



100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Errin McCaulley
Direct Dial: 717.237.5366
emccaulley@mcneeslaw.com

July 10, 2019

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

VIA ELECTRONIC FILING

RE: Pa. PUC v. Peoples Natural Gas Company LLC. Docket No. R-2018-3006818, C-2019-3007711, C-2019-3007752, C-2019-3007698, C-2019-3007635, C-2019-3007959, C-2019-3007904

Dear Secretary Chiavetta:

Enclosed please find for filing with the Pennsylvania Public Utility Commission in the above-captioned proceedings the following pre-served testimony of Snyder Brothers, Inc., VEC Energy LLC, and Snyder Armclar Gas Co., LP (collectively, "SBI"):

1. SBI Statement No. 1: Direct Testimony and Exhibits of Diane Meyer Burgraff
2. SBI Statement No. 1-S: Surrebuttal Testimony and Exhibits of Diane Meyer Burgraff

The aforementioned testimony statements were admitted into the evidentiary record for this proceeding at the evidentiary hearing on June 25, 2019.

As shown by the attached Certificate of Service, all parties to these proceedings are being duly served with copies of this transmittal letter. If you have any questions, please contact the undersigned. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Errin McCaulley

Counsel to Snyder Brothers, Inc., VEC Energy
LLC, and Snyder Armclar Gas Co., LP

Enclosures

c: Administrative Law Judge Joel H. Cheskis (Via E-mail and First-Class Mail)
Certificate of Service

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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).

VIA E-MAIL and FIRST CLASS MAIL

Anthony D. Kanagy, Esq.
Michael W. Gang, Esq.
Devin T. Ryan, Esq.
Post and Schell PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
akanagy@postschell.com
mgang@postschell.com
dryan@postschell.com
Peoples Natural Gas Company LLC

David P. Zambito, Esq.
Jonathan P. Nase, Esq.
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101
dzambito@cozen.com
jnase@cozen.com
Peoples Natural Gas Company LLC

William H. Roberts II, Esq.
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212
William.h.robertsii@peoples-gas.com

Erika McLain, Esq.
Carrie B. Wright, Esq.
Bureau of Investigation and Enforcement
Second Floor West
400 North Street
Harrisburg, PA 17120
ermclain@pa.gov
carwright@pa.gov

Erin K. Fure
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101
efure@pa.gov

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue, Suite 720-T
St. Louis, MO 63105
excel.consulting@sbcglobal.net
Consultant for Office of Small Business Advocate

Harrison W. Breitman, Esq.
Christy Appleby, Esq.
Darryl A. Lawrence, Esq.
David T. Evrard, Esq.
J.D. Moore
Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101
hbreitman@paoca.org
cappleby@paoca.org
dlawrence@paoca.org
devrard@paoca.org
jmoore@paoca.org

Roger Colton
Fisher, Sheehan and Colton
34 Warwick Road
Belmont, MA 02478
roger@fsconline.com
Consultant for Office of Consumer Advocate

Certificate of Service

Page 2

Glenn Watkins
Technical Associates, Inc.
1503 Santa Rosa Road, Suite 130
Richmond, VA 23229
watkinsg@tai-econ.com
Consultant for Office of Consumer Advocate

Kevin O'Donnell
Nova Energy Consultants, Inc.
1350 SE Maynard Road, Suite 101
Cary, NC 27511
kodonnell@novaenergyconsultants.com
Consultant for Office of Consumer Advocate

Dante Mugrace
PCMG and Associates, LLC
90 Moonlight Court
Toms River, NJ 08753
dmugrace@pcmgregcon.com
Consultant for Office of Consumer Advocate

Daniel Clearfield, Esq.
Carl Shultz, Esq.
Kristine E. Marsilio, Esq.
Eckert Seamans Cherin & Mellott LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dclearfield@eckertseamans.com
cshultz@eckertseamans.com
kmarsilio@eckertseamans.com
Direct Energy

Joseph L. Vullo, Esq.
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@aol.com
Community Action Association of PA

Alan M. Seltzer, Esq.
Tanya Leshko, Esq.
Buchanan Ingersoll & Rooney
409 North Second Street, Suite 500
Harrisburg, PA 17101-1357
alan.seltzer@bipc.com
Equitrans LP

Emily M. Farah, Esq.
Tishekia Williams, Esq.
Michael Zimmerman, Esq.
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219
efarah@duqlight.com
twilliams@duqlight.com
mzimmerman@duqlight.com

Linda R. Evers, Esq.
Donald R. Wagner, Esq.
Stevens & Lee
111 North Sixth Street
Reading, PA 19601
lre@stevenslee.com
drw@stevenslee.com
Duquesne Light Company

Michael A. Gruin, Esq.
Timothy K. McHugh, Esq.
Stevens & Lee
17 North Second Street, 16th Floor
Harrisburg PA 17101
mag@stevenslee.com
tkm@stevenslee.com
Duquesne Light Company

Todd S. Stewart, Esq.
Thomas J. Sniscak, Esq.
Bryce R. Beard
Hawke McKeon and Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tsstewart@hmslegal.com
tjsniscak@hmslegal.com
brbeard@hmslegal.com
NGS and RESA

Thomas J. Sniscak, Esq.
Hawke McKeon & Sniscak LLP
100 N. 10th Street
Harrisburg, PA 17010
tjsniscak@hmslegal.com
The Pennsylvania State University

Patrick Cicero, Esq.
John W. Sweet, Esq.
Elizabeth R. Marx, Esq.
Kadeem G. Morris, Esq.
PA Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pciceropulp@palegalaid.net
emarxpulp@palegalaid.net
kmorrispulp@palegalaid.net
pulp@palegalaid.net
CAUSE-PA

Kevin J. Moody, Esq.
Pennsylvania Independent Oil and Gas
Association
212 Locust Street, Suite 300
Harrisburg, PA 17101-1510
kevin@pioga.org

Scott J. Rubin, Esq.
Law Office of Scott J. Rubin
333 Oak Lane
Bloomsburg, PA 17815-2036
scott.j.rubin@gmail.com
UWUA Local 612

Charis Mincavage, Esq.
Alessandra L. Hylander, Esq.
McNees Wallace and Nurick LLC
100 Pine Street
Harrisburg, PA 17101
cmincavage@mcneeslaw.com
ahylander@mcneeslaw.com
Peoples Industrial Intervenors

Pamela C. Polacek, Esq.
Vicki Karandrikas, Esq.
Errin McCaulley, Esq.
McNees Wallace and Nurick LLC
100 Pine Street
Harrisburg, PA 17101
ppolacek@mcneeslaw.com
vkandrikas@mcneeslaw.com
emccaulley@mcneeslaw.com
Baker Gas, Inc.
Marco Drilling, Inc.
MDS Energy Development, LLC

Diane Burgraff
37 Whittakers Mill Road
Williamsburg, VA 23185
dmburgraff@outlook.com
Consultant for Snyder Brothers, Inc. et al.

VIA FIRST-CLASS MAIL

Michael J. Healey, Esq.
Healey Block & Hornack, P.C.
247 Fort Pitt Boulevard, 4th Floor
Pittsburgh, PA 15222
United Steelworkers

Robert J. DeGregory, Esq.
United Steelworkers
Five Gateway Center
Pittsburgh, PA 15222

EQT Energy LLC d/b/a Equitable Energy
EQT Plaza
625 Liberty Avenue
Suite 1700
Pittsburgh, PA 15222

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

Daniel Killmeyer
184 McKay Road
Saxonburg, PA 16056-9726

Charles F. Hagins
420 Goucher Street,
Johnstown, PA 15905

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

Samuel Givens
132 Thunderbird Drive
McKeesport PA 15135-2138

VIA E-MAIL

James L. Crist
jlcris@aol.com
*Consultant for Peoples Industrial
Intervenors*



Errin McCaulley

Counsel to Snyder Brothers, Inc., VEC Energy
LLC, and Snyder Armclar Gas Co., LP

Dated this 10th day of July, 2019, at Harrisburg, Pennsylvania

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

PEOPLES NATURAL GAS COMPANY, LLC

**:
:
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:**

R-2018-3006818

**DIRECT TESTIMONY
OF
DIANE MEYER BURGRAFF**

ON BEHALF OF

SNYDER BROTHERS, INC ("SBI")

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 DIANE MEYER BURGRAFF
ON BEHALF OF
SNYDER BROTHERS, INC ("SBI")**

I. WITNESS BACKGROUND

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Diane Meyer Burgraff. My address is 37 Whittaker's Mill Road, Williamsburg, VA 23185.

Q. PLEASE DESCRIBE BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.

A. I am an independent consultant employed by Snyder Brothers, Inc., VEC Energy LLC, and Snyder Armclar Gas Co., LP (collectively, "SBI").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE

A. Please see Attachment A to this testimony.

Q. PLEASE DESCRIBE THE PURPOSE OF THIS TESTIMONY.

A. The purpose of this testimony is to explain the reasons why Rate AGS as proposed should be rejected and, in the alternative, to make recommendations as to how Rate AGS should be changed if approval for some form of Rate AGS is to occur.

II. HISTORY OF RATE AGS**Q. PLEASE DESCRIBE THE HISTORY OF RATE AGS.**

A. Rate AGS, initially called Apollo Gathering Service, was proposed for the first time in Equitable Gas Company's ("Equitable" or "Equitable Division") April 1, 2003 Application filing at Docket No. G-00031009, for approval to acquire gathering facilities in Armstrong and Indiana Counties from its affiliate, Equitable Field Services. Equitable referred to the facilities as the PA-North Gathering System, even though Equitable was serving end-use customers from the system. Equitable explained in the Application filing that the acquisition was (a) for use in the public service and (b) was needed so as not to allow a third party to acquire the system that could place 520 essential human needs customers at risk. Equitable did not propose to raise rates to its customers due to the acquisition but stated that normally rate base, operation and maintenance expenses, and depreciation expenses would increase. Equitable was in a rate moratorium until January 2006, so it could not raise base rates. Instead, it proposed to charge producers along the pipeline system route (which was limited to its Apollo District) to recoup its rate base and operation and maintenance costs.

