It is clear from his rationale that the coincident peak demand COSS is the more appropriate model and should be used to determine revenue requirements.

Q. WHAT DID MR. FEINGOLD IDENTIFY AS HIS PREFERED METHOD OF ALLOCATION OF GAS MAINLINE ("MAINS") COST?

A. Mr. Feingold explained that there are two factors that influence the size and cost of distribution mains, and they are the diameter of the pipe, which is determined by the expected peak load on the system, and the total installed footage of the system, which is determined by the number of customers served by the system. Regarding the demand component of mains cost, it is clear that because mains diameters must be sized to meet peak demand, the demand component of mains costs should be allocated based only on peak demand. Mains costs also are causally related to the number of customers. It is apparent that more footage of mains must be installed to interconnect many small customers than to connect one large customer. This means that the cost of the distribution mains should be allocated to customer classes based on the demand of the class and the number of customers in the class.

Q. WHAT WAS MR. FEINGOLD'S RATIONALE FOR PERFORMING MULTIPLE COSS?

A. Mr. Feingold explained that even though a COSS based on peak demand, and allocation of mains based on both the demand and customer allocators is his preferred method, that he conducted additional COSS as a tool to guide revenue allocation and rate design. Given that Mr. Feingold presented credible testimony explaining that coincident peak demand is the driver for distribution system design, and that both the demand and number of customers attached to the system are the drivers for the allocation of mains, the revenue requirements should be determined based on that analyses. The additional studies should be disregarded in determining the rates to be implemented as a result of this proceeding. Mr. Feingold's data is presented on Peoples Exhibit RAF-4, and I recommend that the revenue requirement presented in his preferred method illustrated on Page 1 of 3 be adopted with additional adjustments that I will describe further in this testimony.

Q. IS THE COMPANY'S PROPOSED RATE DESIGN FAIR AND REASONABLE?

A. No. Rate design is the apportionment of recovery of costs between the fixed monthly service charge and the several volumetrically based rate blocks. In the LGS class, Peoples has proposed significant increases in both the monthly customer service charges for the several volumetric blocks of the class, as well as certain rate blocks for the volumetric charges for Peoples' proposed "Transition Rates." The increases are extreme and should not be allowed.

Q. WHAT IS NOTICIABLE ABOUT THE REVENUE ALLOCATION IN THE LARGE GENERAL SERVICE CLASS?

A. It is very apparent that Peoples plans on a substantial portion of its revenue collection to occur through the monthly service charge as this charge has been increased substantially. For industrial customers, the volumetric delivery charges receive increases in a range of 10.6% to 21.5%, which are significant.

What is also quite noticeable are the proposed increases in the monthly customer charge. In the LGS class, the charges range from 31.7% to a whopping 138.5%. No customer should experience an increase of that magnitude, especially an increase that is triple digits. Exhibit___(JC-1) is a table that shows the percentage increase of both the fixed customer charges and the volumetrically based delivery charges.

Q. WHAT IS THE REAL IMPACT OF THE PEOPLES RATE INCREASE ON ARCELOR?

A. Arcelor's customer impact testimony by Mr. Anderson (PII Statement No. 2) notes that the Monessen facility will be receiving a 200% rate increase. Mr. Feingold stated that he applied the principal of gradualism in determining his rate hike recommendations but that is not apparent here. Peoples is not following the rules of gradualism as shown by the significant rate increases being faced by the Monessen facility (*i.e.*, 200%) and tariffed rate customers (*i.e.*, 78.6% as noted below). Current tariff rate customers in the second block of the LGS Industrial Transitional rate will experience increases of 138% in the monthly customer charge and 18% in the volumetric charge. A total increase of 78.6% is not gradual.

Q. WHY DOES PEOPLES CLAIM THAT THE INCREASES IN THE TOTAL MONTHLY BILLS ARE REASONABLE?

A. Peoples has engaged in the practice of "front loading" its rates, which represents a substantial shift of revenue collection from the volumetric blocks, which are subject to volatility due to weather, to the guaranteed fixed monthly customer charge which a customer must pay regardless of their volumetric use of gas in the month. This front loading effectively lowers Peoples' risk of revenue collection. I have reviewed the testimony of Peoples' rate of return witness, Mr. Moul, who addresses risk as an influencing component of the rate of return a utility might expect. While Mr. Moul speaks of several reasons that he wishes to have Peoples receive a higher rate of return, he did not mention the effect of front-loading the rate design and the commensurate reduction of risk associated with that rate structure that benefits the Company. If the proposed rate structure remains unaltered without adjustments to the exceptionally high fixed customer charges, then Mr. Moul's rate of return wishes must be reexamined and tempered.

Q. WHAT STRUCTURE WOULD BE FAIRER FOR THE RATE DESIGN?

A. While there are lots of moving parts as the appropriate revenue requirements are determined, once they are determined for the LGS class the rate design should then apply similar changes (increases or decreases) across all the customer charges and volumetric rate blocks. The Company should be directed to produce its proof of revenues schedule accordingly.

IV. THE COMPANY ERRED IN ASSIGNING REVENUE INCREASES BY CLASS FOR IT DID NOT TAKE INTO ACCOUNT THAT COMPETITIVE CUSTOMERS CAN BEAR NO INCREASE

Q. DO YOU AGREE WITH THE COMPANY'S ASSIGNMENT OF REVENUE TO THE LGS CLASS?

A. No. Mr. Feingold clearly understands that competitively situated customers can bear no rate increase. He has stated that such customers are present in SGS, MGS, and LGS rate classes, but most of the competitive customers are in the LGS class. He explained that the standard rates to other, non-competitive, customers were increased to recover the entirety of the revenue increase assigned to each of the three rate classes. He also recognizes and admits that, "it is important to understand that any greater level of revenue sought from these rate classes will have a disproportionate impact on the level of the Company's standard rates proposed for these rate classes." *See* Direct Testimony of Russell Feingold, Peoples Statement No. 11, p. 45. While it is comforting to know that Mr. Feingold recognizes that non-competitive customers bear the burden of any increase of revenue requirement for competitive customers, it is puzzling why that revenue requirement would be assigned only to other customers within the same class. This is not right as it would produce an excessively large increase for just the customers within that same class.

Q. DOES PII HAVE MEMBERS THAT ARE SERVED UNDER THE LGS RATE CLASS?

A. Yes.

Q. SHOULD THE ENTIRE LGS CLASS INCREASE BE THE RESPONSIBILITY OF JUST THE NON-COMPETITIVE LGS CUSTOMERS?

A. No. The merit of offering competitive rates to competitive customers has been established in several rate proceedings of Peoples and other Natural Gas Distribution Companies ("NGDCs") where competition exists and the NGDCs engage in that practice. Offering competitive rates to retain customer load benefits all the classes of customers of the NGDC for those competitive rate customers are making a positive contribution to revenues, in excess of the marginal costs to serve them. For this reason, the increase in revenue that the Company has allocated to the non-competitive customers of the LGS class should actually be allocated to all non-competitive customers of all classes.

Q. WHAT IS THE SOURCE OF DATA OF COMPETITIVE AND NON-COMPETITIVE CUSTOMERS IN THE LGS CLASS?

A. Ms. Scanlon's Exhibit 3, Schedule 15, Attachment E, Page 5 of 6, Line 47 LGS Transport Negotiated Delivery states that 16,137,769 Mcf out of total LGS Transport volumes of 22,082,426 Mcf are competitive volumes. The following Page 6 of 6, Line 19 Industrial Legacy LGS Transport Negotiated Delivery states that 13,082,577 Mcf out of 18,093,483 Mcf are competitive volumes.

Q. WHAT ARE THE PERCENTAGES OF COMPETITIVE AND NON-COMPETITIVE CUSTOMERS IN THE LGS TRANSPORT CLASS?

A. Combined, the negotiated delivery volumes of LGS and Industrial Legacy LGS are 29,220,3456 Mcf out of 40,175,909 Mcf. The competitive customers represent 72.7% of the class volumes while the non-competitive customers represent 27.3% of the class volumes.

Q. ARE THERE NEGOTIATED DELIVERY CUSTOMERS IN OTHER CLASSES?

A. Yes. The SGS class has 7,661 Mcf of flex volumes (*i.e.*, 0.2% of the class volumes) and the Industrial Legacy SGS class has 307 Mcf of flex volumes (*i.e.*, 3.1% of the class volumes). The MGS class has 346,481 Mcf of flex volumes (*i.e.*,2.8% of the class volumes) and the Industrial Legacy MGS class has 10,707 Mcf of flex volumes (*i.e.*, 1.3% of the class volumes). The flex customers in those classes will not be bearing any increases so the same issue of having the non-flex customers bearing the entire class increase exists. The magnitude of the impact is much less because of the smaller flex amounts.

Q. BASED ON THAT, WHAT IS THE AMOUNT OF THE REVENUE REQUIRMENT THAT SHOULD BE ALLOCATED FROM THE INDUSTRIAL CLASS TO THE OTHER RATE CLASSES?

A. Currently, Peoples proposes to allocate an increase of $1,293,389 (Exhibit RAF-4, Page 3 of 3, Table 4) to the non-competitive LGS customers. This in itself is unfair as it results in the LGS class having a rate of return of 10.28% and a relative ROR of 1.29, which is higher than any of the other classes. Instead, only 27.3% of the proposed increase amount or $353,095 should be allocated to the LGS class, specifically to the non-competitive customers in that class. Mr. Feingold should be directed to update his proposed revenue allocations accordingly and reallocate that amount to the other classes using the same ratio of revenue allocation proposed by the Company.

V. THE COMPANY ERRED AND MOVED COMPETITIVE CUSTOMERS TO FULL TARIFF RATES IN ADVANCE OF THE SCHEDULE MANDATED IN THE COMMISSION ORDER.

Q. WHAT DESCRIPTION DID MS. SCANLON PROVIDE REGARDING TREATMENT OF FORMERLY COMPETITIVE CUSTOMERS?

A. Ms. Scanlon acknowledges that customers that were competitively situated and able to receive service from the former T. W. Phillips and Equitable are now customers of Peoples through the merger process of those two utilities being purchased by Peoples, and as such, are no longer competitive. She claims that in the merger process, "the parties agreed to extend existing flex rate discounts to customers lying in both Peoples/PTWP and Equitable service territories through December 31, 2018, or through the end of the contract by its own terms, whichever is later." *See* Direct Testimony of Carol Scanlon, Peoples Statement No. 5, p. 14. In other words, she believes that the earliest the Company should eliminate a customer's competitive discount would be December 31, 2018. She is wrong in her portrayal of Company behavior and in her understanding of the Commission's Final Order in the very docket she references (*i.e.*, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651)

Q. HAS THE COMPANY VIOLATED THE TIMETABLE MS. SCANLON STATED?

A. Yes. I am aware of at least once instance where a customer, the Indiana Regional Medical Center, had its competitive rate eliminated in January 2017, which is well before the December 31, 2018 date that Ms. Scanlon claimed.

Q. IS MS. SCANLON'S CLAIM THAT PEOPLES MAY DISCONTINUE DISCOUNTED RATES TO FORMERLY COMPETITIVE CUSTOMERS AS OF DECEMBER 31, 2018 ACCURATE?

A. No. Ms. Scanlon referenced the Commission's Final Order in the Peoples/Equitable merger case that approved the Joint Petition for Approval of Settlement of All Issues ("Joint Petition") which is attached (without accompanying appendices) as Exhibit___(JC-2). Specifically, paragraph 33 states: "Peoples agrees to phase out gas-on-gas competition consistent with the rebuttal of Peoples' witness Gregorini in this proceeding." *See* Exhibit___(JC-2), p. 10.

Therefore, we must review what Mr. Gregorini stated regarding the timing of the phase out of competitive discounting in his rebuttal testimony, which is set forth as Exhibit___(JC-3). Specifically, Mr. Gregorini states that: "…phase-out should occur in the first distribution rate case with an effective date following the end of the five-year extension." *See* Exhibit___(JC-3), p. 8.

This base rate case is indeed the first distribution rate case of Peoples with an effective date following the end of the five-year extension. Peoples may not phase out the competitive discounted rate upon filing its rate case, but must wait until the final order is rendered in this proceeding, and that likely will be on or about October 29, 2019.

Q. HAS THE COMPANY VIOLATED THE TIMETABLE MANDATED IN THE COMMISSION ORDER?

A. Yes. In addition to the situation I previously described concerning the Indiana Regional Medical Center, a second PII member had its competitive rate eliminated on December 31, 2018, which is well before October 29, 2019 date permitted by the Commission Order. It is likely that other competitive customers had their competitive discounts discontinued prematurely.

Q. WHAT IS THE SUMMARY OF YOUR TESTIMONY?

A. My recommendations are:

1. Use the Design Day Demand COSS and assign class revenues according to Table 1 of Exhibit RAF-4, Page 3 of 3.

2. Reject the excessive increases in the proposed charges for the LGS classes and make adjustments to reflect the points raised in my testimony.

3. Recognize that the presence of competitive customers of the LGS class provides benefits to all customer classes and assign their share of the revenue requirement to all non-competitive customers in all classes.

4. Comply with the Order in the 2013 Peoples-Equitable merger case regarding the schedule for eliminating competitive discounts which were prematurely terminated.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

EXHIBITS

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

APRIL 29, 2019

Rate LGS Customer Charge

Annual Volume	Current Charge	Proposed Charge	% Change
25,000 to 49,999 McF/Yr	$ 443.00	$ 700.00	58.0%
50,000 to 99,999 McF/Yr	$ 545.00	$ 1,300.00	138.5%
100,000 to 199,999 McF/Yr	$ 793.00	$ 1,400.00	76.5%
Over 200,000 McF/Yr	$ 1,215.00	$ 1,600.00	31.7%

Rate LGS Delivery Charge

Annual Volume	Current Charge	Proposed Charge	% Change
25,000 to 49,999 McF/Yr	$ 2.3913	$ 2.4581	2.8%
50,000 to 99,999 McF/Yr	$ 2.3913	$ 2.4109	0.8%
100,000 to 199,999 McF/Yr	$ 2.3913	$ 2.3636	-1.2%
200,000 to 749,999 McF/Yr	$ 2.3913	$ 2.2454	-6.1%
750,000 to 1,999,999 McF/Yr	$ 2.3913	$ 1.9617	-18.0%
Over 2,000,000 McF/Yr	$ 2.3913	$ 1.5127	-36.7%

Rate LGS - Transitional Industrial Delivery Charge

Annual Volume	Current Charge	Transitional Charge	% Change
25,000 to 49,999 McF/Yr	$ 1.7553	$ 2.1248	21.1%
50,000 to 99,999 McF/Yr	$ 1.7553	$ 2.0840	18.7%
100,000 to 199,999 McF/Yr	$ 1.7553	$ 2.0432	16.4%
200,000 to 749,999 McF/Yr	$ 1.7553	$ 1.9409	10.6%
750,000 to 1,999,999 McF/Yr	$ 1.7553	$ 1.7533	-0.1%
Over 2,000,000 McF/Yr	$ 1.7553	$ 1.5127	-13.8%

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Peoples Natural Gas Company LLC, Peoples TWP LLC, and Equitable Gas Company, LLC for All of the Authority and the Necessary Certificates of Public Convenience (1) to Transfer All of the Issued and Outstanding Limited Liability Company Membership Interest of Equitable Gas Company, LLC to PNG Companies LLC, (2) to Merge Equitable Gas Company, LLC with Peoples Natural Gas Company LLC, (3) to Transfer Certain Storage and Transmission Assets of Peoples Natural Gas Company LLC to Affiliates of EQT Corporation, (4) to Transfer Certain Assets between Equitable Gas Company, LLC and Affiliates of EQT Corporation, (5) for Approval of Certain Ownership Changes Associated with the Transaction, (6) for Approval of Certain Associated Gas Capacity and Supply Agreements, and (7) for Approval of Certain Changes in the Tariff of Peoples Natural Gas Company LLC.	:	Docket Nos. A-2013-2353647 A-2013-2353649 A-2013-2353651

JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL ISSUES

TO THE HONORABLE MARK A. HOYER, ADMINISTRATIVE LAW JUDGE ("ALJ"):

I. INTRODUCTION

Peoples Natural Gas Company LLC ("Peoples"), Peoples TWP LLC ("Peoples TWP"), and Equitable Gas Company, LLC ("Equitable"),[1] the Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Pennsylvania

[1] Hereinafter, Peoples, Peoples TWP, and Equitable will collectively be referred to as the "Joint Applicants."