The rate, Apollo Gathering Service, changed dramatically by way of a one-paragraph mention at the very end of the testimony of Mr. Narkevic in 1307(f) testimony in 2004 at Docket No. R-00049154, when Rate AGS—Apollo Gathering Service—became Rate AGS—Appalachian Gathering Service. While described in testimony of Mr. Narkevic as a minor wording change to the Rate AGS tariff page, in reality the wording change was not minor at all. The Availability clause on the tariff page expanded the applicability of the rate from the Apollo District to Equitable's entire service territory, and the rate schedule was renamed. Thus, Rate AGS—Appalachian Gathering Service—was born in a proceeding

1 where no party affected by the wording change and the expanded applicability of the rate
2 was a party to the case, namely producers.

3 Prior to that 2004 Equitable 1307(f) case, Equitable owned no gathering facilities as of the
4 late 1990's because it had transferred all of its gathering facilities to other affiliates in years
5 prior to that time period. Equitable began to reacquire gathering facilities in 1999 with the
6 Carnegie Gas acquisition, then followed with the aforementioned PA-North Gathering
7 system in 2001, and then acquired the Crooked Creek gathering system sometime between
8 2003-2006. In Equitable's 2004 1307(f) case at Docket No. R-00049154, Equitable proposed
9 the six-year amortization of \$6.6 million related to five capital improvement projects for their
10 newly acquired gathering system and to recover those costs from system supply customers
11 as gas-related demand costs. This project was called the Northern Asset Optimization Project
12 or "NAOP." This was proposed in the same proceeding when Mr. Narkevic was expanding
13 Rate AGS. Mr. Quinn, for Equitable in that proceeding, stated in his Rebuttal Testimony
14 that "the vast majority of the benefits associated with the project (the NAOP) will accrue to
15 PGC ratepayers." Rebuttal Testimony of John M. Quinn, Page 10, Lines 1-2, *Pennsylvania*
16 *Public Utility Commission, et al. v. Equitable Gas Company* at Docket Nos. R-00049154 and
17 R-00049154C0001 (June 21, 2004). All of the governmental parties were opposed to
18 recovery of the NAOP non-gas costs through gas cost rates in that case and believed that all
19 of those costs should be in base rates and recovered from end-use customers. None of the
20 governmental parties mentioned producers as a party that should pay for the NAOP
21 investment. Over the period beginning in 1999 until 2004, Equitable acquired gathering
22 facilities. Why would a public utility buy gathering facilities to primarily benefit producers
23 and place these facilities in rate base? The simple answer is they did not buy these systems

1 to benefit producers. These facilities were never purchased to primarily benefit producers
2 and were instead purchased to assist in meeting Equitable's obligation to secure low cost gas
3 for end-use customers.

4 Equitable continued Rate AGS in its tariff when it filed and settled its 2008 base rate case at
5 Docket No. R-2008-2029325. In Equitable's 2008 base rate case, Equitable's cost-of-service
6 study showed all non-gas costs of the gathering system as assigned to producers. In a span
7 of four years, Equitable had completely changed its story about who was responsible for
8 gathering system costs.

9 Thus, Rate AGS, which began the practice of charging producers for non-gas costs associated
10 with a gathering system, came to be during a rate moratorium as a way to enable Equitable
11 to recover its costs of acquiring a gathering system serving 520 residential customers in the
12 Apollo District, who should have been responsible for the costs. It took hold in a case where
13 no producer was represented. It lives on because of settlements. It has never been a rate
14 litigated to conclusion in any base rate case and has stayed in Equitable's tariff simply
15 because of a settlement among parties in its 2008 base rate case.

16 **III. HISTORY OF THE PRODUCTION ENHANCEMENT SERVICES PROGRAM**

17 **Q. WHILE EQUITABLE WAS EXPANDING RATE AGS, WHAT WAS PEOPLES**
18 **DOING IN TERMS OF ITS GATHERING SYSTEM COST RECOVERY?**

19 A. Peoples Gas (prior to becoming Peoples Division) was busy developing its Production
20 Enhancement Services Program ("PES") at nearly the same time as Equitable was expanding
21 Rate AGS. Peoples started its Production Enhancement Program ("PEP") in early 2002. It
22 began as a three-year agreement with various producers on a voluntary basis, where Peoples
23 would install and operate compression facilities to lower gathering system line pressure to

1 allow more local gas to flow and reduce summer shut-ins. Producers who were part of this
2 agreement paid a per thousand cubic feet ("Mcf") charge to help fund facility enhancements
3 to Peoples' gathering system. The program was expanded in 2005 when dehydration
4 investment was added to the types of potential PEP Program facility enhancements in order
5 to improve local gas production quality so producers would need to do less dehydration prior
6 to the point of entry. The program was amended and then renewed, and the PES Program is
7 still in effect today. It is voluntary for Pennsylvania Independent Oil and Gas Association
8 ("PIOGA") producers who choose to participate. In general, these programs helped bring
9 more local gas into the Peoples system; however, the individual producers may not
10 necessarily have all experienced production increases as a result of the PEP and PES
11 Programs.

12 **Q. WAS THE PES PROGRAM ADDRESSED IN THE SETTLEMENT OF PEOPLES**
13 **2012 BASE RATE CASE AT DOCKET NO. R-2012-2285985?**

14 A. Yes. The settlement of the Peoples' 2012 base rate case at Docket No. R-2012-2285985
15 addressed the PES Program as follows: Peoples was to utilize \$3.8 million of the \$7.6 million
16 of PES Program revenues in excess of costs of providing Production Enhancement Services
17 to reduce unaccounted for gas ("UFG") on Peoples' gathering system or for upgrades to
18 Peoples' gathering system. The remaining \$3.8 million of PES Program revenue in excess
19 of costs was to be used to offset sales and transportation rates for end-use customers.

20 **Q. HAS PEOPLES REDUCED UNACCOUNTED FOR GAS ON ITS GATHERING**
21 **SYSTEM IN THE LAST SEVERAL YEARS?**

22 A. Peoples still has an unaccounted for gas percentage on its combined gathering system of
23 8.9%, so it has not made much headway in that regard. Peoples' response to SBI-Peoples-I-

18 is attached to my Direct Testimony as Exhibit 1 (EDB-1). Peoples has had a UFG percentage on the gathering facilities of close to 9% or over 9% since 2016, and it is not certain whether they separately measured gathering system UFG prior to that time, but high levels of gathering UFG have been an issue for Peoples for many years.

Q. WHAT AMOUNTS HAS PEOPLES RECOVERED IN PES PROGRAM REVENUES OVER THE YEARS SINCE ITS INCEPTION, AND WHAT HAS IT SPENT ON CAPITAL INVESTMENTS FOR PES PROGRAM PROJECTS THAT WOULD EITHER REDUCE GATHERING UFG AND/OR UPGRADE ITS GATHERING SYSTEM?

A. Peoples was only able to provide information from the years 2012-2018 for both revenue and capital investment, as shown below. Information prior to 2012 was not readily available, according to Peoples.

Table 1

YEAR	PES REVENUE (IN \$MIL)	PES CAPITAL INVESTMENT (IN \$MIL)
2012	\$ 12.4	\$ 0.6
2013	\$11.3	\$ 0.4
2014	\$10.4	\$ 1.2
2015	\$ 9.0	\$ 2.0
2016	\$ 7.2	\$ 0.3
2017	\$ 7.2	\$ 0.8
2018	\$ 7.1	\$ 3.0
TOTAL	\$ 64.6	\$ 8.3

Peoples' responses to SBI-Peoples-I-29 and SBI-Peoples-I-31 are attached to my Direct Testimony as Exhibit 1 (EDB-1).

1 **Q. DID PEOPLES SPEND ANY OF THE PES DOLLARS ON OPERATION AND**
2 **MAINTENANCE EXPENSES?**

3 A. In response to discovery at SBI-Peoples-I-31 (EDB-1), Peoples stated that some examples of
4 expense items using PES Program revenues include compression rentals, engine overhauls,
5 pipeline pigging, and field equipment communications.

6 **Q. WHAT ARE PRODUCERS GETTING IN EXCHANGE FOR THE PES FEES THEY**
7 **ARE PAYING?**

8 A. In Peoples' September 23, 2015, letter from Jeffrey Nehr, Vice President of Peoples Gas
9 Supply and Business Development, the following services were to be continued from the
10 prior PES Agreement:

- 11 1. Continued operation and maintenance of utility compression;
- 12 2. Negotiated water vapor standard;
- 13 3. Access to Equitrans AVC Capacity; and
- 14 4. Peoples/IOGA-PA gathering investment of \$1,500,000 annually to enhance
15 deliverability of Pennsylvania production on the Peoples system through new
16 interconnections with the Equitable and Peoples TWP systems.

17 Peoples' September 23, 2015, letter from Jeffrey Nehr is attached to my Direct Testimony as
18 Exhibit 2 (EDB-2).

1 **Q. LOOKING AT TABLE 1 ABOVE SHOWING PES PRORGAM REVENUES AND**
2 **CAPITAL INVESTMENT, IS IT FAIR TO SAY THAT THE PES PROGRAM WAS**
3 **BENEFICIAL TO PEOPLES MORE SO THAN FOR PRODUCERS OR END-USE**
4 **CUSTOMERS?**

5 A. Yes. The PES Program clearly generated revenue well in excess of capital expenditures
6 (even factoring in a rate design credit to other customer classes), and so it appears that it
7 benefited Peoples' owners more than it did the producers or end-use customers.

8 **Q. DID PEOPLES OBTAIN PAPUC APPROVAL TO CHARGE PRODUCERS FOR**
9 **RETAINAGE ON THE GATHERING SYSTEM IN PEOPLES' 2018 1307(F) CASE?**

10 A. Yes. Ironically, after all of these years of Peoples collecting a sizeable amount of PES
11 Program revenue from producers with the stated goal of the PES settlement in the 2012 base
12 rate case to use funds, specifically \$3.8 million, to improve UFG on the gathering system
13 and upgrade the gathering system, Peoples prevailed in the 2018 1307(f) proceeding at
14 Docket No. R-2018-264527 in its argument that producers should now help fund the UFG
15 problem on the Peoples gathering system through an additional approach: retainage. Rate GS
16 (Gathering Service) was approved by the PAPUC as an addition to Peoples' tariff in the fall
17 of 2018, at the conclusion of Peoples' 2018 1307(f) case, to allow the recovery of 2%
18 retainage on conventional well production entering the Peoples system through a gathering
19 or distribution line. Peoples Gas Division's currently approved Rate GS, Equitable Gas
20 Division's currently approved Rate AGS, and the proposed Rate AGS combining the Peoples
21 and Equitable Divisions are attached to my Direct Testimony as Exhibit 3 (EDB-3).

22 It seems that Peoples continues to look to others to blame and to charge for its high gathering
23 system UFG. It should be Peoples owners, and not the producers, absorbing at least 2% of

1 the retainage on the gathering system as their share of the responsibility for the ongoing high
2 levels of UFG that are still not addressed.

3 **IV. PEOPLES PROPOSAL IN THIS PROCEEDING**

4 **Q. PLEASE DESCRIBE PEOPLES CURRENT APPROACH FOR RECOVERY OF**
5 **THE NON-GAS COSTS RELATED TO THE GATHERING SYSTEM.**

6 A. Currently Peoples (Peoples Division and Equitable Division) have a variety of ways they are
7 recovering non-gas costs related to gathering facilities. For the Equitable Division, there is
8 in place Rate AGS (Appalachian Gathering Service, attached hereto as Exhibit 3 (EDB-3)),
9 a fully negotiated rate, which recovers all or some of Equitable Division's non-gas gathering
10 system costs. For the Peoples Division, there are two methods for recovery of gathering
11 system non-gas costs. First, the PES Program recovers from some producers, on a voluntary
12 basis, a portion of non-gas gathering system costs. PES is not a tariffed service. It is an
13 agreement with a portion of the PIOGA-member producers. Second, there are sales service
14 and transportation rates on the Peoples Division system that recover the remaining portion
15 of non-gas gathering system costs. Note that Peoples' currently approved Rate GS (attached
16 hereto as Exhibit 3 (EDB-3)) is only for recovery of retainage and not non-gas costs.

17 **Q. WHAT IS PEOPLES PROPOSING IN THIS PROCEEDING WITH RESPECT TO**
18 **GATHERING SYSTEM NON-GAS COST RECOVERY?**

19 A. Peoples is proposing a two-pronged combined Rate AGS to be effective for both the Peoples
20 and Equitable Divisions. The first prong, Rate AGS applicable to both Peoples and Equitable
21 Division conventional gas production, has a minimum and a maximum rate and is indexed
22 to gas supply prices. The second prong of the Rate AGS proposal is applicable to production
23 from non-conventional sources (Marcellus shale and Utica shale gas and landfill gas). For

1 gas from unconventional sources, Peoples is proposing a fully negotiated rate with no
2 maximum or minimum. This proposed two-prong Rate AGS will, as proposed, recover
3 approximately one-third of the non-gas gathering system costs from unconventional
4 producers at a negotiated rate and from conventional producers at the proposed minimum
5 rate. Those non-gas costs, not recovered through Rate AGS, were allocated to sales and
6 transportation customers. Those costs are about two-thirds of the non-gas costs of the
7 gathering system. The PES agreement for the Peoples Division is proposed to be eliminated.

8 **Q. SINCE THE EQUITABLE DIVISION ALREADY HAD IN PLACE A RATE AGS**
9 **RECOVERING GATHERING SYSTEM NON-GAS COSTS, IS IT PEOPLES**
10 **PROPOSAL IN THIS CASE TO UTILIIZE THE EXISTING TARIFF LANGUAGE**
11 **ALREADY IN THE EQUITABLE RATE AGS TARIFF AND MAKE IT**
12 **APPLICABLE TO ALL PEOPLES AND EQUITABLE PRODUCERS?**

13 A. No. The existing Rate AGS rate (attached hereto as Exhibit 3 (EDB-3)) in the Equitable
14 tariff is applicable to gas delivered into the gathering system or the distribution system.
15 Equitable's tariff does not address gas coming to the transmission system. Gathering and
16 distribution systems are generally lower pressure systems and typically the gas entering those
17 systems would be from conventional production wells. Peoples new proposed Rate AGS
18 (attached hereto as Exhibit 3 (EDB-3)) is expanded to include all Pennsylvania gas including
19 non-conventional supplies entering any delivery point on its pipeline system including
20 transmission lines. Also, unlike the existing Rate AGS for Equitable, which is a fully
21 negotiable rate, the new proposed Rate AGS differs in other ways such as it has a maximum
22 and minimum rate for conventional supplies and an indexing mechanism.

V. COST ALLOCATION

1
2 **Q. HAS THE PAPUC EVER APPROVED RECOVERY OF NON-GAS GATHERING**
3 **SYSTEM COSTS FROM ANY ENTITY, OTHER THAN END-USE CUSTOMERS,**
4 **THROUGH A FINAL ORDER WHERE THE ISSUE WAS LITIGATED?**

5 A. No, not to my knowledge. Mr. Gregorini discusses in Peoples Statement No. 2 on Page 37,
6 Lines 11-13, that the Commission approved a gathering service tariff and fee structure for
7 Equitable before its merger with Peoples. The approval of the gathering tariff by the
8 Commission was as part of a settlement among the parties, which involved a negotiation and
9 was not as a result of a fully litigated case as to Rate AGS. I am not aware of any utilities in
10 Pennsylvania other than the Peoples Companies (Peoples, Equitable, and TW Phillips) that
11 have gathering investments in local distribution company ("LDC") rate base.

12 If the PAPUC were to order rate base cost recovery from producers in this proceeding, that
13 decision would serve to redefine the word "public" in public utility service to include
14 producers as part of the public and redefine rate base as property used and useful in the
15 public service including service to producers. Producers would become public utility
16 customers.

17 **Q. IS PEOPLES' COST ALLOCATION TO CUSTOMER CLASSES CONSISTENT**
18 **WITH ITS COST ALLOCATION IN PRIOR PEOPLES AND EQUITABLE BASE**
19 **RATE CASES WHEN MR. FEINGOLD SERVED AS A WITNESS?**

20 A. No. Mr. Feingold has served as a Peoples witness on cost allocation studies dating back to
21 the 1980s and served as the cost allocation and rate design witness in Peoples' 1983 base rate
22 case at Docket No. R-832315 and as the rate design witness in Peoples' 1986 base rate case
23 at Docket Nos. R-850270 and R-860310. He has had knowledge of then Peoples Gas' (now

1 Peoples Division) pipeline system including its gathering system for more than thirty-five
2 years. He also recommended, while serving as the rate design witness for Peoples in its 1986
3 base rate proceeding, that Peoples introduce a gathering system transportation rate for
4 Peoples to recover gathering system costs from end-use customers who used the gathering
5 system for transporting gas. Then, as today, there were and still are end-use customers served
6 directly from the gathering system. Mr. Feingold did not, in the 1986 case, recommend
7 charging producers for a portion of gathering system costs. His approach to gathering system
8 cost allocation in base rate case class cost allocation studies has changed since then from
9 case to case and from year to year, but the function of Peoples' gathering system has not
10 changed at all.

11 **Q. DID MR. FEINGOLD SERVE AS THE COST-OF-SERVICE WITNESS FOR**
12 **EQUITABLE IN ITS 2008 BASE RATE CASE AT DOCKET NO. R-2008-2029325?**

13 A. Yes.

14 **Q. DID MR. FEINGOLD DO A COST ALLOCATION STUDY THAT INCLUDED, AS**
15 **A CUSTOMER CLASS, RATE AGS IN EQUITABLE'S 2008 BASE RATE CASE AT**
16 **DOCKET NO. R-2008-2029325?**

17 A. Yes. In that proceeding, Equitable proposed a negotiable gathering system rate.
18 Mr. Feingold performed a class cost-of-service allocation study using Rate AGS producer
19 ratepayers as a class of customer. He directly assigned all gathering system costs to
20 producers under Rate AGS in his 2008 study, even though there were over 3,600 end-use
21 customers served from the gathering system, and he was aware of that when he supported
22 that recommendation.

1 **Q. DID MR. FEINGOLD SERVE AS THE COST-OF-SERVICE WITNESS FOR**
2 **PEOPLES IN ITS 2012 BASE RATE CASE AT DOCKET NO. R-2012-2285985?**

3 A. Yes.

4 **Q. DID MR. FEINGOLD USE THE SAME APPROACH FOR COST ALLOCATION**
5 **FOR GATHERING SYSTEM COSTS IN PEOPLES' 2012 BASE RATE CASE AT**
6 **DOCKET NO. R-2012-2285985 THAT HE USED IN EQUITABLE'S 2008 BASE**
7 **RATE CASE?**

8 A. No, he did not. He used a completely different approach. In Peoples' 2012 base rate case,
9 he did not have a producer class of customer in his class cost-of-service study as he did in
10 the Equitable case in 2008. He instead used PES Program revenues of \$7.65 million to credit
11 to the cost-of-service before doing the class cost-of-service allocation study for end-use
12 customer classes. While that approach in the 2012 case provides end-use customers with a
13 credit for producer contributions to costs of the gathering system, it does not show the class
14 cost-of-service for the producer class of customer.