Independent Oil & Gas Association ("PIOGA"), Dominion Retail, Inc. and Interstate Gas Supply, Inc. (collectively "NGS Parties"), Snyder Brothers, Inc. ("Snyder Brothers"), United States Steel Corporation ("US Steel"), and Citizens for Pennsylvania's Future ("PennFuture"), all parties to the above-captioned proceeding (hereinafter, singularly "Signatory Party" and collectively "Signatory Parties"), hereby file this "Joint Petition for Approval of Settlement of All Issues" ("Settlement") and respectfully request that ALJ and the Commission approve the above-captioned Joint Application ("Joint Application") consistent with the terms and conditions set forth in this Settlement.[2] This Settlement represents a full settlement of all issues in the instant proceeding. In support of the Settlement, the Signatory Parties state the following:

II. BACKGROUND

1. Peoples is a "public utility" and a "natural gas distribution company" as those terms are defined in Code Sections 102 and 2202 66 Pa.C.S. §§ 102, 2202. Peoples provides natural gas services to approximately 360,000 customers throughout its certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

2. Peoples TWP is a "public utility" and a "natural gas distribution company" as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Peoples TWP provides natural gas services to approximately 60,300 customers throughout its service territory,

[2] The Pennsylvania State University ("PSU"), Peoples-Equitable Merger Intervenors ("PEMI"), Utility Workers Union of America, Local 666 ("UWUA"), International Brotherhood of Electrical Workers, Local 1956 ("IBEW"), and United Steelworkers International Union, Local 12050 ("Steelworkers") are not parties to the Settlement but have indicated that they do not object. As more fully explained below, certain Signatory Parties join in specific provisions of this Settlement and do not object to other provisions.

which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland.

3. Equitable is a "public utility" and a "natural gas distribution company" as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Equitable provides natural gas services to approximately 260,000 customers throughout its Pennsylvania certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Clarion, Greene, Indiana, Jefferson, Washington, and Westmoreland.

4. On March 19, 2013, the Joint Applicants filed with the Commission the Joint Application requesting all necessary approvals authorizing: (1) the transfer of 100% of the issued and outstanding limited liability company membership interests in Equitable, an indirect subsidiary of EQT Corporation ("EQT"),[3] to PNG Companies LLC ("PNG"), an indirect subsidiary of SteelRiver Infrastructure Fund North America LP ("SRIFNA"); (2) the merger of Equitable with Peoples, a wholly-owned subsidiary of PNG, and the operation of Equitable as an operating division of Peoples; (3) the transfer of certain storage and transmission assets of Peoples to EQT; (4) the transfer of certain assets and/or the exchange of certain services between EQT and Equitable; (5) certain PNG ownership changes associated with the transaction; (6) the associated gas capacity, storage, interconnects, leases, and supply service agreements among Peoples, Peoples TWP, Equitable, and/or EQT set forth in the Joint Application; and (7) certain changes in Peoples' tariff necessary to carry out the transactions (hereinafter, collectively the "Transaction").

5. On March 21, 2013, a Secretarial Letter was issued directing the Joint Applicants to publish notice of the Transaction once in a newspaper having a general circulation in the area

[3] Unless otherwise specified in this Joint Application, all references to "EQT" shall be deemed to also include all of its subsidiaries and affiliates.

involved and file proof of publication with the Commission. The Joint Applicants filed Proof of Publication with the Commission on April 2, 2013.

6. On April 8, 2013, I&E entered a Notice of Appearance. On April 10, 2013, the OSBA filed a Notice of Intervention, Protest, Public Statement, and Notice of Appearance. On April 11, 2013, the OCA filed a Notice of Intervention, Protest, and Public Statement.

7. Protests and Petitions to Intervene were filed by the following: the NGS Parties; UWUA, PSU, Snyder Brothers, Steelworkers, IBEW, PEMI, PIOGA, and PennFuture.[4]

8. On April 17, 2013, the Joint Applicants served the following prepared direct testimonies and accompanying exhibits: Direct Testimony of Christopher P. Kinney, Joint Applicants Statement No. 1; Direct Testimony of Morgan K. O'Brien, Joint Applicants Statement No. 2; Direct Testimony of Fredrick K. Dalena, Joint Applicants Statement No. 3; Direct Testimony of Joseph A. Gregorini, Joint Applicants Statement No. 4; Direct Testimony of Jeffrey S. Nehr, Joint Applicants Statement No. 5; Direct Testimony of Kenneth M. Johnston, Joint Applicants Statement No. 6; Direct Testimony of Ruth Ann DeLost, Joint Applicants Statement No. 7; Direct Testimony of James I. Warren, Joint Applicants Statement No. 8; and Direct Testimony of John M. Quinn, Joint Applicants Statement No. 9.

9. On April 23, 2013, the Commission issued a notice scheduling a prehearing conference in the above-captioned matter on May 9, 2013.

10. The active parties undertook extensive formal and informal discovery, prior to and subsequent to the initial prehearing conference.

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[4] The Retail Energy Supply Association and Dominion Transmission Inc. also filed and subsequently withdrew Petitions to Intervene. As a result, Retail Energy Supply Association and Dominion Transmission Inc. are no longer parties to this proceeding.

11. An initial prehearing conference was held before the ALJ on May 9, 2013. The active parties filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule was established.

12. On May 29, 2013, the Joint Applicants served the following direct testimony and accompanying exhibits: Supplemental Direct Testimony of Christopher P. Kinney, Joint Applicants Statement No. 1-S; Supplemental Direct Testimony of Jeffrey S. Nehr, Joint Applicants Statement No. 5-S; Direct Testimony of Bruce Grabiec, Joint Applicants Statement No. 10; and Direct Testimony of Christine S. Mayernik, Joint Applicants Statement No. 11.

13. On July 24, 2013, the parties other than the Joint Applicants served direct testimony. I&E served the Direct Testimony of Ralph Graeser, I&E Statement No. 1, and the Direct Testimony of Ethan H. Cline, I&E Statement No. 2. The OCA served the Direct Testimony of Richard S. Hahn, OCA Statement No. 1, and the Direct Testimony of Nancy Brockway, OCA Statement No. 2. The OSBA served the Direct Testimony of Brian Kalcic, OSBA Statement No. 1. The NGS Parties served the Direct Testimony of James L. Crist, NGS Statement No. 1. PIOGA served the Direct Testimony of Louis D. D'Amico, PIOGA Statement No. 1. Snyder Brothers served the Direct Testimony of Benjamin T. Snyder, Snyder Brothers Statement No. 1. PennFuture served the Direct Testimony of John Plunkett, PennFuture Statement No. 1. No other party served direct testimony.

14. On August 19, 2013, the Joint Applicants served the following rebuttal testimony: Rebuttal Testimony of Morgan K. O'Brien, Joint Applicants Statement No. 2-R; Rebuttal Testimony of Fredrick K. Dalena, Joint Applicants Statement No. 3-R; Rebuttal Testimony of Joseph A. Gregorini, Joint Applicants Statement No. 4-R; and Rebuttal Testimony of Jeffrey S. Nehr, Joint Applicants Statement No. 5-R. The following rebuttal testimony also was served by

parties other than the Joint Applicants: the OSBA served the Rebuttal Testimony of Brian Kalcic, OSBA Statement No. 2; and the NGS Parties served the Rebuttal Testimony of James L. Crist, NGS Statement No. 2.

15. On September 6, 2013, the Joint Applicants served the following surrebuttal testimony: Surrebuttal Testimony of Fredrick K. Dalena, Joint Applicants Statement No. 3-SR; Surrebuttal Testimony of Joseph A. Gregorini, Joint Applicants Statement No. 4-SR; and Surrebuttal Testimony of Jeffrey S. Nehr, Joint Applicants Statement No. 5-SR. The parties other than the Joint Applicants also served surrebuttal testimony on September 6, 2013. I&E served the Surrebuttal Testimony of Ralph Graeser, I&E Statement No. 1-SR, and the Surrebuttal Testimony of Ethan H. Cline, I&E Statement No. 2-SR. The OCA served the Surrebuttal Testimony of Richard S. Hahn, OCA Statement No. 1-SR, and the Surrebuttal Testimony of Nancy Brockway, OCA Statement No. 2-SR. The OSBA served the Surrebuttal Testimony of Brian Kalcic, OSBA Statement No. 3. The NGS Parties served the Surrebuttal Testimony of James L Crist, NGS Statement No. 3. PIOGA served the Surrebuttal Testimony of Louis D. D'Amico, PIOGA Statement No. 1-S. Snyder Brothers served the Surrebuttal Testimony of Benjamin T. Snyder, Snyder Brothers Statement No. 1-S. PennFuture served the Surrebuttal Testimony of John Plunkett, PennFuture Statement No. 2.

16. As a result of extensive settlement discussions, all active parties other than PennFuture reached a settlement in principle prior to the September 11, 2013 evidentiary hearing that fully resolved all issues related to the Transaction ("Transaction Issues"), except for PennFuture's proposal that the Joint Applicants be required to implement a five-year, $220 million demand side management ("DSM") plan as a condition of the Commission's approval of

the Transaction ("PennFuture Issues"). Therefore, PennFuture was the only active party that took no position on the settlement in principle of the Transaction Issues.[5]

17. An evidentiary hearing was held on September 11, 2013. At the evidentiary hearing, the active parties also moved their respective testimonies and exhibits into the record. The remaining PennFuture Issues also were litigated at the evidentiary hearing.

18. Following the conclusion of the evidentiary hearing, the Joint Applicants and PennFuture continued to engage in additional settlement discussions in an effort to resolve the remaining PennFuture Issues. As a result of these efforts, the Joint Applicants and PennFuture reached a settlement in principle that fully resolved all of the remaining PennFuture Issues.[6]

19. As a result of the extensive efforts described above, the active parties have fully resolved all of the issues raised in this proceeding.

20. The Settlement agreed to by the Signatory Parties is set forth in the following Section III.

III. SETTLEMENT

21. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all of the Signatory Parties in this proceeding. The Signatory Parties unanimously agree that the Settlement, which resolves all the Signatory Parties' issues, is in the public interest. The Signatory Parties respectfully request that the approvals sought in the above-referenced Joint Application should be granted subject to the terms and conditions that follow.

[5] PSU, PEMI, UWUA, IBEW, United Steelworkers, and PennFuture are not parties to the settlement of the Transaction Issues but do not oppose the settlement of the Transaction Issues. PennFuture's non-opposition is contingent on the ALJ's and the Commission's approval of Paragraphs 107 through 114.

[6] I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, US Steel, PSU, PEMI, UWUA, IBEW, and Steelworkers are not parties to the settlement of the PennFuture Issues but do not oppose the settlement of the PennFuture Issues.

22. For purposes of this Settlement, references to "Peoples" shall include the merged assets of Peoples Natural Gas Company LLC and Equitable Gas Company LLC following the Closing of the Transaction (the "Closing") to be operated as the Peoples Division and Equitable Division of Peoples.

23. The Signatory Parties agree to the following, which fully resolve all the issues raised in this proceeding:

A. SETTLEMENT OF TRANSACTION ISSUES

24. The Joint Applicants, I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, and US Steel join in Paragraphs 24 through 106 of this Settlement, which fully resolve all the Transaction Issues related to the Transaction proposed in the Joint Application.[7]

1. Financial Conditions

25. The existence of an acquisition premium for ratemaking purposes will be determined under the Uniform System of Accounts (Account 114).

26. Any acquisition premium recorded on Peoples' books will be permanently excluded from rate base in establishing future rates subject to the Commission's jurisdiction. Regarding storage and pipeline assets transferred from Peoples to EQT that will provide services to Peoples pursuant to FERC-regulated agreements, the Joint Applicants will not include any acquisition premium in such rates.

27. Peoples will not claim, in any future rate proceedings, Transaction and Transition Costs to complete the transaction and any related tax effect for such items shall also be excluded in setting rates. Regarding storage and pipeline assets transferred from Peoples to EQT that will

[7] PSU, PEMI, UWUA, IBEW, and United Steelworkers do not join in Paragraphs 24 through 106 of this Settlement, but have no objection to these provisions. As set forth in Paragraph 108, PennFuture does not object to Paragraphs 24 through 106 provided the ALJ and Commission also approve Paragraphs 107 through 114.

provide services to Peoples pursuant to FERC-regulated agreements, the Joint Applicants will not include any Transaction or Transition Costs in such rates.

28. Peoples' debt costs will be established in future rate proceedings. It will be Peoples' burden to demonstrate that its debt costs are reasonable. All parties reserve their right to review and challenge any debt cost claim.

29. Peoples will not defer any Transaction or Transition Costs identified in Paragraph 27 above, such costs shall be borne exclusively by Peoples' shareholders.

30. The existing base rates of the Peoples Division shall be reduced on one day's notice following the Closing to reflect the transfer of Peoples' transmission and storage assets to EQT as set forth in the Application Appendix K (Exhibit MKO-1) ("Peoples Adjusted base rates") consistent with Paragraph 34 and as set forth in "**Appendix A**" to this Petition. Peoples agrees that post-closing the capital structure of Peoples will be maintained at an approximate level of 50% debt and 50% equity.

31. The Peoples Adjusted base rates as defined herein and Equitable's current base rates adopted for the Equitable Division will be capped until January 1, 2018, unless there are substantial changes in regulation or federal tax rates or policy. This paragraph shall not prohibit changes in rates pursuant to the State Tax Adjustment Surcharge, the Universal Service Charge, Distribution System Improvement Charge ("DSIC") or Purchased Gas Cost ("PGC") Charges. If Peoples determines that it needs to file a general base rate case with new rates becoming effective after the expiration of the rate cap ending January 1, 2018, but prior to January 1, 2019, Peoples agrees to demonstrate, consistent with the reports required by Paragraph 45, that its claim includes at least $15 million of synergy savings resulting from the Transaction. If such

demonstration is not made, any difference will be imputed in setting rates in the general base rate case.

32. If the Commission determines in the Investigation at Docket No. I-2012-2320323, that all natural gas distribution companies that offer discounted distribution rates must absorb all or a portion of gas on gas discounts by the effective date of Peoples' or Peoples TWP's next general rate proceeding, Peoples and Peoples TWP agree to impute revenues for those competitive service customers whose rate discounts are solely the result of competition between the Joint Applicants (Peoples, Peoples TWP and Equitable), to the extent required, and at the levels proscribed, by the Commission's action at Docket No. I-2012-2320323, in the test period used to establish rates. Nothing in this paragraph shall be construed to prohibit Peoples or Peoples TWP from contending in such proceeding that the tariff rates for classes of customers receiving such discounts be set at the cost to serve tariff rate.

33. Peoples agrees to phase out gas-on-gas competition consistent with the rebuttal testimony of Peoples' witness Gregorini in this proceeding.

34. Effective with the Closing, the Peoples Division and Equitable Division rates for collections under the DSIC mechanism will be frozen at the current levels until such time as Peoples files a new combined Long Term Infrastructure Improvement Program ("LTIIP") plan or Asset Optimization plan for 2015 through 2019 that addresses the effects of the Transaction including how redundant facilities will be handled. Peoples revised LTIIP will take into account the transferred assets and the improvements to be made to those assets. Peoples' DSIC rate will be reduced at Closing to reflect any amounts included in DSIC related to improvements to plant transferred to EQT. This clause must be read in conjunction with Paragraph 62 as to the additional threshold that must be met for Equitable Division to employ its DSIC.

35. The Peoples Division PGC rates to sales and transportation customers will be adjusted on one day's notice following the Closing to reflect the charges for services to be provided by Equitrans, L.P. ("Equitrans") on the Allegheny Valley Connector ("AVC") and adjustments to retainage rates approved in Peoples 1307(f)-2013 proceeding to remove retainage to be charged on the transferred assets as set forth in "**Appendix B**". The Peoples Division rates shall be adjusted to reflect costs under the new agreements for capacity and supply on an actual basis in quarterly PGC filings and in the next Peoples' Division annual PGC filing pursuant to Section 1307(f) of the Public Utility Code. The Peoples rates shall continue to be subject to reconciliation to actual costs pursuant to Section 1307(f) of the Public Utility Code. Peoples agrees to demonstrate that it is managing these agreements to comply with its least cost procurement obligation in its annual Section 1307(f) filings. Peoples will have the right to conduct an annual audit of the computation of any charges under the AVC agreement with the cooperation of EQT and provide that report to I&E, OCA and OSBA.

36. PNG/Peoples and EQT agree that the AVC agreement for the services to Peoples from the transferred assets shall have an initial term of 20 years and shall provide Peoples with a Right of First Refusal.

37. Peoples or PNG shall issue and maintain separately issued debt held by investors not affiliated with SteelRiver or its affiliates, unless the Commission determines that ratepayers will experience a net benefit from any other Company proposal.

38. Peoples will not request a capital structure for ratemaking purposes which is outside the range of capital structures employed by comparable gas distribution companies. All Signatory Parties reserve their right to review and challenge any proposed capital structure.

39. For a four-year period following Closing, Peoples will provide thirty (30) day's prior notice to the Commission, the OCA, I&E, and OSBA if it intends to make a distribution to PNG which distribution will cause its actual debt ratio, excluding working capital facilities, to exceed 55% of total capitalization.

40. LDC Holdings' consolidated long term debt ratio as a percent of total capitalization shall not exceed 60% for any period longer than one year absent approval from the Commission. Any request for approval will be considered on an expedited basis, if so requested.