15 **Q. WHAT HAS MR. FEINGOLD DONE IN THE INSTANT COMBINED**
16 **PROCEEDING REGARDING ALLOCATION OF GATHERING SYSTEM COSTS**
17 **TO PRODUCERS?**

18 A. Mr. Feingold has indicated through response to SBI-Peoples-I-4 (attached hereto as Exhibit 1
19 (EDB-1)) that producers should be held responsible for some or all of the costs of Peoples'
20 gathering system. He did not, however, do a class cost-of-service study that included
21 customer class Rate AGS in this proceeding as he did for Equitable's last base rate case when
22 he was the cost allocation witness. He explains in Peoples Statement No. 11, Page 9, Line 19
23 through Page 10, Line 3, that it would not be helpful in rate design since rates for the class

1 were being developed using value of service principles. He instead used the same approach
2 as he used in Peoples' 2012 base rate case by crediting Rate AGS producer revenues to the
3 class cost-of-service study for end-use customer classes. This approach does not show a
4 producer class in the class cost-of-service study.

5 **Q. DID MR. FEINGOLD, USING PRINCIPLES OF COST CAUSATION, ASSIGN**
6 **GATHERING SYSTEM COSTS TO A PRODUCER CLASS OF CUSTOMERS IN**
7 **EQUITABLE'S 2008 RATE CASE, WHEN EQUITABLE PROPOSED THAT RATE**
8 **AGS BE NEGOTIABLE OR VALUE-OF-SERVICE BASED?**

9 A. Yes. The approach used in 2008 for Equitable for cost allocation by Mr. Feingold is
10 completely contrary to his rationale and approach in this proceeding where he argues that a
11 cost-of-service study for the producer class of customers should not be performed because it
12 would be of no value since the rates for the producer class of customers are being set using
13 value-of-service principles. Peoples Statement No. 11, Page 9, Lines 21-23 and Page 10,
14 Lines 1-3, *Pennsylvania Public Utility Commission, et al. v. The Peoples Natural Gas*
15 *Company LLC* at Docket No. R-2018-3006818 (Jan. 28, 2019). A fully negotiable rate using
16 value of service principles was the proposal in Equitable's 2008 case when Mr. Feingold did
17 perform a class cost-of-service study that included the producer customer class.

18 **Q. HAS MR. FEINGOLD SHOWN CONSISTENCY IN HIS COST-OF-SERVICE**
19 **OPINIONS AND STUDIES OVER THE LAST THIRTY-FIVE YEARS FOR NON-**
20 **GAS GATHERING SYSTEM COSTS OWNED BY A PENNSYLVANIA LDC?**

21 A. No. He has assigned no non-gas costs of the gathering system to producers (Peoples' 1983
22 and 1986 base rate cases), then all non-gas gathering system costs to producers (Equitable's
23 2008 base rate case), and then some of the non-gas costs to producers (Peoples' 2012 and

1 2019 base rate cases). Mr. Feingold's position on both producer responsibility for gathering
2 system costs and appropriateness of inclusion of a class cost-of-service study for a producer
3 class of customers has varied from case to case over the last 35 years with no explanation for
4 his changing opinion. In Mr. Feingold's testimony, he explains that the most important
5 considerations he relies on for determining cost allocation methodologies are "cost
6 causality," a sound rationale and theoretical basis, "stability of results over time," and
7 "logical consistency and completeness." Peoples Statement No. 11, Page 19, Line 13 through
8 Page 20, Line 6, *Pennsylvania Public Utility Commission, et al. v. The Peoples Natural Gas*
9 *Company LLC* at Docket No. R-2018-3006818 (Jan. 28, 2019). The inconsistency
10 demonstrated in allocation of non-gas gathering system costs over the last thirty-five years
11 falls short of incorporating those considerations.

12 What has remained consistent in the last thirty-five years is the function of the gathering
13 system.

14 **Q. IS MR. FEINGOLD CORRECT THAT VALUE-OF-SERVICE PRINCIPLES ARE**
15 **BEING USED IN THIS PROCEEDING BY PEOPLES TO SET RATE AGS?**

16 A. No, not for conventional gas supplies. Rate AGS will apply the same indexed rate to all
17 producers supplying gas from conventional wells. Rate AGS rates will not be set based on
18 producer negotiation relative to conventional gas supplies or any consideration of individual
19 producers' options for other markets for their gas supply. Peoples suggests that its minimum
20 rate of \$0.26 per Mcf was, in part, based on discussions with PIOGA, but a one-size fits all
21 minimum rate is hardly the same as a value-of-service based rate since the value-of-service
22 to each producer may, and likely will, vary depending on a producer's alternatives.
23 Mr. Feingold has changed the definition of "value-of-service" from one that looks at the

1 producer's options and costs for marketing its supply to one that looks at the wholesale
2 market price for gas.

3 **Q. IN YOUR OPINION, SHOULD PRODUCERS BE RESPONSIBLE FOR THE NON-**
4 **GAS COSTS OF PEOPLES' GATHERING SYSTEM?**

5 A. No. The gathering system was installed to move local gas, including at the time Peoples-
6 owned production wells, to end-use customers. The gathering system is still serving the same
7 function that it has served since it was installed and is still serving the same function it did
8 thirty-five years ago when Mr. Feingold had a completely different opinion on who should
9 pay for it. Mr. Feingold can argue that times were different then, but Peoples was serving
10 retail and transportation customers in 1986 just as it does today, and many of the same
11 gathering lines are still moving gas to those end-users, some of whom are probably still in
12 the same homes or businesses.

13 **VI. MAXIMUM AND MINIMUM RATES FOR RATE AGS**

14 **Q. WHAT IS PEOPLES' PROPOSED MAXIMUM RATE FOR RATE AGS AND HOW**
15 **WAS IT DEVELOPED?**

16 A. Peoples is proposing the maximum for Rate AGS for conventional gas supplies be set at the
17 full cost for the gathering system plus allocated overheads on a per Mcf basis. Mr. Feingold
18 calculates the total cost of the gathering system to be \$0.76 per Mcf. Recall that
19 Mr. Feingold, in this proceeding, did not opt to do a class cost-of-service study that included
20 the class of customer called producers, so the producer class cost-of-service study cannot be
21 used as a guide to set rates for producers. The selection of the entire full cost of the gathering
22 system on a per Mcf basis as the maximum rate for Rate AGS ignores the fact the Peoples
23 has proposed in this case to recover two-thirds of the cost of the gathering system from end-

1 use customers. Any movement upward in Rate AGS by way of Peoples' proposed indexing
2 mechanism from the minimum rate of \$0.26 cents per Mcf (used in the proof of revenue)
3 toward the maximum rate of \$0.76 per Mcf, will result in over-recovery of non-gas costs of
4 the gathering system. Taken to the extreme, if Rate AGS moved all the way to the maximum
5 rate of \$0.76 per Mcf as a result of the gas price index feature of proposed Rate AGS, Peoples
6 would recover costs as follows: two-thirds of the non-gas gathering system costs from end-
7 use customers as designed in the proof of revenue and then an additional almost 100% of the
8 costs of the gathering system from producers at the \$0.76 per Mcf maximum rate, resulting
9 in an over-recovery of the costs of the gathering system by close to two-thirds.

10 **Q. WHAT IS YOUR OPINION AS TO THE MAXIMUM RATE PROPOSAL FOR**
11 **RATE AGS?**

12 A. It is my opinion that the recommendation for the maximum rate as proposed by Peoples be
13 rejected. Peoples, the party with the burden of proof in this proceeding, has offered no
14 justification for the reasoning as to why the maximum rate for Rate AGS is reasonable. The
15 only explanation offered by Peoples is to describe how the rate was mathematically derived
16 and no explanation as to why it makes sense. The Rate AGS maximum rate can result in
17 significant cost over-recovery. This is not a reasonable result and this proposal should be
18 rejected. Peoples' owners are the beneficiaries of this proposal and not producers or end-use
19 customers.

20 **Q. IS THERE AN ERROR IN THE MAXIMUM RATE CALCULATION THAT HAS**
21 **BEEN CORRECTED BY MR. FEINGOLD?**

22 A. Yes. In response to SBI-Peoples-II-24 (attached hereto as Exhibit 1 (EDB-1)), I questioned
23 Mr. Feingold's inclusion of purchased gas costs as a component of cash working capital in

1 the maximum gathering system rate proposed. Mr. Feingold corrected his total gathering
2 cost-of-service in that discovery response in response to my inquiry, but Peoples has not yet
3 shown any correction to the proposed maximum rate.

4 **Q. TURNING TO THE MINIMUM RATE PROPOSAL FOR RATE AGS FOR**
5 **CONVENTIONAL GAS SUPPLY, WHAT IS PEOPLES PROPOSING?**

6 A. Peoples is proposing a minimum rate of \$0.26 per Mcf.

7 **Q. HOW DID PEOPLES ARRIVE AT ITS MINIMUM RATE?**

8 A. Peoples stated, in response to SBI-Peoples-I-7 (attached hereto as Exhibit 1 (EDB-1)), its
9 rationale with no specifics as to why the rate level of \$0.26 was chosen for the minimum rate
10 as proposed for conventional gas supply. Peoples mentions "discussions with PIOGA" in its
11 response to SBI-Peoples-I-7 as a reason for the rate level. For a rate level that seems so
12 specific at \$0.26, there is no justification for the rate level itself provided by Peoples, the
13 party who bears the burden of proof in this proceeding.

14 Peoples' response to SBI-Peoples-I-7 suggests the \$0.26 rate minimum is based on the value-
15 of-service to producers. Mr. Feingold, in his Direct Testimony, offers his view on value-of-
16 service principles in rate design by quoting the NARUC Gas Rate Design in Peoples
17 Statement No. 11, Page 38, Lines 5-7, *Pennsylvania Public Utility Commission, et al. v. The*
18 *Peoples Natural Gas Company LLC* at Docket No. R-2018-3006818 (Jan. 28, 2019):

19 When using value of service principles, we normally look not to the cost of
20 providing the service, but rather to the alternatives available to the customer.

21 Peoples has not offered any studies that attempt to quantify the alternatives available to
22 producers, that would be useful to guide Peoples in determining the value-of-service to
23 producers for rate setting purposes. The alternatives that would be available to producers
24 mentioned, but not quantified, in Peoples' response to SBI-Peoples-I-51 (attached hereto as

1 Exhibit 1 (EDB-1)) include shutting in production, reworking of wells to increase production,
2 or laying pipelines to alternative markets. All of these alternatives are producer-specific, and
3 a \$0.26 rate for all conventional producers certainly is not a value-of-service based rate.

4 Peoples has provided nothing to support its \$0.26 minimum rate other than vague references
5 to discussions with PIOGA and its own judgement.

6 My opinion, however, after review of discovery in SBI-Peoples-I-9 (attached hereto as
7 Exhibit 1 (EDB-1)), is that it appears that Peoples' PES Program customers are paying an
8 average fee of \$0.26 per Mcf at present rates, so that average PES Program fee is possibly
9 the source of the \$0.26 minimum rate for Rate AGS proposed by Peoples for conventional
10 supplies. It would be helpful if Peoples would explain its rationale if this is, in fact, the
11 source of the \$0.26 proposed rate. An average fee of \$0.26 in the PES Program means that
12 some producers are paying a fee lower than \$0.26 and some are paying no fee at all because
13 they opted out of the voluntary program.

14 **Q. DID YOU REQUEST INFORMATION IN SUPPORT OF THE \$0.26 RATE**
15 **MINIMUM FOR CONVENTIONAL PRODUCTION IN PROPOSED RATE AGS?**

16 A. Yes. In response to discovery at SBI-Peoples-II-7 (attached hereto as Exhibit 1 (EDB-1)), I
17 requested workpapers, contemporaneous notes, or any other documents that support the
18 \$0.26 rate proposal. Peoples responded that it took no notes that supported the \$0.26 rate
19 when the discussions with PIOGA took place and Peoples offered no other rationale.

20 **Q. TO SUMMARIZE THE RATE AGS MAXIMUM AND MINIMUM RATE**
21 **PROPOSALS, WHAT IS YOUR OPINION?**

22 A. As to the maximum rate, if implemented as proposed, it could result in significant over-
23 recovery of non-gas costs by recovering the same costs twice, once from producers and again

1 from all end-use customers, which is unreasonable. The minimum rate level has no
2 supporting documentation as to how the level was derived or why a specific rate level
3 represents a value-of-service to all producers.

4 VII. GRADUALISM AND PEOPLES' RATE DESIGN

5 Q. DOES PEOPLES' RATE INCREASE HAVE A DISPROPORTIONATE IMPACT ON 6 PEOPLES' PRODUCERS AS COMPARED TO EQUITABLE'S PRODUCERS?

7 A. Yes. Approximately 17% of Peoples' producers who flow that gas into the Peoples system
8 are getting more than a 150% increase, on average, in their rate as shown by Peoples'
9 response to SBI-Peoples-II-28 (attached hereto as Exhibit 4 (EDB-4)). The impact on
10 Equitable's producers is much less, as can be seen in Peoples' response to SBI-Peoples II-28.
11 This rate increase for those producers getting an increase on both the Peoples and Equitable
12 Divisions can hardly be characterized as gradual and these rate spikes could have an impact
13 on quantity of local gas supply coming to Peoples. Producers that are getting these large
14 increases may look to other markets for their supply. This result would be detrimental to
15 end-use customers. This percentage rate increase is unreasonable for some producers and if
16 this proposal is approved the rate increases to those producers getting increases needs to be
17 adjusted to incorporate the concept of gradualism.

18 I recommend, if Rate AGS is approved (although I strongly recommend against its approval),
19 for all producers getting a rate increase from a current PES Program fee, that the increase be
20 limited to the same overall percentage increase that is applicable on average to end-use
21 customers at the conclusion of this proceeding. For producers who are currently paying no
22 PES Program fee at all, their increase should be set at the current straight average rate paid
23 by all producers on the Peoples system who are getting a rate increase as a result of this

1 proceeding, as shown in SBI-Peoples-II-28, increased by the overall average rate increase
2 that will be applicable to end-use customers at the end of this proceeding.

3 For producers who are currently paying no PES Program fee at all, the recommended
4 increase would be set at \$0.10 adjusted upward by the overall average rate increase assigned
5 end-use customers at the conclusion of this proceeding, but that the \$0.10 rate adjusted rate
6 also be negotiable to take into consideration value-of-service to the producer and the value
7 of the low-cost gas to the end-use customers.

8 **VIII. INDEXING OF RATE AGS**

9 **Q. PEOPLES, IN ITS TARIFF FOR RATE AGS, REFERS TO AN INDEX OF RATE**
10 **AGS TO GAS COSTS. DOES INDEXING OF NON-GAS COSTS TO A GAS PRICE**
11 **INDEX MAKE ANY SENSE?**

12 A. No, for a number of reasons that I will discuss.

13 First, the gathering system costs to be recovered are non-gas costs or base rate costs and do
14 not vary with the price of gas supply.

15 Second, it seems that Peoples' theory for indexing the rate is that as gas prices rise, producers
16 can afford to pay more toward gathering system non-gas costs, but there has been no evidence
17 provided by Peoples of the value that producers place on Rate AGS service other than the
18 explanation by Mr. Gregorini that discussions with PIOGA were in part responsible for the
19 selection of the \$0.26 minimum rate. SBI-Peoples-I-7 (EDB-1). Just because a party can
20 afford to pay more for a service does not mean they will value it more and want to pay more
21 for it. Peoples has offered no explanation or support for the proposal that the value a producer
22 would place on the service would increase or decrease with the price of gas supply index.
23 This proposed index is not related to increased investment by Peoples, but rather to its theory

1 that the producers who get a higher gas price for their supply will place more value on the
2 service and be willing to pay more under Rate AGS.

3 Third, with respect to recovery of gathering system costs, Peoples' proposal to use an indexed
4 rate to recover gathering system costs from producers is inconsistent with the recovery of the
5 remainder of gathering system costs from end-use customers. Peoples has not proposed sales
6 and transportation rates that are tied to gas price index for their share of gathering system
7 costs.

8 It should be noted that the Peoples Division and Equitable Division have a DISC
9 (Distribution System Improvement Charge) in place (Rider E to their tariffs) that allows for
10 recovery between base rate cases of repairs, improvements, or replacement of property in
11 certain plant accounts. Account 332 (Field Lines) and 334- (M&R Station Equipment-
12 Purchased Gas-Meters) are among the included accounts eligible for DISC recovery. Both
13 of these accounts are part of Gathering Plant in Service and together represent more than half
14 of the original cost dollars in the gathering system. Peoples is therefore already getting an
15 indexing of sorts for gathering investment, but to be clear, the DISC relates to allowed
16 recovery of incremental capital investment made by Peoples between rate cases. Peoples'
17 proposed index has nothing to do with that concept, but rather just permits over-recovery of
18 costs related to plant investment already in service.

19 The final reason Peoples' proposed index should be rejected is that any increase in the price
20 of gas will raise the level of Rate AGS and will result in an over-recovery of non-gas costs
21 to the benefit of Peoples' owners and not its customers.

1 **Q. REFERRING TO PROPOSED RATE AGS IN THE RATE SECTION OF THE**
2 **TARIFF PAGE, PLEASE EXPLAIN THE 12.4% THAT IS USED ON THE TARIFF**
3 **PAGE TO GET TO THE RATE AGS INDEX PRICE.**

4 A. With respect to the derivation of the 12.4% quoted in the Rate AGS proposed tariff (attached
5 hereto as Exhibit 3 (EDB-3)), it is just a percentage that was derived after the \$0.26 minimum
6 rate was determined. SBI-Peoples-I-49 (attached hereto as Exhibit 1 (EDB-1)). Recall that
7 the \$0.26 rate is not a rate that has any justification by Peoples other than Peoples' description
8 that it was derived after discussions with PIOGA. The 12.4% was the percentage produced
9 when the 12-month average Dominion South Point gas supply price was divided by the \$0.26
10 rate.

11 **Q. DOES PEOPLES OFFER ANY EXPLANATION OF THE RATIONALE FOR**
12 **INDEXING OF RATE AGS TO GAS SUPPLY PRICES AT DOMINION SOUTH**
13 **POINT?**

14 A. In response to SBI-Peoples-I-14 (attached hereto as Exhibit 1 (EDB-1)), Mr. Gregorini stated
15 "The applicable rate under Rate AGS is tied to the local gas market index in order to increase
16 producer contributions as market prices increase to help offset the share of costs paid by
17 Peoples' ratepayers."

18 **Q. IS MR. GREGORINI CORRECT THAT PEOPLES' END-USE CUSTOMERS'**
19 **SHARE OF COSTS WILL BE OFFSET IF PEOPLES' RATE AGS IS APPROVED**
20 **AND THE PRICE OF GAS SUPPLY FOR DOMINION SOUTH POINT RISES?**

21 A. No, he is not. Peoples did not propose any true-up mechanism or reconciliation mechanism
22 in this case to accomplish what Mr. Gregorini is describing. If Rate AGS is approved as

1 proposed, and gas supply prices rise, it is Peoples' owners and not end-use customers that
2 will be receiving the benefit.