41. Peoples and Peoples TWP will be ring fenced from other companies owned by SteelRiver managed funds as described in the Joint Application.

42. Peoples' dividends to PNG shall be limited to a level that maintains a maximum debt ratio of 55%, excluding working capital facilities, unless approved by the Commission.

43. Peoples shall not do the following except as approved by the Commission upon a showing of net benefit to retail customers:

(a) guarantee the debt or credit instruments of PNG, LDC Holdings, LDC Funding, or any affiliate not regulated by the Commission;

(b) mortgage utility assets on behalf of PNG, LDC Holdings, LDC Funding, or any affiliate other than in conjunction with financing provided by PNG to Peoples; or

(c) loan money or otherwise extend credit to PNG, LDC Holdings, LDC Funding, or any affiliate for a term of one year or more.

44. SteelRiver will seek approval of the Commission of any future consolidation or merger of Peoples and Peoples TWP.

45. Prior to the first base rate filing after Closing, Peoples shall provide annual reports to the Commission and the parties to this proceeding describing and quantifying the levels of merger savings actually being achieved.

2. Books and Records

46. Peoples shall maintain reasonable accounting controls and pricing protocols to govern transactions with affiliates, and provide the Commission, I&E, OCA and OSBA reasonable access to the books, records and personnel of Peoples' affiliates where necessary for the Commission to adequately review Peoples' purchases of goods or services from those affiliates.

47. Peoples will maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial statements. Separate accounting records also will be maintained for operations in West Virginia and Kentucky.

48. Upon written request, PNG and its subsidiaries will provide the Commission, I&E, OCA and the OSBA reasonable access to the books and records, officers and staff of PNG and its subsidiaries. However, nothing set forth herein shall constitute or be interpreted as a waiver by PNG or its subsidiaries of its right to raise traditional discovery objections to any such requests, including, but not limited to, objections on the basis of relevance and privilege. In addition, before responding to any such requests, PNG and its subsidiaries shall be permitted to require the imposition of protections they deem necessary to prohibit disclosure of proprietary or confidential information.

49. Peoples and its parents will provide, upon request, to the Commission, I&E, OCA and OSBA, in connection with rate proceedings and other proceedings before the Commission presentations given to common stock, bond, or bond rating analysts, that directly, or indirectly pertain to Peoples.

50. Peoples will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code.

51. PNG and its subsidiaries shall provide the I&E, OCA and OSBA with a copy of any reports filed with the US Securities and Exchange Commission upon request.

52. For the five (5) calendar years following Closing, Peoples will provide an annual report to the Commission as to the status of all material commitments made in any settlement.

3. Corporate Cost Allocations

53. Peoples' cost allocations between its Peoples and Equitable Divisions and affiliates will follow the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement.

54. Peoples' corporate cost allocations will include a rent charge for the percentage of space occupied by employees who provide services to an affiliate, and a supplies charge for supplies the employee may use in providing services to affiliates.

55. Peoples' corporate cost allocations will provide that all charges by PNG to Peoples will be at cost, provided that nothing herein shall affect Peoples' burden of proof under 66 Pa. C.S. § 2106.

4. Management

56. SteelRiver will not permit a change in ownership in Peoples or Peoples TWP without prior Commission approval if such change would result in a change in control under the then-applicable Commission standards.

57. The CEO of Peoples will continue to be a member of the governing board of PNG.

58. SteelRiver will continue to maintain Peoples' corporate headquarters in Peoples' service area and in or near Pittsburgh, Pennsylvania. Peoples agrees not to move its headquarters outside of Peoples' Pennsylvania service territory for at least a ten year period after Closing and will only do so after that time upon application to and approval by the Commission.

59. Peoples commits to maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service. Peoples will provide annual reports to the Commission, I&E, OSBA, and OCA regarding field offices and staffing levels in its service territory for a period of five years.

60. Peoples commits to the protection of jobs for workers covered by collective bargaining agreements, as set out and discussed in the Direct Testimony of Mr. O'Brien.

61. For a period of four years after Closing, Peoples will commit to offering one year of job placement assistance from date of termination for any employees of Equitable or Peoples who will be in need of such assistance due to the planned reorganizations of the workforce. Such job placement assistance will be consistent in kind and quality with the best practices of similar industries.

5. Reliability, Pipe Replacement and Lost and Unaccounted For Gas

62. Peoples commits to continue its acceleration of replacing higher risk pipe with a revised focus solely on its distribution and gathering assets. Peoples revised LTIIP to be filed in 2014 pursuant to Paragraph 34 will provide for a level of investment for the Peoples Division for the period 2015 through 2019 that is consistent in aggregate amount with the annual average amount of $80 million under Peoples' Commission approved current LTIIP. Peoples will accelerate capital expenditures for the Equitable Division from $33 million in 2014 to at least $45 million in 2017, 2018 and 2019 as evidenced by the filing of a revised LTIIP or Asset

Optimization Plan. This clause must be read in conjunction with Paragraph 34 herein. Peoples will annually provide updates to those plans consistent with the Commission requirements.

63. Until the effective date of Peoples next general rate proceeding, Peoples will continue operating expenditures for the Peoples and Equitable Divisions for leak detection and repair at least at 2012 levels unless it is appropriate to reduce such expenditures due to development and acquisition of improved and/or lower cost methods of leak detection. Peoples' and Equitable's best practices to reduce lost and unaccounted for gas will be adopted.

64. Joint Applicants agree that Section 5.7 of the Asset Exchange Agreement concerning EQT's option to acquire rights of way will be removed from the Transaction and EQT acknowledges that it has none of the rights set forth therein.

65. The Goodwin and Tombaugh Gathering Systems ("Gathering Systems") will be transferred in the following manner:

(a) EQT will continue to repair leaks on the Gathering Systems before Closing, provide to the Bureau of Investigation and Enforcement's Gas Safety Division ("Gas Safety Division") monthly reports of leaks repaired within 10 days of the end of each month and provide the Gas Safety Division with access to verify leaks repaired.

(b) The Gas Safety Division will be provided access to the Gathering Systems to inspect for safety concerns during the period up to Closing.

(c) On Closing, the Gathering Systems will be transferred to a new subsidiary of PNG ("PNG Gathering LLC").

(d) At Closing, EQT will provide $5 million to PNG Gathering for use in connection with the Gathering Systems as described further in subparagraph e. below (the "EQT Contribution").

(e) Peoples and PNG Gathering will use the EQT Contribution to assess and improve the Gathering Systems facilities as described below.

(i) Peoples will assess the Gathering Systems facilities and develop and implement an initial plan, in conjunction with the Gas Safety Division, to address improvements;

(ii) The Gas Safety Division will be permitted to access the Gathering Systems facilities to conduct safety inspections and to observe and verify improvements.

(iii) A summary of activities Peoples expects to be able to complete is provided in "**Appendix C**."

(f) After completion of the assessment, Peoples and PNG Gathering will present a plan to the Commission, after consultation with the Gas Safety Division, OCA and OSBA, estimating the additional funds necessary, if any, to provide safe and reliable service from the Gathering Systems. At the time it presents the plan to the Commission, Peoples also will serve PIOGA. In such filed plan, Peoples and PNG Gathering will make a recommendation whether to proceed with rehabilitation of all or some of the Gathering Systems and/or with abandonment of some or all of the customers served off the Gathering Systems.

(i) The Signatory Parties agree that the Gathering Systems may be transferred to Peoples if the amount of additional investment necessary to provide safe and reliable service from the Gathering Systems is equal to or less than the sum of the remaining portion of the EQT Contribution, the estimated $12 million cost to convert customers to alternative fuels, the estimated incremental rate base investment of $6 million that would be supported by revenues from the approximately 1,500 customers served by the Gathering Systems, and any additional investment supported by incremental revenues on the Gathering Systems facilities. The parties agree that the remainder of the EQT contribution, the $12 million conversion cost and the estimated $6 million in customer revenues comprise the economic test of whether the Gathering Systems are transferred to Peoples. If the economic test is satisfied and the Commission approves transfer of the Gathering Systems, Peoples Equitable Division will be permitted to include in rate base the investments it makes to improve the Gathering Systems other than the EQT Contribution.

(ii) If the economic test is not satisfied because the amount of additional investment necessary to provide safe and reliable service from the Gathering Systems is more than the sum of the remaining portion of the EQT Contribution, the estimated $12 million cost to convert customers to alternative fuels, the estimated incremental rate base investment of $6 million that would be supported by revenues from the approximately 1,500 customers served by the Gathering Systems, and any additional investment supported by incremental revenues on the Gathering Systems facilities, Peoples will make a recommendation not to further invest in the Gathering Systems. In such a scenario, all other parties expressly reserve the right to present their own recommendations to the Commission as to the disposition of the Gathering Systems.

(g) If the Commission does not approve the transfer of the Gathering Systems to Peoples, Peoples reserves the right to recover costs to convert customers served by the Gathering Systems facilities to alternative fuels on approval of abandonment by the Commission.

6. Customer Service

66. Peoples will commit to achieve and maintain the following levels of performance in the following customer service metrics in each of the next five years for its Peoples and Equitable Divisions:

(a) percent of calls answered within 30 seconds of at least 82%,

(b) busy-out rate of no more than 0.25%,

(c) call abandonment rate that is no higher than 3% for 2014, 2015 and 2016, and 2.5% for 2017 and 2018,

(d) percent response within 60 minutes to emergency calls of at least 98.5% for 2014, 2015 and 2016 and 99% for 2017 and 2018.

(e) Peoples TWP agrees to extend for an additional two years commencing January 1, 2014, the customer service metrics from the Joint Settlement of the Steel River acquisition of Peoples TWP, at Docket No. A-2010-2210326, which are attached hereto as "**Appendix D**."

67. Peoples will provide a report to OCA, I&E, and OSBA each calendar year following assumption of such functions by the staff of Peoples or its affiliates regarding its achievement of the service quality metrics. Such reports shall continue for three calendar years after assumption of such functions by the staff of Peoples or its affiliates. The report will outline the actual metrics achieved and additional actions expected to be taken in the following year to further improve customer service. If the Company has not achieved an identified metric, the report will also include the reasons for the failure and the Company's detailed plan to reach the service quality metric. Peoples will then convene a collaborative with OCA, I&E and the OSBA to discuss such report. If, following such a collaborative, I&E, OCA or OSBA request a proceeding before the Commission, Peoples will not oppose the initiation of such a proceeding. The Commission may, upon motion of any Signatory Party or upon its own motion, open a formal proceeding.

68. Peoples will commit to assess and identify areas of necessary improvement to customer service for Equitable customers and submit that analysis to the Commission, OCA, I&E and OSBA within 180 days of Closing for their review and comment. This review will additionally outline cost effective systems for improvement of customer service and expected service improvements.

69. Nothing in this Settlement is intended to restrict Peoples' right to request recovery of new systems to improve service, including as a consequence of an existing system's age, obsolescence or other requirements, as appropriate, in future rates. Any such request will be subject to review for reasonableness and prudence in accordance with rate making principles.

70. No party waives any right to request that the Commission order penalties in any proceeding convened to investigate Peoples' noncompliance with the service metrics.

71. Nothing contained herein is intended to limit the authority of the Commission, the Bureau of Consumer Services, the Gas Safety Division, or other Bureaus of the Commission from performing their duties and making recommendations, including recommendations regarding fines, for failure of Peoples to perform in any of the areas covered by the service quality metrics.

7. Universal Service

72. Peoples will continue to fund Equitable's Customer Assistance Program ("CAP") consistent with its needs analysis approved in conjunction with Equitable's currently approved Universal Services Plan.

73. Peoples will commit to establishing a Universal Service Advisory Group, consistent with the recommendations provided in the Direct Testimony of OCA witness Brockway. The Group will include community based organizations ("CBOs"), Low-Income Advocates, the OCA and other interested stakeholders and will meet quarterly to discuss all universal service issues including recommendations concerning Low Income Usage Reduction Program ("LIURP"), LIURP eligibility, Earned Income Tax Credit ("EITC") concerns and landlord issues that may present a barrier to customer participation.

74. Peoples will manage Equitable's CAP program similar to that of Peoples in that it will partner with an agency that: (a) can substantially increase the number of intake sites; (b) is an administrator of utility CAP programs for the electric distribution companies ("EDCs") or natural gas distribution companies ("NGDCs") in their territory; (c) recruits and partners with multi-service agencies; and, (d) uses a case management system to track and monitor referrals and enrollments into utility programs.

75. Peoples will be permitted to continue to recover CAP costs under Equitable's existing recovery mechanism for CAP costs. Peoples may propose changes to the recovery mechanism, which any Signatory Party to the Settlement may oppose, for review by the Commission. The provisions of Paragraph 31 shall not limit implementation of any change to Peoples' recovery mechanism.

76. Peoples agrees that the shareholders of Peoples and Peoples TWP will commit to increase its total donation (administrative and matching) to the Dollar Energy Fund by 10% for the next 5 years following Closing. Peoples will review possible ways to increase outreach to customers to attempt to increase customer contributions and will provide a report to the Commission and OCA.

77. Peoples will commit that it will increase expenditures on LIURP in the first 4 years after Closing. Specifically, commencing January 1, 2014, the Peoples Division LIURP will be funded at the level of $1,250,000 per year (an increase of $150,000 per year). The Equitable Division will add $100,000 per year for the first 4 years after the merger closes to the funding of its LIURP program, for a total LIURP budget of $800,000 per year in each of those 4 years. These increases will be funded by shareholders for the 4 year period. For Peoples TWP, shareholders will fund an additional $25,000 per year over the LIURP budget approved and recoverable in the current Peoples TWP base rate proceeding for a period of four years, 2014 through 2017. Any funds not used in one year will roll-over into the next calendar year. Funding on this basis will continue until the effective date of rates set in the next base rate proceeding.

8. Community Commitment

78. For a period of not less than five years, Peoples will provide corporate contributions and community support in southwestern Pennsylvania in a total amount that is at

least equivalent to the amount provided by Peoples ($1.0 million) and Equitable ($400,000) in 2012.

79. Services that are currently performed for Equitable outside of the Equitable service area in Pennsylvania, such as call center support, customer billing and payment and customer relations, will be returned to the Peoples service area within 5 years.

80. Peoples will continue to comply with the Commission's diversity policy, 52 Pa. Code §§ 69.801-69.809.

9. Retail Supply Competition

81. Peoples will convene a collaborative conference with interested parties, including the OCA, I&E, OSBA and interested natural gas suppliers ("NGSs"), within 12 months of Closing in order to develop a strategy to further promote retail natural gas supply competition in the Peoples/Equitable service areas.

10. Gas Purchasing and Interconnections

82. Priority One ("P-1) Program – Gas Supply Assignment. Peoples agrees that in order to encourage and support customer choice, the Company's upstream pipeline capacity and certain gas commodity supplies shall be made available for release by Peoples and Equitable Divisions to suppliers serving priority one customers. Consistent with its current methodology, all demand related costs for its gas supply contracts shall be assessed to all retail customers and P-1 transportation customers. Peoples further agrees that the actual pipeline capacity path upstream of Peoples, other than the AVC system, shall be designated by the Company from its available capacity and Peoples will endeavor to accommodate a P-1 supplier's request for particular upstream pipeline capacity on a first-come first-served basis. To the extent that the P-1 supplier receives an assignment of Peoples' Equitrans Sunrise pipeline capacity, Peoples shall also provide P-1 suppliers with an option to purchase from Peoples firm gas supplies under the

Peoples and Equitable - EQT NAESB Agreements. This will allow P-1 suppliers to purchase supplies at DTI South Point prices.

83. AVC Receipt and Delivery Points.

(a) *Maintain Existing Points* - All existing upstream interstate receipt and delivery points that flow in and out of the AVC, including Truittsburg and Rural Valley, will be maintained and not taken out of service by Equitrans. To the extent EQT seeks to discontinue any of the existing points, it will provide Peoples with adequate advance notice of such action and reasonably demonstrate that said receipt or delivery points are no longer used or useful, prior to seeking any necessary approvals from the Federal Energy Regulatory Commission ("FERC").

(b) *Primary Firm Points* - All existing AVC receipt and delivery points that are used to serve the Peoples Division on-system customers and Peoples' Production Enhancement Services ("PES") agreements will be assigned an MDQ, the sum of which will not exceed the specified total contract MDQ for services under the Peoples Asset Transportation and Storage Agreement, and designated as primary firm points as defined by the Equitrans FERC gas tariff and will not be subject to interruption by a lower priority status as set forth more fully in that tariff. The Peoples firm delivery points and associated MDQs will be aggregated under a single city gate nomination point for contractual and administrative purposes. Prior to adding new receipt and delivery points, EQT will evaluate the proposed facilities in accordance with Section 6.34 of the Equitrans FERC gas tariff, including an analysis of the impact of its ability to meet its existing service obligations, and EQT will seek any approvals from FERC that are necessary.

(c) *Interconnection Point Listing* - Peoples and EQT agree to add the existing receipt points and delivery points and capacities as an addendum to the AVC Transportation and Storage Agreement.

(d) MAOP and Operating Pressures.

(i) EQT confirms that it has no immediate plans to increase the operating pressures or regulator set points on the AVC system. To the extent in the future, EQT plans to modify AVC system operating pressures or regulator set points, EQT will provide AVC shippers with advance notice of four months for any projects that are projected to increase operating pressures greater than 15%.

(ii) EQT agrees that it will provide AVC shippers one month prior notice of any planned filing with the FERC to increase the MAOP of AVC transmission pipelines. Peoples agrees that it will intervene as needed in any such FERC filing to protect its interests and the interests of its customers concerning the delivery of gas supplies into AVC receipts points that are fed from the Peoples' upstream facilities.

(iii) In response to a prior notice of a planned increase or an actual increase in operating pressure, regulator set points or MAOP on the AVC transmission pipeline system, Peoples agrees to construct or modify the Peoples Division facilities to ensure that locally produced gas delivered at AVC receipts points - that are fed from the Peoples Division pipeline system - is able to flow into the AVC pipeline system. Peoples also agrees to construct or modify its dehydration and other related facilities to ensure that the quality of the locally produced gas delivered at AVC receipts points - that are fed from the Peoples Division pipeline system – meet the required gas quality standards contained in the AVC tariff.

(iv) Peoples agrees to construct or modify such facilities, as described in iii. above, using Peoples Division PES PRC funds. The first funds spent or allocated shall be sourced from the current Peoples Division PES PRC capital spending shortfall. If additional funds are required, Peoples shall utilize available annual funding from the PES revenues that was established and approved in Peoples' 2012 rate case for gathering lost and unaccounted for gas ("UFG") remediation efforts or gathering system upgrades ("2012 PA PES Funding") provided that such funding also qualifies as "gathering UFG remediation efforts or gathering system upgrades" as established in the 2012 rate case. Further, to the extent that PRC or 2012 PA PES Funding is insufficient to cover the costs of these facilities, Peoples agrees to make the necessary expenditures, provided they are necessary to ensure continued compliance with a least-cost procurement policy and enhanced retail supply competition on the Peoples' system.

(e) *Negotiated Rates* - Peoples and EQT agree to modify the AVC Transportation and Storage Agreement so that all currently existing interconnection points used to serve the Peoples Division on-system and existing Peoples Division PES commitments will be subject to the negotiated rates under the Peoples Asset Transportation and Storage Agreement and will not be subject to maximum recourse rates.

(f) *Charges on AVC*

(i) Other than the release of AVC storage (former Rate ST and ST-SW storage) to NP-1 suppliers, suppliers on the Peoples Division will receive a net zero cost release of AVC storage and transportation capacity required to supply their on-system customers and off-system PES requirements. Per the FERC AVC tariff, suppliers will be responsible for the ACA charge and fuel charges on AVC. Shippers on AVC will be assessed a fuel charge for use of AVC storage and an AVC transportation fuel charge of 2.5% on volumes transported on AVC. These fuel rates will be subject to periodic adjustment to reflect actual UFG, fuel and losses on the AVC system. Effective upon Closing, the Peoples Division retainage rates will be adjusted to remove the volumes of fuel that will be recovered on the AVC system.

(ii) Peoples agrees to assign and release AVC storage to NP-1 suppliers of the Peoples Division at a rate of $.83/Mcf. Peoples agrees that this release rate will not be subject to change until the effective date of new rates resulting from Peoples' next base rate case.

(iii) Peoples and NGSs acknowledge that there may be situations whereby suppliers have existing contracts to sell commodity supplies to their customers at the Peoples Division existing city gates. Peoples and suppliers further acknowledge that as a result of the transfer of Peoples' midstream assets to EQT and the resulting alteration in city gate delivery points, it will be necessary, during the present term of such contracts, for Peoples to adjust the monthly commodity sales volumes charged by the affected suppliers to reflect the retainage volumes assessed to suppliers by EQT on the transferred assets, for the limited purpose of preserving the pre-asset transfer delivery points, and thus the benefits of the sale of such commodity supplies for customers and suppliers. Peoples agrees that it will also work with the NGSs to explore other alternatives to effectively address the situation described above and modify its tariff if required. Peoples further agrees that prior to Closing it will notify affected customers in writing of this situation, and that it will work with the affected suppliers and their customers on an ongoing basis to support and justify the monthly volumes adjustments described above. In the event that a customer challenges any such adjustments, Peoples will assist the affected supplier in defense of the adjustment.

(g) *Existing DTI and Equitrans Interstate Points* – Subject to Paragraph 83(a) above, Peoples and EQT agree that the following existing interstate supply points will not be eliminated during the term of the Peoples Asset Transportation and Storage Agreement.

(i) DTI- City Gate 20200

(ii) TGP- Pitt Terminal 20199

(iii) Equitrans- Ginger Hill- 11142

(iv) Tetco M2- Rockwood 70051

(v) Tetco M3- Ebensburg 70323

(vi) National Fuel- PNGCG

(vii) Truittsburg

(viii) Rural Valley

11. NP-1 Supplier Balancing Service

84. In order to address the perceived change in balancing flexibilities and increase in cash-out risk as a result of the transfer of the storage assets, Peoples agrees to offer to NP-1 suppliers of the Peoples Division a new service that will allow NP-1 suppliers, at the end of the calendar month following the monthly trading period, to transfer in-place AVC storage volumes with Peoples using the NP-1 supplier's assigned and available storage capacity. Peoples agrees to work with NP-1 suppliers to develop allowable parameters governing such storage transfers with the intent to provide NP-1 suppliers with a similar level of balancing flexibilities currently provided to NP-1 suppliers today.

12. Local Gas Opportunities

85. Peoples agrees that it will endeavor, wherever operationally feasible, to utilize locally produced gas supplies.

86. In the event a new tap request or tap volume increase into the Peoples Division system is unavailable due to capacity restraints in the Peoples Division system, Peoples agrees to:

(a) Identify opportunities to displace gas that is being sourced from interstate pipelines with local supplies produced into the Peoples Division system;

(b) Identify areas of possible new production for redelivery to an alternate section of the Peoples Division distribution system through the AVC or other means to displace gas sourced from interstate pipelines.

87. Immediately upon Closing, Peoples agrees to undertake an initiative using the Peoples Division PES PRC funds to create interconnections between the Equitable and Peoples Divisions that are designed to increase the use of local gas supplies and add more flexibility for suppliers on both systems. Peoples also agrees that it will, consistent with its least cost mandate and where operationally feasible, examine ways to facilitate the movement of incremental local gas supplies between the Peoples and Equitable Divisions through gas displacement arrangements.

13. BB&A Service

88. Peoples agrees to implement a restructured banking, balancing, and advancing ("BB&A") service to allow NP-1 suppliers of the Peoples Division to maintain access to the same benefits from the BB&A storage service that they receive today. Peoples agrees to modify its proposed tariff (Tariff Page 34 and 34A of Joint Applicants Exhibit No. JAG-3) so that the carrying costs charged to NP-1 suppliers shall be based on Peoples' actual short-term debt cost

rate. Peoples also agrees to provide the NGSs with an example and an estimate of the benefits to be derived under Peoples' proposal.

14. Peoples PES Program

89. Peoples agrees to extend the term of the existing PES and Equitable Gas AGS producer agreements until the effective date of new base rates in Peoples' next base rate case filing. After Closing, Peoples agrees to collaborate with PIOGA and its members to review information regarding both systems, use of moisture control equipment, pipeline maps, current producer bottlenecks, areas needed for expansion due to additional gas, and to allocate its modeler resources for utilizing the agreed PES/Equitable Project Review Committee annual expenditure.

90. Six months prior to the filing of Peoples' next base rate case, Peoples agrees to initiate discussions with PIOGA regarding a revised PES program on the Peoples, Peoples TWP and Equitable systems, (including PES/Rate AGS or other related fees). Notwithstanding this commitment, Peoples and Peoples TWP agree after Closing: (i) that Peoples will seek approval through the 1307(f) process to apply to the Peoples TWP and Equitable systems the PES agreement provisions permitting the release of older low-producing wells (Section 4.04.a.,b. & c. and Section 4.05, as applicable) and (ii) that prior to enforcing Peoples TWP gas quality requirements on individual PIOGA member producers, Peoples will initiate discussions with PIOGA for addressing gas quality issues on a system-wide basis.

91. Peoples agrees that prior to termination of the existing off-system capacity agreement (Rural Valley and Truittsburg) between Peoples and DTI on April 1, 2016, it will work with PIOGA to replace the DTI capacity contract with a lower cost capacity contract or explore other off-system alternatives that will eliminate the need for an off-system DTI capacity

contract. These options will result in lower overall pipeline capacity costs and an associated decrease in fees charged to PES participants effective April 1, 2016.

15. Enhanced Retail Choice

92. Peoples agrees that following Closing, it will begin a review of the existing transportation program process on Equitable and convene a collaborative, that will include all interested stakeholders, within 12 months following Closing to develop a strategy to promote retail supply competition on the Peoples/Equitable service areas. Peoples agrees that this collaborative will consider the adoption of a local gas aggregation service on Equitable and changes to the Equitable Division balancing provisions. Peoples further agrees to a target filing date of possible tariff changes resulting from this collaborative within three months following the date the collaborative is convened.

93. Peoples agrees that within six months following Closing, Peoples will implement an Energy Choice outreach program for Equitable customers and begin using the Peoples' Electronic Data Transfer/Electronic Bulletin Board/Nominations System and related processes.

94. Peoples agrees that within 30 days following Closing, it will provide Aged Receivables reporting on behalf of suppliers that are receiving commodity billing services from the Peoples Division.

95. Peoples agrees that within 6 months of approval of this settlement it will convene a collaborative to include input of interested stakeholders, to discuss all aspects of a proposed new and moving customer referral program within 12 months of Closing that is substantially similar to those approved by the Commission in the recent Retail Markets Investigation. If there is substantial agreement among the stakeholders, Peoples will file a proposed new and moving customer referral program with the Commission within 14 months of Closing. All stakeholders and other interested parties will have the right to file comments in response to the filing.

96. Peoples agrees that within one year of the date of Closing, it will review and seek to revise the Purchase of Receivables program of Equitable and take steps necessary to make it consistent in design and rate structure, with that of the Peoples Division. To the extent the adoption of certain aspects of Peoples' Purchase of Receivables Program requires billing system modifications for the Equitable Division, those aspects of the Peoples' Purchase of Receivables Program will not be implemented until the planned conversion of the Equitable Division to Peoples' billing system.

16. Carnegie Gathering System

97. Effective upon Closing, PIOGA's confidential Rate AGS agreement with Equitable will apply to the Carnegie Gathering System, which shall be owned and operated by Equitable. The confidential Rate AGS agreement does not apply to the Goodwin and Tombaugh Systems.

17. Goodwin Gathering System

98. Peoples agrees that the existing Goodwin gathering rates will apply, but parties moving gas on the Goodwin system will be charged on the "net" deliveries after gas is retained by Peoples and Equitable Divisions. Peoples also agrees to begin implementing immediately after Closing its UFG reduction measures on the Goodwin system that are outlined in the Joint Applicants Statement No. 5S or other measures otherwise agreed to by Peoples in the settlement of this proceeding. These UFG reduction measures including leak detection, leak repair and resolving meter issues will be prioritized to drive meaningful results that will be reflected in the ongoing monthly retainage charges on the Goodwin system. Peoples will provide PIOGA with information gathered and provided to Commission's Gas Safety Division. All gathering fees collected will be used to maintain and improve the Goodwin and Tombaugh systems.

18. EQT Asset Exchange Agreement

99. EQT agrees that those assets identified in the EQT Asset Exchange Agreement in Schedules A-1, A-2, A-3, A-4, A-5, A-13, A-14 and A-17 will be transferred to Equitable Gas Company, LLC, if the Transaction is consummated.

19. Retainage on Transferred Assets

100. See Paragraph 83(f).

20. Capacity on the Transferred Assets

101. Peoples agrees to assign sufficient AVC capacity to NGSs and Producers on the transferred Peoples' transmission and storage assets, considering producer meters and customer volumes, for both system supply and off-system transportation. Specifically, Peoples agrees to the following:

(a) Suppliers that have access to AVC system storage will be provided with sufficient AVC transportation and storage capacity to fill and empty their allocated share of AVC storage;

(b) Suppliers that are purchasing existing local gas that is delivered directly into the AVC system without first moving through the Peoples Division lines, will be provided with sufficient AVC system transportation capacity to move their estimated supplies to the Peoples Division city-gates; and

(c) Suppliers that are moving excess local production to off-system points at Truittsburg or Rural Valley, consistent with the terms of the existing PES agreement, will be provided with sufficient AVC system transportation capacity to move gas to these points.

21. Homeworks

102. Peoples agrees that it shall maintain separate accounting records for Equitable Homeworks, LLC ("Homeworks")[8] and to allocate costs and expenses to Homeworks in accordance with the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement.

103. Peoples agrees that it will not use the name of Peoples or Equitable in any Homeworks related marketing materials provided to customers.

104. Within six months after Closing, Peoples agrees to provide Product and Services Billing on behalf of other NGSs on the Peoples Division system. Any customer specific information for Product and Services customers that are billed by Peoples on behalf of other NGSs shall not be shared with any individual that is responsible for the sales or marketing of Homeworks products. Also, Peoples agrees that it will not provide any preferential treatment to Homeworks regarding any customer leads received through the Peoples Division or Equitable Division call center and will not offer Homeworks services to customers for warranty or other related services in calls received from customers for other purposes without also offering the same information and/or opportunities to other providers of the same or similar services. Peoples will not provide any customer information or marketing opportunities to Homeworks without also offering the same information and/or opportunities to other providers of the same or similar services.

[8] Equitable Homeworks, LLC offers various heating and cooling protection programs, line protection programs and restoration programs within Pennsylvania. As part of the transaction, Holdco also will sell, convey, transfer, assign, and deliver to PNG all of the issued and outstanding membership interests in Equitable Homeworks, LLC, an unregulated entity.

105. Peoples also agrees that following the Closing, it will undertake a review of the Equitable billing system to determine if Product and Services Billing on behalf of other NGSs on Equitable Division system is feasible.

22. New Tap Requests

106. Peoples agrees to continue to work with suppliers on the Peoples Division to resolve any ongoing tap requests on a reasonable and expedited basis.

B. SETTLEMENT OF PENNFUTURE ISSUES

107. The Joint Applicants and PennFuture join in Paragraphs 107 through 114 of this Settlement, which fully resolve all PennFuture Issues.[9]

1. Settlement of the Transaction Issues

108. Subject to the Commission's approval of Paragraphs 107 through 114 of this Settlement, PennFuture does not oppose Paragraphs 24 through 106 of this Settlement.

2. Study of DSM Programs

109. Within 36 months of Closing, Peoples will organize and engage in a collaborative of demand side management ("DSM") stakeholders. This group will include OCA, OSBA, I&E, PennFuture, any interested party to this proceeding, and any interested large customer of Peoples.

(a) Notice of the commencement of the collaborative and of an opportunity to participate will be provided.

[9] I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, US Steel, PSU, PEMI, UWUA, IBEW, and Steelworkers do not join in Paragraphs 107 through 114 of this Settlement, but have no objection to these provisions.

(b) The stakeholders will provide recommendations concerning the scope of the study and qualifications of a third-party independent contractor to perform the study.

110. No later than 42 months after the Closing, Peoples will select and retain an experienced, third-party independent contractor to conduct a study and develop recommended approaches to a cost-effective Energy Efficiency and Conservation Plan for Peoples' customers. The cost of the study will be funded by Peoples, and Peoples will not seek recovery of the study cost in rates. The study will:

(a) Identify potential programs for each rate class of customers;

(b) Evaluate different levels of funding and the expected benefits derived by the various levels;

(c) Include analysis of programs offered by other gas program administrators, either utility or non-utility, including but not limited to, Philadelphia Gas Works, Columbia Gas, National Grid operating in New York and Massachusetts, Northeast Utilities, UIL, Vermont Gas, Wisconsin Focus on Energy, Pacific Gas & Electric, and Southern California Gas; and

(d) Include a review of actual costs to implement programs as well as the actual energy savings realized in these programs.

111. No later than 45 months after the Closing, Peoples will provide a copy of the study to the DSM stakeholders and the parties to this proceeding.

3. DSM Filing

112. No later than 48 months after the Closing, Peoples will make a filing with the Commission that will seek approval to implement an Energy Efficiency and Conservation Plan

that falls within the range of recommendations supported by the DSM study and provides a cost recovery mechanism acceptable to Peoples.

113. A copy of the filing will be served on the DSM stakeholders and the parties to this proceeding.

114. Any party to this proceeding will be free to support the filing, seek modifications to the filing or oppose the filing before the Commission.