3 **Q. PLEASE SUMMARIZE YOUR OPINION ON THE RATE INDEXING PROPOSAL**
4 **FOR RATE AGS.**

5 A. The rate is ill-conceived. Non-gas costs should not be indexed, and this proposal could result
6 in significant cost over-recovery to the benefit of Peoples' owners and to the detriment of all
7 producers and end-use customers.

8 **IX. RATE AGS FOR GAS PRODUCERS NOT USING THE GATHERING SYSTEM**

9 **Q. WHAT IS PEOPLES' PROPOSAL REGARDING CHARGING RATE AGS TO**
10 **RECOVER NON-GAS GATHERING SYSTEM COSTS TO PRODUCERS WHO**
11 **MAKE NO USE OF THE GATHERING SYSTEM?**

12 A. As stated in the Rate AGS proposed tariff, "Gathering of natural gas from unconventional
13 sources, including but not limited to horizontally drilled Marcellus and Utica shale gas and
14 landfill gas, shall be negotiated and agreed to within the MIMA." The MIMA refers to the
15 Master Interconnect and Measurement Agreement, an agreement between Peoples and a
16 producer. It sets forth the terms and conditions for delivery of gas into the Peoples system.

17 **Q. DOES THIS MEAN PEOPLES IS PROPOSING TO CHARGE RATE AGS TO GAS**
18 **THAT IS NOT FLOWING THROUGH PEOPLES' GATHERING SYSTEM?**

19 A. Yes. Peoples is proposing to charge a fully negotiated rate for the recovery of non-gas
20 gathering system costs with no maximum or minimum on gas volumes coming from
21 unconventional sources whether or not the producer actually uses the gathering system as a
22 point of entry for the supply. In the Peoples and Equitable Divisions, the vast majority of
23 non-conventional supplies use the distribution system (and in some cases the transmission

1 system) as a point of entry into the Peoples system, and not the gathering system. SBI-
2 Peoples-I-17 and SBI-Peoples-III-10 (attached hereto as Exhibit 1 (EDB-1)). Only two non-
3 conventional wells, both on the Equitable Division system, with an annual throughput in the
4 Historic Test Year ("HTY") of 387,166 Mcf, flow into the gathering system. SBI-Peoples-
5 I-14 (EDB-1). No gas from unconventional sources flows into Peoples' gathering system.
6 Peoples is projecting to recover in the Fully Projected Future Test Year ("FPFTY"), at
7 proposed rates, \$740,603 annually from gas volumes from unconventional sources on the
8 Equitable system and \$223,169 annually on the Peoples system. SBI-Peoples-I-9 (EDB-1).

9 **Q. DO YOU AGREE WITH PEOPLES' PROPOSAL TO RECOVER NON-GAS COSTS**
10 **OF PEOPLES' GATHERING SYSTEM FROM PRODUCERS WHO DO NOT EVEN**
11 **USE THE GATHERING SYSTEM?**

12 A. No, I do not. Peoples, who has the burden of proof, has not offered any rationale at all as to
13 why non-conventional producers not using the gathering system would bear any
14 responsibility for paying for it.

15 **Q. IN WHAT WAYS DOES GAS RETAINAGE HAVE A BEARING ON THIS CASE?**

16 A. In SBI-Peoples-I-40 (attached hereto as Exhibit 1 (EDB-1)), SBI asked why producers who
17 bring gas supplies directly into the transmission or distribution system would be charged
18 under the new proposed Rate AGS when they make no use of the gathering system.

19 Peoples had a two-pronged response to that inquiry. In its first prong of the response, Peoples
20 references SBI-Peoples-I-42 (attached hereto as Exhibit 1 (EDB-1)), which explains a
21 PAPUC recent Order in the last Peoples 1307(f) case at Docket Nos. R-2018-2645278 and
22 R-2018-3000236, approving a retainage charge of 2% for producers who flow gas directly
23 into the gathering system. Peoples apparently thinks that the PAPUC Order in that

1 proceeding is relevant to this case regarding the issue of gas supply point of entry and use or
2 non-use of the gathering system.

3 The second prong of the response to SBI-Peoples-I-40, was not responsive to the question
4 asked because it referenced Mr. Gregorini's testimony in Peoples Statement No. 2, Page 23,
5 Lines 16-23 and Page 24, Lines 1-3, *Pennsylvania Public Utility Commission, et al. v. The*
6 *Peoples Natural Gas Company LLC* at Docket No. R-2018-3006818 (Jan. 28, 2019).
7 Mr. Gregorini does not address in the lines referenced the issue of why producers would be
8 charged for a gathering pipeline system that they do not use, nor does he address this
9 important question anywhere in his testimony. Neither prong of Mr. Gregorini's response to
10 SBI-Peoples-I-40 was responsive to the question asked.

11 **Q. WHAT WAS DECIDED ON THE ISSUE OF RETAINAGE IN PEOPLES' LAST**
12 **1307(F) CASE THAT PEOPLES WANTS TO BELIEVE IS RELEVANT TO THE**
13 **ISSUE OF CHARGING PRODUCERS FOR NON-GAS COSTS OF THE**
14 **GATHERING SYSTEM WHEN THEY ARE NOT DELIVERING GAS INTO THE**
15 **GATHERING SYSTEM?**

16 A. In the last 1307(f) case, Peoples requested through a new Rate GS, a retainage percentage
17 from producers for gas flowing into Peoples Division gathering system from *conventional*
18 wells. The vast majority of gas from conventional wells enters the Peoples system through
19 gathering lines. Peoples and Equitable have significantly higher unaccounted for gas on the
20 gathering systems, 8.7% and 9.2 % respectively, than they have on the remainder of their
21 pipeline systems. SBI-Peoples-I-18 (EDB-1). Peoples' proposal in its 2018 1307(f) case, to
22 recover retainage from conventional producers, was described by Peoples as a way to
23 encourage producer participation in reducing UFG on Peoples' gathering system.

1 Peoples argued that, since the vast majority of the gas supply from conventional wells flows
2 into the gathering system, it was easier administratively to just have one retainage rate that
3 applied to all conventional well gas entering the Peoples system, since only a small additional
4 amount entered the Peoples system directly through distribution lines. It is interesting to
5 note that Peoples made no mention of conventional well supply flowing directly into
6 transmission lines in the 2018 1307(f) case even though Peoples has conventional supplies
7 coming in through transmission lines.

8 Peoples' second argument for the insertion of a 2% retainage rate on conventional gas supply
9 from producers in the Peoples Division tariff Rate GS was the need for consistency with the
10 existing Equitable tariff Rate AGS. Since Rate AGS in Equitable's tariff allowed for the
11 recovery of retainage of volumes from local gas producers, Peoples argued it wanted
12 consistency with Equitable's tariff language for Peoples' tariff on the retainage issue. Upon
13 examination, Peoples' proposal was not consistent with the then-effective Equitable tariff
14 after all because the Equitable tariff had a negotiated retainage level not a specified
15 percentage.

16 Peoples' third argument for the insertion of the 2% retainage charge on conventional gas
17 supply from producers dealt with point of entry of conventional gas supplies. Peoples argued
18 that, from a consistency standpoint, Equitable's tariff allowed for the recovery of retainage
19 on gas supply through Rate AGS, not only for gas flowing into the gathering system but also
20 for gas being injected directly into the distribution system. Note that Equitable's tariff does
21 not mention gas coming into the transmission system.

22 The Commission agreed in its order at the conclusion of the 1307(f) 2018 case that
23 *conventional* well supply would have the same retainage rate, set at 2%, for producers

1 regardless of whether the conventional supplies were entering from the gathering system or
2 the distribution system. This is discussed on pages 70-76 of the Final Order at Docket Nos.
3 R-2018-2645278 and R-2018-3000236 (attached hereto as Exhibit 5 (EDB-5)) in the
4 discussion of PIOGA Exception No. 6. Rate GS was approved for insertion into the Peoples
5 Division tariff. (EBD-3). The important point to take away from this subject is that Peoples
6 was only granted Commission authority in its last gas cost proceeding to collect 2% retainage
7 from producers delivering *conventional* gas supply and only on gas entering through
8 gathering lines or distribution lines as an entry point. The Order from Peoples last 1307(f)
9 case make no mention at all of recovering retainage on non-conventional gas supply nor does
10 it address the transmission system as a point of entry for any supplies. Peoples' filing in
11 accordance with the Commission's Order in the last 1307(f) case does not comply with that
12 Order since Peoples' newly minted Rate GS tariff now states: "any party desiring to deliver
13 conventional well supply directly into the Company's system." The tariff language as stated
14 is overly broad and would permit deliveries into Peoples' transmission system, which was
15 not contemplated in the Order from the 2018 1307(f) case. Peoples estimates that is has
16 238,736 Mcf annually coming into the transmission system that are conventional supplies.
17 SBI-Peoples-III-10 (attached hereto as Exhibit 1 (EDB-1)). Peoples has broadened its tariff
18 language to include transmission lines in its compliance filing from the last 1307(f) case
19 without PAPUC approval, and it appears, in doing so, that Peoples has also opened the door
20 for the proposal made in this proceeding. It is an example of a minor wording change with
21 bigger, long-term implications.

1 **Q. TURNING TO THE INSTANT PROCEEDING, HOW DOES THE 2018 PEOPLES**
2 **1307(F) ORDER HAVE ANY RELEVANCE?**

3 A. Again, with reference to the response to SBI-Peoples-I-40 (EDB-1), Peoples uses the Order
4 from the 2018 1307(f) case as a justification for why their proposal in the present case—to
5 charge Rate AGS for the recovery of non-gas gathering system costs from producers on all
6 Pennsylvania supply, both conventional gas supply and gas from unconventional sources,
7 and regardless of point of entry into Peoples' pipelines including transmission lines—is
8 reasonable. Peoples' 2018 1307(f) case made no mention of non-conventional gas supplies
9 and did not address the transmission system as a point of entry. The inclusion of the
10 distribution system as an entry point was added to help Peoples with an administrative burden
11 issue. The case dealt with having producers who used the gathering system (conventional
12 supplies) help contribute toward gathering system retainage to lessen the burden of gathering
13 system UFG on end-use customers.