IV. TARIFFS

115. **"Appendix E"** to this petition contains the pro-forma tariff pages showing the proposed revisions to Peoples' Retail and Supplier tariffs that were filed with the Joint Application and modified by the terms of this Settlement.

V. THE SETTLEMENT IS IN THE PUBLIC INTEREST

116. Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See id.* § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). As will be detailed in the Signatory Parties' Statements in Support, the instant Settlement is in the public interest because, with the conditions imposed herein, the Transaction will provide substantial affirmative public benefits.

117. Approval of the Settlement will lessen the time and expenses that the Signatory Parties, and the Commission, must expend on the proceedings.

118. There were no customer Protests against the Joint Application. The Settlement resolves all issues in the instant proceeding.

119. The Signatory Parties will further supplement the reasons that the Settlement is in the public interest in their Statements in Support, which are attached hereto as "**Appendices F through N.**"

VI. CONDITIONS OF THE SETTLEMENT

120. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification and the Closing. If the Commission modifies the Settlement, any Signatory Party may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Signatory Parties within five (5) business days after the entry of an Order modifying the Settlement.

121. This Settlement is proposed by the Signatory Parties to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Signatory Parties reserve their respective procedural rights to evidentiary hearings, submission of additional testimony and exhibits, cross-examination of witnesses, briefing, and argument of their respective positions. The Settlement is made without any admission against, or prejudice to, any position that any Signatory Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

122. The Signatory Parties acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any Signatory Party's position with respect

to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

123. If the ALJ adopts the Settlement without modification, the Signatory Parties waive their right to file Exceptions on those issues that are resolved by this Settlement.

VII. CONCLUSION

WHEREFORE, the Joint Applicants, I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, US Steel and PennFuture,[10] by their respective counsel, respectfully request as follows:

(a) That the Honorable Administrative Law Judge Mark A. Hoyer recommend approval of, and the Commission approve, this Joint Petition for Approval of Settlement of All Issues including all terms and conditions thereof without modification; and,

(b) Subject to the terms and conditions set forth herein that the Commission issue all approvals requested in the Joint Application, as modified by the terms and conditions set forth herein, and necessary approvals, pursuant to Sections 1102(a)(3), 1317(d), 2102(a), and 2204(e)(4) of the Public Utility Code ("Code"), 66 Pa.C.S. §§ 1102(a)(3), 1317(d), 2102(a), and 2204(e)(4), authorizing and approving: (1) the transfer of 100% of the issued and outstanding limited liability company membership interests in Equitable, an indirect subsidiary of EQT, to PNG, an indirect subsidiary of SRIFNA; (2) the merger of Equitable with Peoples, a wholly-owned subsidiary of PNG, and the operation of Equitable as an operating division of Peoples; (3) the transfer of certain storage and transmission assets of Peoples to EQT; (4) the transfer of certain assets and/or the exchange of certain services between EQT and Equitable; (5) certain PNG ownership changes associated with the transaction; (6) the associated gas capacity, storage,

[10] PSU, PEMI, UWUA, IBEW, and United Steelworkers are not parties to the Settlement but have indicated they do not object.

interconnects, leases, and supply service agreements among Peoples, Peoples TWP, Equitable, and/or EQT set forth in the Joint Application; and (7) certain changes in Peoples' tariff necessary to carry out the transactions.

Respectfully submitted,

Michael W. Gang

10/-7-/13
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Peoples Natural Gas Company LLC, Peoples TWP LLC, and Equitable Gas Company, LLC for All of the Authority and the Necessary Certificates of Public Convenience (1) to Transfer All of the Issued and Outstanding Limited Liability Company Membership Interest of Equitable Gas Company, LLC to PNG Companies LLC, (2) to Merge Equitable Gas Company, LLC with Peoples Natural Gas Company LLC, (3) to Transfer Certain Storage and Transmission Assets of Peoples Natural Gas Company LLC to Affiliates of EQT Corporation, (4) to Transfer Certain Assets between Equitable Gas Company, LLC and Affiliates of EQT Corporation, (5) for Approval of Certain Ownership Changes Associated with the Transaction, (6) for Approval of Certain Associated Gas Capacity and Supply Agreements, and (7) for Approval of Certain Changes in the Tariff of Peoples Natural Gas Company LLC.	:	Docket Nos. A-2013-2353647 A-2013-2353649 A-2013-2353651

REBUTTAL TESTIMONY
OF JOSEPH A. GREGORINI

Joint Applicants Statement No. 4-R

Q. Please state your full name and business address.

A. My name is Joseph A. Gregorini. My business address is Peoples Natural Gas Company LLC, 375 North Shore Drive, Suite 600, Pittsburgh, Pennsylvania 15212.

Q. By whom are you employed and in what capacity?

A. I am employed by Peoples Natural Gas Company LLC ("Peoples") as Vice President, Rates & Regulatory Affairs. I also have the same position with Peoples TWP LLC ("Peoples TWP").

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I previously submitted written direct testimony, Joint Applicants Statement No. 4, on April 17, 2013.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to certain contentions, statements and positions made in the direct testimony of Brian Kalcic submitted on behalf of the Office of Small Business Advocate ("OSBA"), OSBA Statement No. 1; Richard S. Hahn submitted on behalf of the Office of Consumer Advocate ("OCA"), OCA Statement No. 1; James L. Crist submitted on behalf of Dominion Retail, Inc. and Interstate Gas Supply, Inc. ("NGS"), NGS Statement No.1; Benjamin T. Snyder submitted on behalf of Snyder Brothers, Inc. ("Snyder Brothers"), Snyder Brothers Statement No 1; Louis D. D'Amico submitted on behalf of Pennsylvania

Independent Oil and Gas Association ("PIOGA"), PIOGA Statement No. 1; Nancy Brockway on behalf of OCA, OCA Statement No. 2; and John J. Plunkett submitted on behalf of Citizens for Pennsylvania's Future ("PennFuture"), Pennfuture Statement No. 1.

My rebuttal testimony will address the following main areas:

1. Treatment of gas-on-gas competitive discounts (OSBA and NGS);
2. Transfer of Peoples' Storage and Transmission Assets (NGS and Snyder);
3. Gas Supply Commercial Agreements (NGS);
4. Other Supplier Related Issues (NGS and PIOGA);
5. Universal Service (OCA); and
6. Demand Side Management Program (PennFuture).

Q. Are you sponsoring any exhibits in your rebuttal testimony?

A. Yes. I am sponsoring Joint Applicants Exhibit No. JAG-5.

TREATMENT OF GAS-ON-GAS COMPETITIVE DISCOUNTS

Q. Please summarize the proposals of OSBA witness Mr. Kalcic to which you are responding.

A. Mr. Kalcic proposes that Peoples, including its Equitable Division, and Peoples TWP should be required to absorb discounts related to gas on gas competition customers (those that have a rate discount solely as a result of competition between Peoples/Peoples TWP and Equitable) in the next base rate case following closing of the Proposed Transaction as a condition of approval.

Q. Should this condition be adopted?

A. No, for the following reasons I summarize below and explain in this testimony, OSBA's proposed conclusion should be rejected.

1. The continuation of the gas on gas discounts for five years is a commitment to the Federal Trade Commission ("FTC") to allow the Proposed Transaction to proceed. None of the benefits of the Proposed Transaction would be possible without the commitment.
2. Requiring Peoples to absorb gas on gas discounts in a future rate case is premature until the Commission decides the gas on gas competition generic investigation and determines what rules will apply for all similarly situated customers and NGDCs.
3. Requiring Peoples and its Equitable Division to absorb discounts in its next rate case is premature prior to the actual rate case because the facts and circumstances in that case should be considered before making that determination, in particular whether the prospective tariff rates for such customers are set equal to cost of service in that case.
4. Requiring Peoples and its Equitable Division and Peoples TWP to absorb gas on gas discounts during the five-year period ignores the important proposition that the Proposed Transaction ultimately will

result in elimination of gas on gas discounts between Peoples/Peoples TWP and Equitable.

Q. Were you involved in the meetings and data exchanges between Peoples, Equitable and the FTC to obtain Hart-Scott-Rodino Act clearance of the Proposed Transaction by the FTC?

A. Yes. I actively participated in this process because the FTC was very interested in the relationship between the gas on gas discounted rates and cost of service rates. In this regard, I note that the FTC opposed the combination of the companies in 2006 because of the potential elimination of the gas on gas discounts and refused to provide the clearance.

Q. Did Peoples commit to the continuation of the gas on gas discounts as part of obtaining this clearance?

A. Yes, but only for a short period, and in my opinion, the clearance would not have been achieved without this commitment. Further, as I will explain later in this rebuttal testimony, Peoples also committed to continue its efforts to move tariff rates for these customers to cost of service. Without the clearance the Proposed Transaction could not have proceeded and the benefits of thereof would not be achieved. Under such circumstances, the proposed condition is not appropriate because customers will receive the full benefit of the achieved savings and avoided pipe replacement created by the Proposed Transaction in the next base rate proceeding.

Q. Please explain why requiring OSBA's proposed condition is premature.

A. The proposed requirement to absorb gas on gas discounts in the next rate case is premature for several reasons.

First, prohibiting recovery of gas on gas discounts is premature until the Commission first decides what, if anything, it will do with gas on gas competition, and, second, whether all NGDC's should be subject to such a condition in the generic proceeding on gas on gas competition at Docket Nos. P-2011-2277868 and I-2012-2320323. I note that Mr. Cline, on behalf of I&E, recommends that the treatment of gas on gas competition for ratemaking proposes await the Commission's decision at this docket. I&E St. No. 2, p. 33.

Second, it is not certain that the merged company will have increased distribution rates that become effective within a five-year period. In Mr. O'Brien's rebuttal testimony, the company commits to a three-year distribution rate freeze, but there is no certainty that any distribution rate increase will become effective within the five year extension of the discounts until such a case is filed and adjudicated.

Third, in evaluating whether to require an NGDC to absorb gas on gas discounts in a future rate case, the Commission should consider whether the tariff rates approved in the rate proceeding for that class of customers are at cost of service. If the tariff rates remain above cost of service, it would be unreasonable to require Peoples and Equitable to either increase the charges to customers that have gas on gas discounts to above costs of service rates or absorb those differentials.

Q. Do you have reason to believe that the tariff rates applicable to customers in the classes that receive gas on gas discounts are currently above the cost to serve those customers?

A. Yes, I do. In Peoples 2012 base rate proceeding, Peoples presented a cost of service study that shows that rates of most customers with discounted rates, including gas on gas discounts, were above the cost of serving these customers.

Q. Are you asking that the Commission determine the appropriate cost of service for customers that have gas on gas discounts in this proceeding?

A. No, absolutely not. My point is only to illustrate that it would be premature to require Peoples and its Equitable Division to absorb discounts in a future base rate case when the Commission has not considered and determined the cost to serve such customers. The Commission would have several options in such a future case if it concluded costs of service for those customers was below current tariff rates for these customers. It is not appropriate to make a decision now for a future case until all of the facts and circumstances of that case are placed in the record for the Commission's consideration.

Q. Do you have any final comments with regard to OSBA's proposed condition?

A. Yes. The combination of Peoples and Equitable will be a major step in eliminating gas on gas competition and moving customers that have discounted rates to cost of service rates. It is arguably a benefit of this Proposed Transaction for those parties that oppose such discounts. Under such circumstances, it would be unreasonable to require Peoples and its Equitable Division to absorb the effect of these discounts during the five-year extension that made the Proposed Transaction possible, particularly where all customers will receive the benefits of the Proposed Transaction in this first distribution rate proceeding following the closing.

Q. Mr. Hahn, on behalf of OCA, requests that Peoples and its Equitable Division be required to phase out gas on gas competition. Do you have any comments?

A. Yes. As Mr. Hahn notes in his testimony (OCA St. No. 1, pp. 26-27), Peoples has advised the parties in discovery that it will phase out gas on gas competitive discounting post-closing. As noted previously in this testimony, that phase-out should occur in the first distribution rate case with an effective date following the end of the five-year extension after the Commission has considered the cost of serving these customers as I have explained in this testimony.

Q. One of the necessary conditions for approval of the Proposed Transaction offered by Mr. Crist includes a proposed protection to preserve the

competitive customer contracts for a minimum of twenty years. Do you agree?

A. No. First, the issue of continuation of gas-on-gas discounts will be decided by the Commission in the ongoing generic proceeding on gas on gas competition. Also, as I mentioned earlier in my rebuttal testimony, Peoples has committed to pursuing a fair approach that would keep the discounts in place for a reasonable period of time (five years) as we move tariff rates for these customers to cost of service.

TRANSFER OF PEOPLES' STORAGE AND TRANSMISSION ASSETS

Q. What general areas regarding the transfer of Peoples' assets are you responding to?

A. Mr. Crist on behalf of the NGSs and Mr. Snyder on behalf of Snyder Brothers raise a number of issues and provide various recommendations regarding the proposed transfer of the Peoples' transmission and storage assets to Allegheny Valley Connector, LLC, ("AVC midstream assets " or "AVC system"). I will separately respond to their specific recommendations and statements in my testimony immediately below.

Q. On pages 10-11 of his direct testimony, Mr. Crist points out that the transfer of the midstream assets will move the regulatory oversight of these assets from the Pennsylvania Public Utility Commission ("PUC") to the Federal

PII Statement No. 2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

DIRECT TESTIMONY

OF

THOMAS ANDERSON

OF

ARCELORMITTAL MONESSEN LLC

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

APRIL 29, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

DIRECT TESTIMONY OF THOMAS ANDERSON
OF ARCELORMITTAL MONESSEN LLC
ON BEHALF OF
THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

Q. Please state your full name and business address.

A. My name is Thomas Anderson. My business address is 3300 Dickey Road 4-442, East Chicago, Indiana 46312.

Q. By whom are you employed?

A. I am employed by ArcelorMittal USA LLC ("ArcelorMittal"). For purposes of this proceeding, I will be referring to both ArcelorMittal and ArcelorMittal's affiliated coke making facility, which is located in Monessen, Pennsylvania. For purposes of this testimony, I will refer to the affiliated coke making facility as "the Monessen Facility" or "Facility." I will also refer to ArcelorMittal S.A. ("ArcelorMittal SA"), which is the ultimate parent company of ArcelorMittal.

Q. How long have you worked for ArcelorMittal?

A. I have worked for ArcelorMittal for approximately six years.

Q. What is your current position with ArcelorMittal?

A. I am ArcelorMittal's Sourcing Manager for natural gas, base metals, and energy supply chain.

Q. What are your duties in your current position?

A. I am in charge of managing natural gas sourcing, supply chain, and gas asset optimization for ArcelorMittal manufacturing, mining, and office facilities throughout the United States. I have been in this position since 2013. This position entails managing the purchase of baseload, term, incremental, and intra-day gas supplies for ArcelorMittal facilities and mines in conjunction with the assistance provided by outside contractors that report to me. In addition, I manage the financial and physical hedging of natural gas and base metals used in the production and finishing of steel at ArcelorMittal plants throughout the United States. I also manage relationships with the natural gas utilities where ArcelorMittal has a presence, and I develop and execute new gas supply methods, including alternative methods for ArcelorMittal's plants. In addition, I perform cost analysis for each ArcelorMittal plant, as well as develop annual natural gas budgets for ArcelorMittal plants in the United States.

Q. What is your educational and employment background prior to joining ArcelorMittal?

A. I have a Bachelor of Science degree from Valparaiso University, Valparaiso, Indiana, College of Business Administration with concentrations in business management, accounting, and finance. I began work on a Master of Computer Science at De Paul University, Chicago and, although I never completed the entire program, I completed the Computer Professional Program and was awarded a professional certification in Computer Science. Training encompassed systems management, system design, source code writing, structured analysis, and data base management in both main-frame and client-server environments. I have extensive experience in staff management, budgeting, purchasing, and spending analysis as manager and division director while employed in a printing and publishing not for profit in Chicago.

Q. Have you ever submitted testimony in another proceeding before this Commission?

A. No, I have not.

Q. What is the purpose of your Direct Testimony?

A. The purpose of my Direct Testimony is to discuss the impact that Peoples' proposed rate increase will have on the Monessen Facility. Specifically, as discussed by Peoples Industrial Intervenor's expert witness, Mr. James Crist, Peoples has prematurely removed the Monessen Facility from a negotiated contract rate to a tariffed rate. In addition, Peoples' proposed rate increase will move the Monessen Facility to a "transitional" industrial rate that will further increase the Monessen Facility's natural gas costs. As a result, the Monessen Facility is facing a triple digit rate increase in 2019, which will significantly impact the Facility's natural gas costs.

Q. Please describe ArcelorMittal SA.

A. ArcelorMittal SA is the world's leading steel and mining company. Guided by a philosophy to produce safe, sustainable steel, ArcelorMittal SA is the leading supplier of quality steel products in all major markets, including automotive, construction, household appliances, and packaging. ArcelorMittal SA has a presence in sixty countries and an industrial footprint in nineteen countries. ArcelorMittal SA has twenty-six production facilities in the United States, of which four can be found in Pennsylvania.