14 Now Peoples wants to use that approval from the last 1307(f) case for the 2% retainage on
15 conventional supplies as a justification to charge to all producers of Pennsylvania supply a
16 fully negotiable rate for recovery of non-gas gathering plant investment and related costs on
17 all gas coming into the Peoples system (from conventional and non-conventional sources)
18 regardless of whether the producer even uses the gathering system.

19 In Rate AGS as proposed (EDB-3), the tariff states:

20 Gathering of natural gas from unconventional sources, including but not limited
21 to, horizontally drilled Marcellus and Utica shale gas and landfill gas, shall be
22 negotiated and agreed to within the MIMA.

23 What started as a request by Peoples in a gas cost case to expand their proposal on 2%
24 retainage from conventional well gas supply entering the gathering system to include the

1 additional minimal amount of conventional gas well supply that flows directly into
2 distribution lines, in order to ease what Peoples characterized as administrative burden, now
3 has an entirely new dimension in this proceeding as it is being used as a justification in
4 proposed Rate AGS to the expand point of entry of supplies to include all pipeline systems
5 and to expand all Pennsylvania sources of supply to include both conventional and
6 unconventional supplies. The reason put forth by Peoples in its 2018 1307(f) case, for the
7 minor additional expansion of retainage to include the conventional supplies directly entering
8 into the distribution system, was simply to ease an administrative burden and with a minimal
9 impact on total retained volumes in their proposal.

10 Peoples' proposed Rate AGS, if approved, will impact all non-conventional gas supply
11 delivered into the Peoples system regardless of point of entry. This new proposal is also
12 inconsistent with the Equitable Division's existing tariffed Rate AGS, because Peoples'
13 proposed Rate AGS applies to all supply coming in through transmission lines while
14 Equitable's existing Rate AGS does not. (EDB-1). This seemingly minor wording change
15 on point of entry and conventional versus non-conventional supplies is not minor at all and
16 is a familiar tactic if we recall how Rate AGS was born as described earlier in my testimony.
17 The convenient omission of tariff language can sometimes be as important or even more so
18 than the language that is included.

19 **Q. SHOULD THE ORDER IN PEOPLES' LAST 1307(F) CASE HAVE ANY BEARING**
20 **ON THIS CASE OR BE CITED AS PRECEDENT IN THIS CASE?**

21 A. No. The issue in the 2018 1307(f) Peoples gas cost case was limited to whether it was
22 appropriate to assess retainage of conventional well gas entering into the Peoples system
23 through a gathering line and the minimal additional conventional supply that flows directly

1 into a distribution pipeline, in order to reduce gathering system UFG for end-use customers.
2 The Order in Peoples 2018 1307(f) case dealt with charging retainage of 2% to conventional
3 well producers using the gathering system to help ease the end-user cost burden associated
4 with high levels of gathering system UFG.

5 **Q. SHOULD PEOPLES EXISTING TARIFF RATE GS (GATHERING SERVICE) AS**
6 **IT NOW APPEARS IN PEOPLES DIVISION CURRENTLY APPROVED TARIFF**
7 **BE REVISED TO CORRECT A MISTAKE?**

8 A. Yes, to make it clear that gas is only to be retained on conventional gas supplies coming into
9 a gathering line or a *distribution* line. The Rate GS as it presently appears in Peoples tariff
10 does not comply with the Commission Order in Peoples' 2018 1307(f) case because it states
11 that 2% retainage will apply to all conventional gas supplies, and it is not specific on point
12 of entry, thus allowing for retainage on conventional supply entering through a transmission
13 line, in violation of the Commission Order at Docket No. R-2018-2645278. Peoples did not
14 request, and the Commission did not grant, retainage on supply coming into Peoples through
15 a transmission line. This omission of tariff language should be corrected, especially if this
16 incorrect and overly broad point-of- entry tariff language that now appears in Peoples
17 Division tariff for Rate GS is going to be used as a justification or precedent to expand
18 applicability of the proposed Rate AGS to unconventional supplies entering through a
19 transmission line or distribution line. It seems to be another use of the minor wording change
20 or language omission tactic.

1 **Q. AS TO THIS PROCEEDING AND PEOPLES PROPOSAL TO CHARGE ALL**
2 **PRODUCERS A NEGOTIATED RATE UNDER RATE AGS FOR GAS FROM**
3 **UNCONVENTIONAL SOURCES, REGARDLESS OF THE POINT OF ENTRY**
4 **INTO PEOPLES SYSTEM, WHAT IS YOUR OPINION?**

5 A. Peoples, who has the burden of proof, has not provided any proof of the reasonableness of
6 its proposal.

7 If Peoples uses the argument that (a) the PAPUC Order in Peoples' 2018 1307(f) gas cost
8 case supports its proposal on this issue, it does not. That case limited the recovery of retained
9 volumes from conventional gas well supply only and only for gas entering through a
10 gathering line and the minor additional conventional supply that flows directly into a
11 distribution pipeline to ease an administrative burden issue cited by Peoples.

12 If Peoples argues that (b) its proposal is consistent with the Equitable tariff on the issue of
13 point of entry of supplies and therefore should be approved, it is not. Equitable's present
14 tariff Rate AGS only mentions charging Rate AGS on gas supply coming into gathering
15 pipelines or directly into distribution lines but is silent on the issue of charging for gas
16 entering transmission lines. Peoples' proposal in this proceeding is not consistent with either
17 argument (a) or (b).

18 Peoples has provided no argument or defense for the reasonableness of its proposal in this
19 case. There is no justification for charging Rate AGS to recover gathering pipeline
20 investment and related costs from producers who make no use of the gathering system. This
21 proposal should be rejected as unreasonable and without justification, and the language
22 discussing the assessment of a negotiated Rate AGS on unconventional supplies should be
23 stricken from Peoples' proposed Rate AGS tariff.

1 **Q. EVEN THOUGH PEOPLES' PROPOSAL FOR RATE AGS AS IT APPLIES TO**
2 **NON-CONVENTIONAL SUPPLIES IS COMPLETELY NEGOTIABLE WITH NO**
3 **MAXIMUM OR MINIMUM APPLICABLE RATE, WHAT HAS PEOPLES**
4 **ASSUMED IN THIS CASE RELATIVE TO REVENUE AT PROPOSED RATES**
5 **FOR NON-CONVENTIONAL GAS SUPPLY ENTERING THE PEOPLES**
6 **SYSTEM?**

7 A. In response to SBI-Peoples-I-9 (EDB-1), for "System 2," which is defined in response to
8 SBI-Peoples-II-9 (attached hereto as Exhibit 1 (EDB-1)) as "non-conventional production,"
9 Peoples has assumed revenues for the FPFTY using a rate of \$0.26 per Mcf for the Peoples
10 Division non-conventional supplies and a rate of \$0.22 per Mcf for the Equitable Division
11 non-conventional supplies. This rate for Peoples is identical to the rate minimum Peoples
12 plans to charge conventional gas producers under proposed Rate AGS, and for Equitable the
13 rate is only \$0.04 less than for conventional producers under proposed Rate AGS. In each
14 case, there is no individually negotiated rate shown for each producer, as SBI-Peoples-I-9
15 requested. This suggests that there will be no individual negotiation with producers; instead,
16 just Peoples and Equitable will dictate their price for the non-conventional producers to pay
17 for a gathering system that those producers do not even use, without any consideration of the
18 impact on local gas supply levels for end-use customers.

19 **Q. IS PEOPLES DIVISION CURRENTLY CHARGING PRODUCERS OF NON-**
20 **CONVENTIONAL SUPPLIES A RATE OR FEE FOR INJECTING GAS INTO THE**
21 **PEOPLES DIVISION SYSTEM?**

22 A. Yes, according to response to discovery in SBI-Peoples-I-9 (EDB-1), the Peoples Division
23 is charging a fee of \$0.16 per Mcf on 858,142 Mcf of non-conventional gas coming into the

1 Peoples system for a total annual revenue at present rates of \$137,335. This fee of \$0.16 is
2 through the PES Program after the PIOGA \$0.01 fee has been removed. Whether those
3 supplies are entering the Peoples system through a distribution line or a transmission line is
4 not clear, but response to SBI-Peoples-I-14 (EDB-1), Peoples made it clear that it has no
5 non-conventional supplies directly entering the gathering system. It is not clear what the
6 producers who are paying the \$0.16 are getting in return for their fees, unless it is less
7 stringent water vapor standards, since they clearly would not benefit from other purported
8 PES Program benefits that involve upgrades to the gathering system.

9 **Q. IS THE EQUITABLE DIVISION CURRENTLY CHARGING PRODUCERS OF**
10 **NON-CONVENTIONAL SUPPLIES RATE AGS FOR INJECTING GAS INTO THE**
11 **EQUITABLE DIVISION SYSTEM?**

12 A. Yes. Referring to Peoples' response to SBI-Peoples-I-9 (EDB-1), the Equitable Division
13 shows it is charging a rate of \$0.22 per Mcf on 3,366,376 Mcf of non-conventional gas
14 entering the Equitable Division system and a total revenue at present rates of \$740,603.
15 Peoples' response to SBI-Peoples-I-14 (EDB-1) indicates that only 387,366 Mcf for the HTY
16 of non-conventional gas supply flowed into Equitable's gathering system, so the balance of
17 gas supplies of almost 3,000,000 Mcf must flow directly into its distribution system since
18 the Equitable Division does not have authority under its Rate AGS tariff to assess producers
19 who deliver gas directly into a transmission line. It is not clear what these customers are
20 getting in return for their rate since the bulk of the non-conventional supply does not use the
21 gathering system.