Q. Please describe the Monessen Facility.

A. The Monessen Facility is a conventional coke plant producing very high quality coke and related carbon by-products. The Facility is over 100 years old, and its proximity to the river and Monessen's central location to ArcelorMittal plants that have blast furnaces adds to the diversity of coke supply from which ArcelorMittal production facilities in the Great Lakes and Canada benefit. The Monessen Facility was closed in 2009; however, approximately five years ago, the Facility was reopened but solely for purposes of running the coke ovens. The Facility runs 24x7, has approximately 175 employees, and sits on 45 acres. Energy costs are a leading cost input for coke operations, and ArcelorMittal has access to multiple coke producing facilities in the United States, including the Monessen Facility.

Q. Please describe the Monessen Facility's natural gas usage and operations.

A. The Monessen Facility consumes significant amounts of natural gas each month as a catalyst in the coke making process and to maintain heat in ovens as they are emptied and refilled. The Monessen Facility utilizes a natural gas supplier ("NGS") for natural gas supply, and its location enabled the Monessen Facility to choose to receive natural gas transportation service from either the Peoples Natural Gas Company, LLC ("Peoples") or Equitable Gas ("Equitable") prior to Equitable's merger with Peoples. As a result, The Monessen Facility entered into a negotiated contract with Peoples for natural gas transportation service.

Q. Is the Monessen Facility still receiving natural gas pursuant to a negotiated contract with Peoples?

A. No. Peoples informed the Monessen Facility in late 2018 that the Facility would be placed on Peoples' Rate GS-T Industrial LGS rate schedule, which occurred on January 1, 2019. My understanding is that Mr. Crist will discuss more fully whether this movement was appropriate.

Q. How will the Monessen Facility's natural gas costs be impacted as a result of both the aforementioned move to tariffed rates and Peoples' current base rate filing?

A. Based upon my understanding of Peoples' proposal, the Monessen Facility would begin receiving service under Peoples' new Rate LGS customer charge and Rate LGS "Transitional Industrial Delivery Charge." The combination of the Monessen Facility being moved from a negotiated rate and to Peoples' proposed "Transitional" tariff rate would increase the Monessen Facility's customer charge by approximately 140% and its delivery charge by approximately 200%.

Q. What is the Monessen Facility's position on the increased natural gas costs already applied to and being faced by the Facility as a result of Peoples' actions?

A. As noted previously, the Monessen Facility consumes significant amounts of natural gas on a daily basis. Any increase in these costs would impact the overall economics of the Facility. Moreover, the Monessen Facility's customers are ArcelorMittal plants. As a result, increases in natural gas costs cannot simply be passed to external customers. Rather, coke sources are located throughout the United States. Thus, the Monessen Facility's customers (*i.e.*, ArcelorMittal plants) would have the ability to source coke of equal quality from other facilities with lower costs. In other words, if running the Facility was no longer economically viable, an assessment could occur to determine whether coke should be purchased from another source.

Q. Does this conclude your Direct Testimony?

A. Yes.

PII Statement No. 1-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

REBUTTAL TESTIMONY
AND EXHIBIT

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

MAY 28, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

REBUTTAL TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

Q. PLEASE STATE YOUR NAME.

A. I am James L. Crist, President of Lumen Group, Inc.

Q. ARE YOU THE SAME JAMES L. CRIST THAT PRESENTED DIRECT TESTIMONY ON BEHALF OF THE PEOPLES INDUSTRIAL INTERVENORS ("PII") IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My Rebuttal Testimony will respond to several allocated cost of service studies ("COSS") recommendations made by Office of Consumer Advocate ("OCA") witness Mr. Watkins and Bureau of Investigation and Enforcement ("I&E") witness Mr. Cline. Because their views favor smaller customers instead of the balanced approach taken by the Peoples Natural Gas Company, LLC ("Peoples" or "Company"), I will provide evidence that the Customer-Demand COSS performed by the Company is valid and should be utilized to allocate any increase granted by the Pennsylvania Public Utility Commission ("PUC" or "Commission") in this proceeding. In addition, I will address the fact that the changes to rate allocation proposed by the OCA and I&E should not be adopted by the Commission, as these changes would result in unjust and unreasonable rates for Peoples' Large General Service ("LGS") transportation customers.

Q. WHAT COSS DID OCA WITNESS MR. WATKINS RECOMMEND?

A. Mr. Watkins recommended the use of his own Peak & Average COSS, rejecting the Company's method of averaging the results of the Peak & Average COSS with the Customer-Demand COSS. Distribution mains are sized for the loads place upon them and not for the number of customers served from them. The Company's Customer-Demand COSS allocated the cost of mains partly based on the number of customers served (i.e., the "customer" part of "customer-demand") and partly based on the loads placed on the mains (i.e., the "demand" part of "customer-demand"). As indicated in my Direct Testimony, I believe the Company's Customer-Demand COSS should be used for purposes of rate allocation in this proceeding rather than the Company's decision to utilize the average of the two COSS. Unfortunately, the OCA's proposal to eliminate the Customer-Demand COSS altogether is inappropriate, because, as I discuss herein, the Customer-Demand COSS appropriately accounts for main allocation within a natural gas distribution company's system.

Q. WHY SHOULD MAINS BE ALLOCATED BASED ON THE NUMBER OF CUSTOMERS?

A. Natural gas pipelines are installed to provide service to customers throughout the year and designed and built to provide service on peak days. Unless all the customers are living in one massive apartment building, the distribution pipelines must extend across a company's distribution service territory. More footage of mains must be installed to interconnect many small customers than to connect one large customer, and when more customers are added, more pipelines must be extended. It is a clear causal relationship and that is why the customer component of the Customer-Demand COSS simply is needed and makes sense. Mr. Watkins acknowledges that fact but claims that "no customer connects to a LDC system simply to be connected but never utilize natural gas . . . ." OCA Statement No. 3, Direct Testimony of Glenn A. Watkins, *Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC*, Docket No. R-2018-3006818, p. 9 (Apr. 29, 2019) (hereinafter, "OCA St. 3"). Mr. Watkins then uses that claim as his basis to reject the allocation of a portion of distribution mains costs on a customer basis. He claims that a customer allocator might be valid in an electric utility that serves rural as well as urban and suburban customers but that gas utilities do not serve rural areas. Contrary to Mr. Watkins' claims, Peoples, as well as other natural gas distribution companies in western Pennsylvania, are situated in a region where there is significant natural gas production; that production does not occur in urban or suburban areas, but rather, in rural areas. Over the years, this increase in production has created a distribution system that, along with portions of the gathering system, serves rural customers. The nature of this service illustrates the reason that some allocation of distribution mains cost should be done on a customer basis. Customers in the less dense areas require more feet of natural gas distribution mains piping to reach them than customers situated in highly dense urban areas. This refutes the example provided by Mr. Watkins.

Q. WHAT INDUSTRY REFERENCE STANDARD DO YOU RELY UPON FOR YOUR KNOWLEDGE THAT A PORTION OF DISTRIBUTION MAINS SHOULD BE ALLOCATED ON A CUSTOMER BASIS?

A. For this issue, the Gas Distribution Rate Design Manual ("Manual"), prepared by the National Association of Regulatory Utility Commissioners ("NARUC"), provides some clarity. The Manual states the following with respect to classification of distribution mains.

> One argument for inclusion of distribution related items in the customer cost classification is the "zero or minimum size main theory." This theory assumes that there is a zero or minimum size main necessary to connect the customer to the system and thus affords the customer an opportunity to take service if he so desires. Under the minimum size main theory, all distribution mains are priced out at the historic unit cost of the smallest main installed in the system and assigned as customer costs. The remaining book cost of distribution mains is assigned to demand. The zero-inch main method would allocate the cost of a theoretical main of zero-inch diameter to the customer function, and allocate the remaining costs associated with mains to demand.

NARUC Manual, pp. 22-23.

Contrary to the OCA, Peoples' witness, Mr. Feingold, used the minimum size unit approach and made an adjustment to the level of capacity to exclude a portion of the mains cost and include that portion as a capacity cost. I would agree with Mr. Feingold's analysis. Although Mr. Watkins wishes to ignore Peoples' Customer-Demand Study, it is a valid study and should be used for purposes of allocating rates in this proceeding.

Q. DOES MR. WATKINS RECOMMEND THAT MAINS ALLOCATION BE BASED ON AVERAGE DEMAND AND NOT PEAK DEMAND?

A. Yes. On page 8 of his Direct Testimony, Mr. Watkins recommends using the Peak & Average COSS and attempts to build a case that gas mains allocation should be based on average demand and not peak demand. On page 11, he points out that the cost of delivering gas on just one day would be prohibitively high. This example is nonsensical because no customer uses gas on only one day during the year. The fact is that the distribution system must be designed to deliver gas during a peak day. Once the pipes are sized to carry the peak day load, enough gas will flow through those pipes for the rest of the year to meet the remaining needs of the customers. Mr. Watkins is incorrect in that this example provides no justification for leaping to the conclusion that the piping system was designed to meet an average demand. Clearly a system designed based on average demand would fail the moment the average demand was exceeded. One can imagine what a system like that would look like in January; it would be a disaster.

Continuing on page 11, Mr. Watkins said that "[w]hen Peoples evaluates a Main extension proposal or project, it considers the maximum load that will be placed on the extension in its determination of the required size of Main as well as the annual margin revenue that will be generated from the usage of natural gas along the extension." OCA St. 3, p. 11. Mr. Watkins is comparing apples to oranges. While Peoples' engineering staff considers the maximum or peak load to design and construct the distribution main piping needed, Peoples also conducts an economic evaluation to determine the revenues that will be collected over the years of the pipe's useful life. In considering the revenues that will be collected, Peoples uses the rates it has in place according to the applicable rate schedule. Those rate schedules are volumetrically based, so Peoples must consider the annual throughput to determine the annual revenues. In this case, the revenue collection design is not modeled based on the engineering design. Mr. Watkins' observation that the Company's rate revenues are primarily collected on a volumetric basis is not a reason to believe that the peak demands are not used as the engineering design basis for gas mains.

Further extrapolation of Mr. Watkins' analysis would result in the conclusion that the rate structure of the Company should be designed to collect fixed costs, such as the distribution gas mains, from customers on a non-volumetric basis. Such a result (i.e., billing all fixed costs in a fixed monthly charge) is opposite Mr. Watkins' Direct Testimony regarding fixed charges, as stated on page 31 of his Direct Testimony.

On pages 12 and 13, Mr. Watkins opines that many costs associated with the distribution delivery system do not depend on pipe sizes and that the installed costs of distribution mains do not increase linearly with the diameter of the main. While that is true, the majority of the cost of the gas mains clearly depends on the peak design. Mr. Watkins uses an example that discusses the economies of scale of expanding the diameter of pipe as a bad example, but his logic is flawed. Simply because an efficiency is involved in the economy of scale of larger sized pipes that produces a cost efficiency in the delivery capability does not undermine the basic principle that the peak demand is the dominant factor in the design of the distribution system.

Q. WHY SHOULD MAINS BE ALLOCATED BASED ON PEAK DEMAND AND NOT AVERAGE DEMAND?

A. The NARUC Manual provides a thoughtful explanation as to why mains should not be based on average demand.

> Demand or capacity costs vary with the quantity or size of plant and equipment. They are related to maximum system requirements which the system is designed to serve during short intervals and do not directly vary with the number of customers or their annual usage. Included in these costs are: the capital costs associated with production, transmission and storage plant and their related expenses; the demand cost of gas; and most of the capital costs and expenses associated with that part of distribution plant not allocated to customer costs, such as the costs associated with distribution mains in excess of the minimum size.

NARUC Manual, pp. 23-24. Average demand is based on annual usage and is clearly identified as not appropriate to use as a basis for gas mains allocation.

Q. HAVE ANY OTHER STATES APPROVED PEAK DEMAND FOR A GAS COMPANY'S MAINS ALLOCATION DETERMINANT?

A. Yes. The Maryland Public Service Commission recognized that distribution mains are demand related and should be allocated to all customers based on each class' contribution to peak demand. *See* Errata Order No. 87591, p. 172, *In Re Application of Baltimore Gas and Electric Company for Adjustments to its Electric and Gas Base Rates,* Maryland Public Service Commission, Docket No. 9406 (entered June 6, 2016). The Maryland Public Service Commission approved Baltimore Gas & Electric's ("BGE") COSS method, which bases the allocation on demand using the non-coincident peak, which is the customer's highest demand during the year. According to one of BGE's witness, "Distribution mains and associated O&M are classified as demand-related and allocated to all customer classes based on each class' contribution to the winter period total non-coincident peak ("NCP") demand (therms per hour)." Direct Testimony of David E. Greenberg, p. 31, *In Re Application of Baltimore Gas and Electric Company for Adjustments to its Electric and Gas Base Rates,* Maryland Public Service Commission, Docket No. 9406 (Nov. 6, 2015). Mr. Greenberg's findings support my point that in the Customer-Demand COSS costs are correctly classified by peak demand, not average demand.

Q. IS THERE VALUE IN EXAMINING COMMISSION RULINGS OUTSIDE OF PENNSYLVANIA?

A. Yes. For example, National Fuel Gas Distribution ("NFGD") had a proceeding before the New York Public Service Commission in which NFGD allocated mains between Customer and Demand using a regression analysis and the zero-intercept radius methodology. *See* Direct Testimony of Cost of Service and Rate Design Panel, p. 29, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service*, New York Public Service Commission Case No. 16-G-0257 (Apr. 28, 2016). In this proceeding, NFGD stated that "The first step in determining the allocation of Distribution Mains (Plant Account 376) is the split between Customer and Demand. The Company performed a regression analysis, which determined that 58.56% was customer related and 41.44% was demand related. The regression analysis produced the zero intercept point, based on the relationship between the radius of the pipe size squared and the average cost per foot." *Id*. The zero intercept method calculates what the capital cost of a distribution system having a zero-diameter pipe would be through the use of statistical analysis. NFGD's customer-demand study was recommended by the Administration Law Judge and adopted by the New York State Public Service Commission.

Q. DO OTHER NATURAL GAS DISTRIBUTION COMPANIES USE A CUSTOMER-DEMAND COST OF SERVICE MODEL?

A. Yes. In New York, Orange & Rockland ("O&R") produced an Embedded Cost of Service Study for a base rate proceeding. *See* Direct Testimony of Gas Rate Panel, pp. 4, 11, and 15, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Gas Service,* New York Public Service Commission Case No. 14-G-0494 (Nov. 14, 2014). In that study, O&R submitted Exhibit GRP-G1, Schedule 1:

> <u>Line 7, Distribution Demand ("Demand Component")</u>
> The Distribution Demand ("Demand Component") consists of the balance of the distribution mains system not allocated to the customer component, and represents fixed costs related primarily to mains. It also includes distribution pressure governors and regulating equipment, used in distributing gas from the sellers to the firm classes of services. These costs are allocated to the firm classes in proportion to their maximum one-hour non-coincident use on a zero degree day.
>
> <u>Line 8, Distribution Customer ("Customer Component")</u>
> The Distribution Customer ("Customer Component") consists of the distribution mains system that would be required to connect gas customers with a minimum predominant size pipe, regardless of their demand for gas. It is apportioned to the classes based on a study of the length of mains per service connection and the number of services for each class.

See id. at Exhibit___(GRP-G1), Schedule 1, pp. 5-6. The Customer-Demand method is a valid COSS method and should not be ignored as Mr. Watkins has done.

Q. WHAT IS YOUR RESPONSE TO MR. WATKINS' WISH REGARDING THE REVENUE REQUIRMENT OF DISCOUNT RATE CUSTOMERS?

A. On pages 27-28 of his Direct Testimony, Mr. Watkins opines that the additional rate revenue associated with discount rates should be applicable to those rate classes, meaning that the non-competitive customers in a class would bear the revenue requirement that Peoples is unable to collect from the competitive customers in the same class. For reasons I discussed in my Direct Testimony (i.e., that all classes benefit from the retention of competitive customers), customers in all classes should share the collection of the revenue requirement of the competitive customers. Mr. Watkins discusses the example of how Customer Assistance Program ("CAP") costs, which are the costs stemming from programs used to support low-income customers, are assigned solely to the Residential class. He then attempts to make a comparison between CAP costs and discounted rates, but the comparison is flawed. CAP costs are subsidies provided to low-income customers who lack the financial resources to pay the full amount of their utility bill. In the absence of CAP subsidies, these customers eventually would be denied gas service for non-payment. Competitive rate discounts, on the other hand, retain customers whose contribution to Peoples' income is positive as the rate these competitive customers are charged, while less than the full tariff rate, is still higher than the marginal costs to serve these customers and results in greater income for the Company due to these customers continued patronage of the Company's system. If a competitive customer were to leave the Peoples system, the effect would be an increase in the rates of all classes of customers to make up the margin that was lost. Thus, Mr. Watkins' CAP cost example does not apply for purposes of allocating the revenue requirement of competitive customers, and the differential in revenue between negotiated rates and tariffed rates should be spread among all customer classes.

Q. IS MR. WATKINS' COMPARISON OF CAP COSTS AND DISCOUNTS DUE TO COMPETITIVE RATES ACCURATE?

A. No. Mr. Watkins states the following:

> [I]t should be remembered that this Commission has ruled that the Residential class should be totally responsible for the discounts offered under Customer Assistance Programs ("CAP") because such CAP programs are only available to Residential customers. The same is true for the availability of discounted rates. That is, discounted rates are not available to Residential customers, such that this class should not be burdened with both CAP costs and discounts as well as discounted rates offered only to Commercial and Large Industrial Customers.

OCA Statement No. 3, p. 28.

Unfortunately, Mr. Watkins is comparing apples to oranges. CAP only benefits the recipients of CAP grants, which are the low-income customers that receive the subsidies, for in absence of such subsidies those customers would be unable to pay their gas bill.

Mr. Watkins is correct in asserting that the Commission has ruled that the Residential class must bear the costs of CAP, and other low-income customer programs, for members of that class are the only possible customers that can benefit from CAP. In other words, if a Residential customer is not currently receiving benefits under CAP, but that Residential customer has a change in financial circumstances, the customer may be eligible for CAP benefits. Neither Commercial nor Industrial customers are eligible to partake in CAP benefits regardless of any change in their financial circumstances. Conversely, discounted rates offered to Commercial and Industrial customers serve all customer classes by retaining those customers and the revenue they contribute. Were such customers to leave the Peoples system and their revenue contribution be lost, then all customers in all classes would see their revenue responsibility increase to make up for the lost revenue. For this reason, allocating the revenue shortfall from competitive customers to non-competitive customers in all classes is appropriate, for the revenue shortfall is a lesser amount than what the non-competitive customers in all classes would be allocated if competitive customers left Peoples' system altogether.

Q. IS MR. WATKINS' OPINION REGARDING THE BIFURCATION OF LOW PRESSURE AND REGULATED PRESSURE MAINS CORRECT?

A. No. Mr. Watkins discusses the bifurcation of low pressure and regulated pressure mains starting on page 17 of his Direct Testimony. Contrary to his claims, Peoples' method of identifying and subsequently separating the pipelines of its distribution system into regulated pressure, which serves all customers, and low pressure, which is only capable of serving customers at low pressure, is appropriate and consistent with cost causation principles. Moreover, this method is consistent with the treatment of the distribution system assets in Peoples' previous base rate case in 2012. In addition, Peoples' identification is also consistent with the method commonly used in electric distribution base rate cases where the secondary voltage portion of the distribution system is excluded from the allocation of costs to primary voltage customers. The adjustment Mr. Watkins makes in the Peak and Average COSS that he conducted is incorrect and invalidates the results of his COSS.

Q. IS MR. WATKINS' REQUIRED CLASS REVENUE ALLOCATION JUST AND REASONABLE?

A. No. Unfortunately, Mr. Watkins claims that he does not have adequate information to fully dissect the Company's proposed rate allocation and, for that reason, he argues that the only appropriate solution would be to split the revenue allocation among all customer classes equally. Per Table 7 in his Direct Testimony, Mr. Watkins' rate allocation would result in all customer classes receiving 23.9% of the Company's requested rate increase. *See* OCA St. 3, p. 26. His proposed rate allocation would result in the Residential, Small General Service, and Medium General Service classes receiving less than the Company's proposed allocation. Perhaps not surprisingly, the Residential class would benefit the most from this proposal. Unfortunately, for the Large General Service class, Mr. Watkins' proposal would more than double the non-gas revenue by assigning an increase of 102.1% to that class. Such an increase is unconscionable and should be rejected. As I stated in my Direct Testimony, I would recommend using the preferred method of Mr. Feingold as presented in Exhibit RAF-4, Page 1 of 3. Moreover, as noted in my Direct Testimony, Peoples' proposed rate allocation raises concerns regarding just and reasonableness with respect to intra-class issues. Obviously, if Peoples' proposal raises these issues, the OCA's proposal would be significantly more detrimental to Peoples' Large General Service customers receiving natural gas transportation service.

Q. DID THE BUREAU OF INVESTIGATION AND ENFORCEMENT ("I&E") REVIEW THE COMPANY'S COSS?

A. Somewhat. I&E witness, Mr. Cline, in his Statement No. 4, pages 7 through 20, reviewed some of the past decisions of the PUC regarding various methods used in the COSS. He first explains what an allocated COSS entails and how it is used. Then he explains what the Company submitted in this proceeding along with reviewing the differences between the design day demand allocation with a customer component of distribution mains COSS, and the Peak & Average COSS without a customer component of distribution mains, and the impact on the relative rates of return. He provides a historical review of a few Commission decisions that did not use the Customer-Demand COSS methodology. He does agree with the method Mr. Feingold described when conducting the Company's Peak and Average COSS and recommends that Mr. Feingold's Peak and Average COSS study be used to allocate revenue increases.

Q. DID MR. CLINE ACTUALLY CONDUCT HIS OWN COSS?

A. No. He did not conduct any study himself or review any of the analytical formulae contained in the Company's COSS. He does endorse the manner in which the Company conducted its Peak and Average COSS. As a result, Mr. Cline argues that the Company's use of the average of the Peak & Average and Customer Demand COSS should be rejected. Instead, Mr. Cline submits that just the Peak & Average COSS should be utilized for purposes of allocating rates in this proceeding.

Q. WHAT IS THE FLAW IN MR. CLINE'S EXAMPLE?

A. On page 14 beginning at line 7, Mr. Cline attempts to justify using average demand instead of peak demand in the allocation of gas distribution mains:

> An example of demand being a cause of cost would be a single street with a main sized to deliver 10 Dth. The size of the main would remain the same if it served ten residential customers using one Dth each, four residential customers and one small business using two Dth each, or one larger business using 10 Dth. The number of customers has no bearing on the size or cost of the mine in this example.

I&E Statement No. 4, Direct Testimony of Ethan H. Cline, *Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC,* Docket No. R-2018-3006818, p.14 (Apr. 29, 2019) (hereinafter, "I&E St. 4"). His example is flawed, and the flaw is in his premise. He states that the main is sized to deliver 10 Dth. He fails to specify over what time period that 10 Dth will be delivered, and that omission illustrates Mr. Cline's misunderstanding of why the peak demand is the critical input variable used in the design of distribution mains. Is it 10 Dth per hour, 10 Dth per day, 10 Dth per month, or 10 Dth per year? Mr. Cline does not understand that it is the amount of commodity delivered over a period of time that is the basis for designing the mainline to be installed in the street. Cost causation principles would have one examine the method used to design and construct the pipeline. The Company's engineering department would examine the peak load as determined based on the connected load, not the annual load, in conducting its design determination of the sizing of the pipeline that is necessary.

Continuing with Mr. Cline's example, he states that the main was "sized to deliver 10 Dth." "Sized to deliver" means that the engineering department would have determined the peak load, not the average load, that the pipe would have to carry, and determine the pipe size accordingly. In doing the calculation, the engineering department would have known the delivery requirement, meaning the time period that it would take to deliver the 10 Dth. Mainline sizing and costs are determined based on peak demand, not average demand, and must be allocated that way.

Q. DO YOU AGREE WITH MR. CLINE'S REASONING?

A. No, I do not agree with Mr. Cline for there are valid reasons that there are other COSS methodologies that have a sound technical and economic basis. Examining such alternatives by looking at other best practices and methods that have been found to be sound is a way to improve cost allocation. For that reason, I reject Mr. Cline's recommendation.

Q. DO YOU HAVE ANY OTHER CONCERNS WITH MR. CLINE'S RECOMMENDATION?

A. Yes. If the Company's Peak & Average COSS were to be utilized for rate allocation purposes, the apportionment to the Large General Service class would increase from $1,293,389, as proposed by the Company, to $11,493,389, as proposed by I&E. While this increase is not quite as high as that proposed by OCA, the resulting impact on Large General Service transportation customers on Peoples' system would be extremely significant. Considering that, as per my Direct Testimony, PII members have concerns with the rate shock that would occur under Peoples' proposal, I&E's proposal would substantially increase the rate shock to these customers.

Q. WHAT IS THE IMPACT OF THE PROPOSED RATE INCREASES ON THE LGS CUSTOMERS THAT LACK A COMPETIVE ALTERNATIVE?

A. It is significant and "hidden" in the average data presented in Mr. Feingold's, Mr. Watkin's, and Mr. Cline's recommendations for none of theses witnesses have explicitly separated the LGS non-competitive customers from the LGS competitive customers to calculate the impact on the LGS non-competitive customers. The Company has established that it has a significant amount of gas delivery to competitive customers and it retains those customers to provide an overall benefit to all customer classes. Exhibit___(JC-1R), attached hereto, is constructed from Company data provided by Ms. Scanlon in Exhibit No. 17, COS-15. The data in this Exhibit show a strong financial benefit to all customer classes from the $23,052,050 in revenue the Company receives due to retaining competitive customers at discounted rates. In absence of such rate discounting by the Company, these customers and the revenue they contribute would vanish. Mr. Feingold recognized this issue and also understood that only the non-competitive LGS class members would bear any increase under the Company's preferred allocation. Specifically, Mr. Feingold stated, "it is important to recognize that because most of the Company's competitively situated customers are included in the LGS rate class, any increase in class revenues could not be recovered from such customers." Peoples Statement No. 11, Direct Testimony of Russell A. Feingold *Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC,* Docket No. R-2018-3006818, p. 11 (Jan. 28, 2019) (hereinafter, "Peoples St. 11"). Mr. Cline and Mr. Watkins propose to allocate a substantial increase in the revenue requirement to the Large General Service class, but they fail to explain that 76.7% of the customer volumes in the LGS class are competitive. This means that absolutely none of the rate increase will be allocated to those completive customer volumes and all of the rate increase will be borne by the non-competitive customers that comprise only 23.3% of the volumes in the class.

Q. WHAT IS THE REAL IMPACT OF THE PROPOSED RATE INCREASE ON LGS CUSTOMERS?

A. Understand that the non-competitive customers would be the only members of the LGS class to bear any of the increase. If Mr. Feingold's proposed method were adopted the non-competitive customers would realize a 4.1% increase. While this increase may not seem egregiously high, as discussed more fully in my Direct Testimony, the Company's rate design proposal for LGS customers would result in some non-competitive customers receiving triple digit increases. Mr. Cline would assign $11,493,389 to the non-competitive customers resulting in a 36.7% increase, which would again, based upon the Company's proposed rate design, be even more egregious to certain non-competitive LGS customers. As discussed previously, Mr. Watkins' proposal would more than double the revenue requirement assigned to the LDS class, and for those non-competitive customers the $44,072,315 that Mr. Watkins would assign to them would mean an increase of 140.7%, which is clearly unacceptable.

Q. IS THERE A STATUTE THAT PROHIBITS THE COMMISSION FROM CONSIDERING NEW METHODS DIFFERENT FROM THE PEAK & AVERAGE COSS?

A. No. The Commission is free to improve on its past decisions based on new information and considerations.

Q. IF THE COMPANY'S AVERAGE COSS METHOD IS NOT USED TO DETERMINE REVENUE ALLOCATION WHICH COSS METHOD WOULD YOU RECOMMEND?

A. As I stated in my direct testimony, the COSS that is most appropriate is Mr. Feingold's preferred study, with the results presented in Exhibit RAF-4, page 3, Table 1. If the Commission intends to select one COSS as the basis for the Company's revenue increase then the preferred study would be the most appropriate and my recommendation. If the Commission chooses instead to balance the competing interests and outcomes as the Company has done by averaging COSSs then the results presented in Exhibit RAF-4, page 3, Table 4 would be the most appropriate.

Q. WAS MR. FEINGOLD'S COSS BASED ON SOUND REGULATORY PRINCIPLES?

A. Yes. His preferred COSS, noted as the Design Day Demand method, is most appropriate. PII members reside in the Large General Service class, and the recommended revenue requirement determined by Mr. Feingold's preferred method would be $40,001,918. Mr. Feingold also presented an alternative, noted as the Company's proposed class revenue apportionment, which would assign a revenue responsibility of $44,406,340 to the Large General Service class, which is an increase of $4,404,422 above the preferred amount. While PII still has concerns with respect to the resulting rate design of this assignment, Mr. Feingold's preferred COSS would be the first step towards ensuring reasonable rates for non-competitive LGS customers.

Q. WHAT IS THE SUMMARY OF YOUR REBUTTAL TESTIMONY?

A. My recommendations are:

1. Use the Design Day Demand COSS and assign class revenues according to Table 1 of Exhibit RAF-4, Page 3 of 3; and
2. Recognize that the presence of competitive customers provides benefits to all customer classes and assign their share of the revenue requirement to all non-competitive customers in all classes.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

EXHIBIT

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

MAY 28, 2019

LGS Vols MCF Source Exhibit No. 17, COS 15

	Competitive Peoples	Noncompetitive Peoples	Competitive Equitable	Noncompetitive Equitable	Competitive Total	Noncompetitive Total	Total Vols
Comm	1,495,239	2,007,549	2,982,988	4,995,350	4,478,227	7,002,899	11,481,126
Ind	14,958,047	2,817,384	14,594,414	500,001	29,552,461	3,317,385	32,869,846
C+I	16,453,286	4,824,933	17,577,402	5,495,351	34,030,688	10,320,284	44,350,972
					76.7%	23.3%	

LGS Rev $

	Competitive Peoples	Noncompetitive Peoples	Competitive Equitable	Noncompetitive Equitable	Competitive Total	Noncompetitive Total	Total Rev
Comm	1,573,186	5,838,812	4,803,971	18,398,372	6,377,157	24,237,184	30,614,341
Ind	10,908,322	5,906,712	5,766,571	1,189,791	16,674,893	7,096,503	23,771,396
C+I	12,481,508	11,745,524	10,570,542	19,588,163	23,052,050	31,333,687	54,385,737
					42.4%	57.6%	

Feingold Preferred RAF-4 page 3, Table 1	-$3,111,033	-9.9%
Feingold Proposed RAF-4 page 3 Table 4	$1,293,389	4.1%
Watkins- GAW-4 page 1 of 15	$44,072,315	140.7%
Cline- I&E Exhbit 4-Schedule 8	$11,493,389	36.7%

PII Statement No. 1-SR

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

SURREBUTTAL TESTIMONY
AND EXHIBITS

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

JUNE 12, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

SURREBUTTAL TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

Q. PLEASE STATE YOUR NAME.

A. I am James L. Crist, President of Lumen Group, Inc.

Q. ARE YOU THE SAME JAMES L. CRIST THAT PRESENTED DIRECT TESTIMONY AND REBUTTAL TESTIMONY ON BEHALF OF THE PEOPLES INDUSTRIAL INTERVENORS ("PII") IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My Surrebuttal Testimony will respond to the Rebuttal Testimony of Peoples' witness Mr. Feingold, which attempts to average the increases of Large General Service ("LGS") customers in order to disguise the true impact of Peoples Natural Gas Company LLC's ("Peoples" or "Company") proposed rate increase for a certain subset of large transportation customers receiving service in the Peoples Division. I will also respond to the Rebuttal Testimony of the Company's Return on Equity ("ROE") witness, Mr. Moul, in order to demonstrate that the Company's front-loading of its rate blocks does indeed reduce Peoples' risk. I will also refute the claim in the Rebuttal Testimony of Peoples' witness Gregorini in which Mr. Gregorini claims that his testimony in the

Peoples/Equitable merger proceeding, stating that gas-on-gas competitive discounts should be eliminated in the first base rate case following the five-year period, was not what he actually meant. He meant it, and stated it, and explained why the discounts should not be eliminated prematurely. Finally, I will respond to the Rebuttal Testimony of Duquesne Light witnesses Mr. Davis regarding competitive discounts.

Q. DID PEOPLES' WITNESS MR. FEINGOLD ADDRESS YOUR RATE DESIGN CONCERNS?

A. Mr. Feingold recognized that my concerns regarding the rate design focused on the monthly customer charge and certain volumetric block charges for LGS customers in the Peoples division, which I presented in Exhibit___(JC-1). Mr. Feingold's defense of the extremely high customer charge increases for Peoples Division industrial customers, which range from 31.7% to 138.5%, is that the overall increase to the LGS class is not significantly high. His response, which focuses on the LGS class as a whole (i.e., referencing both the Peoples and Equitable Divisions), is an attempt to misdirect the focus from the impact on individual customers, which is very painful, to the overall class impact, which is mitigated through the decreases of customer and volumetric charges to the industrial customers in the Equitable Division, as well as the volumetric charge decrease proposed for the largest set of customers in the Peoples' Division. My concern regarding what the individual customers will experience is just as, if not more, important than the class average increases.

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING MR. FEINGOLD'S TESTIMONY?

A. In a continued effort to avoid recognizing the significant rate increase that would be faced by certain categories of Rate LGS customers on the Peoples' Division, Mr. Feingold presents a table that includes the total bill increase for the average LGS customers. First, I would take issue with how Mr. Feingold is determining the "average" LGS customer. As I noted previously, the Equitable Division customers, along with the larger block customers on the Peoples' system, are receiving a rate decrease. The "average" customer in these categories is facing an extremely different rate impact than the "average" customer taking under the first three rate blocks on the Peoples' Division. Second, Mr. Feingold's table references the total bill impact to customers (i.e., is inclusive of natural gas costs). Peoples is seeking a base rate increase in this proceeding, as compared to reviewing purchased gas costs. To include gas supply in this table does not provide a clear picture of the impact of Peoples' rate increase on the actual rates at issue.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE CUSTOMER CHARGES PROPOSED FOR THE LGS CLASS?

A. I recognize the Company wishes to make some movement toward an eventual consolidation of the Peoples Division and Equitable Division service charges; however, the Peoples Division customer charges should not increase to the degree Mr. Feingold proposed, as triple digit increases contradict Mr. Feingold's methodology of limiting the delivery charge increases. The Equitable Division charges are proposed to significantly decrease. For purposes of this proceeding I would not implement such significant decreases but instead continue the service charges to those customers at the current tariffed amounts, which would allow for smaller increases to the service charges for customers in the Peoples Division. My proposed service charges are presented in Exhibit____(JC-1SR). Mr. Feingold's Exhibit RAF-2, which he discussed in his Direct Testimony, supports LGS customer charges of between $858.66 and $880.19. *See* Peoples Statement No. 11, p. 52. Based on his own analysis, the customer charges for those LGS customers with annual volumes greater than 50,000 mcf that exceed his supported amount represent shifting of revenue collection responsibility from the volumetric delivery charges to the fixed customers charges and should not be permitted.

Q. WHAT DO YOU RECOMMEND FOR THE LGS DELIVERY CHARGES?

A. Again, my concern regarding the impact on individual customers in that class drives my recommendation to not decrease the delivery charges to any volumetric rate blocks, but instead, maintain those charges at the current amounts. As a result, customers in the smaller rate blocks in the Peoples' Division could receive a lower rate increase that would appropriately moderate the rate shock that concerns me.

Q. WHAT DID COMPANY WITNESS MR. MOUL STATE REGARDING THE IMPACT OF THE LGS SERVICE CHARGE INCREASES?

A. Mr. Moul disagreed that increasing the LGS services charges would merit a reduction in the Company's proposed rate of return on equity. The justification for his position was based on the magnitude of the change, which he stated was "so small as to have a deminimis impact on the Company's risk profile . . . ." *See* Peoples Statement No. 9-R, p. 31. Mr. Moul does not rebut the concept that, by shifting revenue collection from the volumetric block charges into the fixed monthly charges, the Company's risk profile would be lower, as this shift lowers the volatility associated with revenue collection thereby increasing revenue certainty for the Company. Such revenue collection shifting is known as "front loading," and it clearly reduces the Company's risk.

Q. HAVE OTHER PARTIES IN THIS PROCEEDING OBJECTED TO THE COMPANY'S FRONT-LOADING ATTEMPTS?

A. Yes. For the residential class, the Company proposes to increase the fixed service charge to $20.00, and Mr. Watkins, on behalf of the Office of Consumer Advocate ("OCA"), Mr. Geller, on behalf of CAUSE, and Ms. Moore, on behalf of CAAP, all objected to the proposed increase. In the Medium General Service ("MGS") class, Mr. Kalcic, of the Office of Small Business Advocate ("OSBA"), objected to the large service charge increases proposed by the Company and recommended they be limited. Mr. Moul may view the impact of my recommendation concerning the service charges of the LGS class as deminimis, and therefore not a justification to lower the requested rate of return on equity; however, when the effect of front-loading on the residential and medium general service classes are combined with the LGS class, Mr. Moul's "deminimis" characterization does not apply.

Q. IS MR. GREGORINI'S POSITION ON COMPETITIVE DISCOUNTS CONSISTENT WITH HIS PREVIOUS TESTIMONY?

A. No. After reading Mr. Gregorini's Rebuttal Testimony on the issue, I again reviewed his testimony from the Peoples/Equitable merger proceeding, which I included in my Direct Testimony as Exhibit___(JC-3). Even after further review, I reach the same conclusion that I had stated in my Direct Testimony: Mr. Gregorini pledged to end competitive discounts after Peoples' first distribution rate case with an effective date following the end of the five-year extension. Because this is the first base rate case following the end of the five-year extension, any termination by Peoples of a competitive contract prior to the end of this base rate proceeding was inappropriately premature.

Q. DID YOU MISTAKE MR. GREGORINI'S TESTIMONY REGARDING REVENUE RESPONSIBILITY WITH HIS TESTIMONY REGARDING ENDING COMPETITIVE DISCOUNTS?

A. No. Mr. Gregorini opines that I confused two related issues: the end of the contract period for competitive customers and a response to Mr. Kalcic regarding revenue responsibility. *See* Peoples Statement No. 2-R, pp. 45-47. Mr. Gregorini claims he was testifying that the revenue responsibility for competitive rate shortfalls stemming from competitive contracts should be dealt with in the next base rate case. While I agree that a portion of his testimony discusses the revenue responsibility issue, Mr. Gregorini's testimony also discusses the termination of competitive contracts. Moreover, the Joint Petition for Settlement, which I attached as Exhibit___(JC-3) to my Direct Testimony, specifically indicates that Mr. Gregorini's testimony will provide the basis for determining the end of competitive discounts. In this instance, his testimony clearly provides that the discounts will end after the next base rate proceeding to ensure that competitive rate customers are returning to cost-based rates.

Q. WHAT IS MR. DAVIS' CLAIM REGARDING YOUR RECOMMENDATION TO ALLOCATE THE REVENUE SHORTFALL STEMMING FROM COMPETITIVE DISCOUNTS TO ALL RATE CLASSES?

A. In my Direct Testimony, I explained that, because revenue obtained from competitive customers benefits all customer classes of Peoples, any revenue requirement allocation to the LGS class competitive customers should be borne by non-competitive customers of all classes because all customers are the beneficiaries of the retention of competitive customers. Mr. Davis opines that my sound recommendation is "not consistent with basic principles of cost-of-service ratemaking," yet Mr. Davis offers no reason for this conclusion. *See* Duquesne Light Statement No. 1-R, p. 2. Instead, Mr. Davis opines that other customer classes have higher rate increases and are receiving a majority of Peoples' requested revenue increase. On those two points, Mr. Davis is factually correct, but his facts provide no support based on cost-of-service ratemaking principles. I have stated previously in this Surrebuttal Testimony that I do not advocate for a reduction in the Company's service charges or delivery rates to LGS customers in the Equitable Division because I am attempting to mitigate the extremely high rate increases to certain rate blocks of LGS customers in the Peoples Division. This claim rebuts Mr. Davis' example that shows a 2.7% bill reduction for the LGS class. *Id.* at p. 3. In other words, while Mr. Davis claims that spreading the revenue shortfall out to all customers is unnecessary due to a purported 2.7% bill reduction for the Rate LGS class, as I have indicated in this Testimony, the "average" bill increase or decrease for the Rate LGS class masks the fact that, while various categories are receiving rate decreases, a portion of this rate class is poised to receive extremely high rate increases. Mr. Davis' claim ignores the impact to this subset of customers.

Q. WHAT IS THE "CUSTOMER BENEFIT" RATEMAKING CONCEPT?

A. The Customer Benefit concept provides an exception to the strict Cost of Service ratemaking principle as it is based on the ideal that customers that receive benefit should provide some consideration for that benefit. For example, if I had booked an Uber to the airport and Mr. Davis also wished to go to the airport, saw me waiting for my Uber, and asked if he could join me, cost of service principles would imply that upon arrival at the airport, Mr. Davis would hop out and walk into the terminal without paying a portion of the Uber. After all, it was a sunk cost that did not vary with number of riders, so his presence in the Uber neither caused the cost or added to the cost. If during the ride to the airport however, I explained the Customer Benefit concept to Mr. Davis, then upon arrival he might agree that he received a benefit from the Uber ride and throw a twenty my way.

Q. HOW DOES THE CUSTOMER BENEFIT CONCEPT APPLY TO THE ASSIGNMENT OF COMPETITIVE CUSTOMERS' REVENUE REQUIREMENTS TO OTHER CLASSES OF CUSTOMERS?

A. I and other witnesses[1] have explained that all non-competitive customers in all classes benefit from the revenues collected from customers receiving competitive discounts, and therefore those non-competitive customers should share in the "cost" which is the revenue requirement that cannot be assessed to the competitive customers. It is a valid ratemaking concept that the Commission has upheld in gas-on-gas proceedings. This rebuts Mr. Davis' opining.

Q. IS MR. DAVIS AWARE OF WHAT CUSTOMERS RECEIVE BENEFIT FROM THE RETENTION OF COMPETITIVE CUSTOMERS?

A. No. In his response to data request PII-DL-I-2, which I have included as Exhibit___(JC-2SR), Mr. Davis states that "Duquesne Light is not aware of which customer classes would benefit." All non-competitive customers in all classes benefit.

[1] Mr. Watkins stated, "there is no doubt that discounted rates are appropriate and benefit all stakeholders under certain circumstances." OCA Statement No. 3, p. 35.

Q. WHAT IS THE SUMMARY OF YOUR SURREBUTTAL TESTIMONY?

A. My recommendations are:

1. Adjust the customer service and delivery charges of the LGS class to eliminate rate decreases for the Equitable Division customers and reduce the increases for the Peoples Division customers.
2. Recognize that Mr. Moul's recommendation of the equity return should be reduced as a result of the Company's front-loaded rate design across Residential, MGS and LGS classes.
3. Ignore the attempted misdirection of Mr. Gregorini regarding discontinuance of competitive discounts and instead rely on the words of his actual testimony.
4. Completely disregard Mr. Davis' comments on revenue allocation. He offers no proof regarding cost-of-service yet attempts to ignore the substantial cost of service studies performed by the Company.

Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

EXHIBITS

OF

JAMES L. CRIST, P.E.

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

June 12, 2019

Rate LGS Customer Charge

Annual Volume	Peoples Division Current Charge	Equitable Division Current Charge	Company Proposed Charge	Peoples Division % Change	Equitable Division % Change		PII Peoples Division Proposed Charge	PII Peoples Division % Change	PII Equitable Division Proposed Charge	PII Equitable Division % Change
25,000 to 49,999 McF/Yr	$ 443.00	$ 1,600.00	$ 700.00	58.0%	-56.3%		$ 531.60	20.0%	$ 1,600.00	0.0%
50,000 to 99,999 McF/Yr	$ 545.00	$ 1,600.00	$ 1,300.00	138.5%	-18.8%		$ 654.00	20.0%	$ 1,600.00	0.0%
100,000 to 199,999 McF/Yr Commerical	$ 793.00	$ 1,600.00	$ 1,400.00	76.5%	-12.5%		$ 951.60	20.0%	$ 1,600.00	0.0%
100,000 to 199,999 McF/Yr Industrial	$ 1,144.00	$ 1,600.00	$ 1,400.00	22.4%	-12.5%		$ 1,372.80	20.0%	$ 1,600.00	0.0%
Over 200,000 McF/Yr Commerical	$ 1,215.00	$ 1,600.00	$ 1,600.00	31.7%	0.0%		$ 1,458.00	20.0%	$ 1,600.00	0.0%
Over 200,000 McF/Yr Industrial	$ 2,009.00	$ 1,600.00	$ 1,600.00	-20.4%	0.0%		$ 2,009.00	0.0%	$ 2,009.00	25.6%

Duquesne Light Company
Docket No. R-2018-3006818

Answer to Interrogatories of the
The Peoples Industrial Intervenors (PII)

Set I

PII-DL-I-2

Please identify all of the customer classes that benefit from the revenues received from competitive contract customers taking service under Rate Schedule LGS - Large General Service.

Response: **Sponsored by C. James Davis**

Duquesne Light is not aware of which customer classes would benefit. Peoples Natural Gas would be better suited to answer which customer classes, if any, benefit from the revenues received from competitive contract customers taking service under Rate Schedule LGS – Large General Service.

PII Statement No. 2-SR

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	**:**	
	:	
v.	**:**	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	**:**	

SURREBUTTAL TESTIMONY

OF

THOMAS ANDERSON

OF

ARCELORMITTAL MONESSEN LLC

ON BEHALF OF

THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

JUNE 12, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	**R-2018-3006818**
	:	
PEOPLES NATURAL GAS COMPANY, LLC	:	

SURREBUTTAL TESTIMONY OF THOMAS ANDERSON
OF ARCELORMITTAL MONESSEN LLC
ON BEHALF OF
THE PEOPLES INDUSTRIAL INTERVENORS ("PII")

Q. PLEASE STATE YOUR NAME.

A. My name is Thomas Anderson, Sourcing Manager of ArcelorMittal USA LLC ("ArcelorMittal").

Q. ARE YOU THE SAME THOMAS ANDERSON THAT PRESENTED DIRECT TESTIMONY ON BEHALF OF THE PEOPLES INDUSTRIAL INTERVENORS ("PII") IN THIS PROCEEDING?

A. Yes. My Direct Testimony focused on the impact of the proposed rate increase on ArcelorMittal's affiliated coke making facility, which I will refer to in this testimony as "the Monessen Facility" or "Facility."

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony of Peoples Natural Gas Company LLC ("Peoples" or "Company") witness Russell A. Feingold.

Q. DOES MR. FEINGOLD'S REBUTTAL TESTIMONY RESPOND TO YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Not exactly. On page 3 of Mr. Feingold's Rebuttal Testimony, he states that he will respond to PII witnesses James L. Crist and Thomas Anderson; however, at no other point in his Rebuttal Testimony does he directly reference my Direct Testimony. *See* Peoples Statement No. 11-R, Rebuttal Testimony of Russell A. Feingold (hereinafter, "Peoples St. 11-R"), p. 3. With that said, in his Rebuttal Testimony, Mr. Feingold addresses issues related to Peoples' proposed rate design for Rate LGS, including claiming that the impact on Rate LGS customers "cannot be characterized as 'significant' by any stretch of the imagination." Peoples St. 11-R, p. 59. My testimony responds to Mr. Feingold's claim.

Q. WHAT DOES MR. FEINGOLD CLAIM WITH RESPECT TO THE RATE INCREASE APPLICABLE TO LGS CUSTOMERS?

A. First, Mr. Feingold suggests that PII's concerns regarding the magnitude of the rate increase are unfounded because PII does not focus on the fact that customers in the Equitable Division are receiving a rate decrease.

Q. DO YOU AGREE?

A. I do not. Mr. Feingold provides a table showing that customers in the Equitable Division are receiving rate decreases as low as 1.5% and as high at 56%. Peoples St. 11-R, p. 59. Mr. Feingold fails, however, to respond to Exhibit___(JC-1) of Mr. Crist's Direct Testimony, which shows that some Peoples Division customers will be receiving rate increases as "low" as 10.6% and as high as 138.5%. Mr. Feingold seems to suggest that the decreases to customers on the Equitable Division should offset the unreasonably high increases to customers on the Peoples Division. Unfortunately, the rate decreases for customers on the Equitable Division do not provide any relief to customers on the Peoples Division.

Q. DOES MR. FEINGOLD OFFER ANY OTHER THOUGHTS REGARDING THE RATE INCREASE TO LGS CUSTOMERS?

A. Yes. Mr. Feingold provides a table that supposedly compares the "average" LGS customer's annual "total" bill. *See* Peoples St. 11-R, p. 59. In other words, Mr. Feingold's comparison focuses on the percentage increase of the total bill, inclusive of natural gas supply costs. As I understand it, the purpose of this proceeding is to review Peoples' proposed changes to their base rates, not natural gas supply costs. As a result, I believe the Pennsylvania Public Utility Commission ("PUC" or "Commission") should review the percentage increase to Peoples' proposed base rates exclusive of the total bill.

Q. HOW DOES THE "AVERAGE" IMPACT SET FORTH BY MR. FEINGOLD COMPARE TO THE IMPACT ON THE MONESSEN FACILITY?

A. As noted in my Direct Testimony, the Monessen Facility's move from a negotiated rate to Peoples' proposed "Transitional" tariff rate would increase the Monessen Facility's customer charge by approximately 140% and its delivery charge by approximately 200%. Setting that aside, however, the Monessen Facility would still be impacted by the change from Peoples' current tariffed rates to Peoples' proposed "Transitional" Rates. Under that change, the Monessen Facility's overall natural gas transportation costs would increase by 25%. Contrary to Mr. Feingold's claims, a one-quarter increase in natural gas transportation costs is significant for a large industrial customer in Pennsylvania.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.