1 **Q. WHAT CAN WE CONCLUDE FROM EXAMINATION OF DISCOVERY**
2 **RESPONSE SBI-PEOPLES-I-9?**

3 A. Regardless of what the Peoples Division and Equitable Division are doing today with respect
4 to non-conventional gas supplies and charging producers fees or rates, the issue at hand is
5 who should bear the cost responsibility moving forward for the non-gas costs of the Peoples
6 Division and Equitable Division combined gathering system and what is fair and reasonable.
7 Clearly, gas supplies that are not flowing into the gathering system are not using the system.
8 Whether producers who actually flow their supplies *into* the gathering system should help
9 pay for it is another issue to be decided in this proceeding, but there is no reason at all to
10 charge producers Rate AGS for recovery of non-gas gathering system costs if they *make no*
11 *use* of the gathering system. Peoples has offered no reason for why it makes sense to do so.
12 The language in Rate AGS to charge unconventional supply for Rate AGS should be stricken.

13 **X. PIOGA FEE**

14 **Q. IS PEOPLES BILLING A FEE ON BEHALF OF PIOGA?**

15 A. Yes, the Equitable Division is billing a \$0.01 fee per Mcf on all Pennsylvania volumes
16 entering the system. Equitable is acting as a billing and collections agent for PIOGA. On
17 the Peoples Division system, PIPSCO bills the PIOGA fee in the PES Program bill that goes
18 to producers. PIPSCO, according to Peoples' response to SBI-Peoples-III-10 (EDB-1), is
19 likely a subsidiary of PIOGA. It seems an odd business relationship that a company the size
20 of Peoples can bill for all of its other services, but chooses to farm-out its PES Program
21 revenue billing of over \$5 million per year to a company that they have such little knowledge
22 of, that Peoples does not even know who owns it, and in doing so agrees that a trade
23 association can also tack on a fee to be billed to PES Program customers that covers

1 administrative costs of the trade association. When Mr. Gregorini was asked in discovery
2 why they are billing PIOGA fees, his answer was a non-answer as to why they bill the PIOGA
3 \$0.01 fee on behalf of this trade association. SBI-Peoples-III-3 (attached hereto as Exhibit 1
4 (EDB-1)). Peoples does not bill for any other trade association.

5 **Q. DO YOU HAVE ANY RECOMMENDATION AS TO PIOGA FEES BILLED BY**
6 **THE PEOPLES AND EQUITABLE DIVISIONS?**

7 A. Yes. PIOGA administrative fees, or for that matter, the fees of any trade association, are not
8 appropriate fees to include in the bill of a public utility, unless they are part of the costs of
9 providing utility service and included on the books of the utility as a general and
10 administrative operation and maintenance expense or are a non-utility service being billed
11 by the utility, such as appliance service work, or similar. These fees are not in that category.
12 The Peoples and Equitable Divisions should not be acting in the role of a no-cost billing and
13 collection agent for any trade association's fees and this practice should be discontinued
14 immediately. These are not costs of providing any utility service, and they have no place on
15 any utility bill. It is also inappropriate for a trade association such as PIOGA or its affiliate
16 or subsidiary to bill for any of Peoples' services and include their own administrative fees on
17 the same bill. These practices should also be immediately discontinued. The benefits to
18 PIOGA from this arrangement are clear while the benefits to Peoples from this arrangement
19 are less obvious. The practice of co-branding implies that a mutually beneficial relationship
20 exists between the co-branders. If no such relationship exists, then these practices should be
21 terminated. If it is beneficial for Peoples' customers for Peoples to bill and collect PIOGA
22 administrative fees, Peoples should disclose what those benefits are.

XI. LOCAL GAS BENEFITS

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Q. DO PEOPLES' END-USE CUSTOMERS BENEFIT FROM LOCAL GAS SUPPLY?

A. Yes. Peoples acknowledges that local gas is a benefit to end-use customers.

Q. DO YOU AGREE WITH MR. GREGORINI'S ANALYSIS OF THE COST OF LOCAL SUPPLIES VERSUS INTERSTATE SUPPLIES THAT HE DESCRIBES IN PEOPLES STATEMENT NO. 2, PAGE 17, LINES 1-19?

A. Not entirely. The fixed costs of the gathering system do not vary with the amount of gas purchased, so I think it is misleading to include sunk costs – the fixed costs of \$0.76 – in the comparison that Mr. Gregorini shows in Peoples Statement No. 2 JAG Exhibit 1. I would remove that line item from the comparison. That line item would only be relevant if the gathering system costs became gas costs and they are not. Thus, the revised comparison would show that local gas is even more beneficial from a cost standpoint than Mr. Gregorini shows in his exhibit and the rate comparison should read \$2.0509 per Mcf for local gas and \$3.3687 for interstate supply. This cost savings should be taken into consideration when making policy decisions that could affect future availability of low-cost Pennsylvania supply.

Q. HOW DOES LOCAL SUPPLY HELP LOWER PIPELINE DEMAND COSTS?

A. As shown in Peoples' response to SBI-Peoples-II-26 (attached hereto as Exhibit 1 (EDB-1)), we can see that over the years from 2015 to the present, savings in demand costs have ranged from \$2.9 to \$4.4 million annually to end-use customers by the use of local gas. Clearly local gas provides a benefit to end-use customers and these benefits need to be taken into consideration when evaluating charges to producers and the impact that those charges could have on local supply availability to end-use customers.

XII. SHIFTING OF BASE RATE COSTS TO GAS COSTS

Q. DOES THE PROPOSAL TO RECOVER GATHERING SYSTEM INVESTMENT AND RELATED COSTS FROM PRODUCERS RESULT IN THE SHIFTING OF NON-GAS COSTS TO GAS COSTS?

A. Yes, the old adage that there is no such thing as a free lunch is true in this Rate AGS proposal. One of the questions that needs answering is who the winners are and who the losers are in the shifting of non-gas costs out of base rates and into gas costs. At first blush, this proposal shifts costs away from end-use customers so they would be the winners. They are not the winners upon closer inspection. End-use customers are not benefitted if the gathering system investment and related cost recovery is either (a) just shifted from non-gas costs to gas costs and/or (b) if the shift results in the loss of lower cost Pennsylvania supply.

Q. WILL THE SHIFT OF GATHERING SYSTEM COST RECOVERY OUT OF BASE RATES JUST SHIFT THESE COSTS FROM BASE RATES TO GAS COSTS?

A. A producer, like any other business, will pass through increased costs if it can contractually do so. Producers will pass along Rate AGS costs through gas prices if they can do so under the terms of their supply contracts. The producer's costs will be made even higher if gas supply prices rise and the indexed Rate AGS rises as a result of the Rate AGS indexing mechanism proposed. This will result in even more costs to recover from end-use customers through gas supply prices. Non-gas costs are not indexed in base rates, but they will be under proposed Rate AGS.

If the producer is unable to pass along the Rate AGS costs, because of contractual limitations, it will bear the burden of these higher costs without the ability to recover them. This, of

1 course, will make the producer look to other markets for its gas. If low-cost Pennsylvania
2 supply moves from the Peoples system, it is the end-use customers that are harmed as a result.

3 **Q. HOW IS THE INDEXING OF RATE AGS HELPFUL TO END-USE CUSTOMERS?**

4 A. It is not helpful at all. Gathering system non-gas costs would not be indexed if they were in
5 base rates. As proposed, the indexing of Rate AGS just benefits Peoples' owners if gas prices
6 rise.

7 **Q. TO SUMMARIZE, IS THE SHIFTING OF COST RECOVERY OF GATHERING**
8 **SYSTEM INVESTMENT AND EXPENSES FROM NON-GAS COSTS TO GAS**
9 **COSTS A BENEFIT TO END-USE CUSTOMERS?**

10 A. No. Non-gas gathering system costs are not going to go away simply because they are no
11 longer in end-users' base rates. These costs will either be recovered through gas supply prices
12 or will result in less local Pennsylvania supply on the Peoples system or combination of both.
13 These costs are part of the infrastructure that brings Pennsylvania low-cost supplies to end-
14 users. Charging the supplier does not make the cost disappear, but doing so may make the
15 low-cost gas disappear. It is a bad policy decision to approve the shifting of rate base costs
16 into purchased gas costs and to embrace a proposal that could result in the loss of low-cost
17 supply to all of Peoples' end-use customers.

18 **XIII. DECLINE IN CONVENTIONAL PRODUCTION**

19 **Q. DO YOU HAVE ANY EVIDENCE THAT THE IMPLEMENTATION OF RATE AGS**
20 **ON THE EQUITABLE SYSTEM CAUSED A PRODUCER TO MOVE GAS TO**
21 **OTHER MARKETS?**

22 A. Yes. Since the beginning of 2009, SBI has moved 15,736,416 Mcf from the Equitable system
23 because of the implementation of Rate AGS on the Equitable system. Instead of going to

1 Equitable end-use customers, this low-cost supply went to other markets. SBI built new
2 infrastructure or used existing infrastructure to move that low-cost supply off of the Equitable
3 system. It is Equitable's end-use customers who were the losers as a result. I do not have
4 similar information for other producers, but I think that it is likely that SBI was not the only
5 producer to move supply from the Equitable system because of Rate AGS, to the detriment
6 of Equitable's end-use customers.

7 The Peoples Division and Equitable Division producers have other market options for their
8 supplies even though Peoples seems to fail to recognize or does not care about this fact in its
9 proposal to recover non-gas costs from producers. Producers have market options, and this
10 fact needs to be taken into consideration when making the policy decision as to whether or
11 not to move non-gas costs into gas supply costs and shift cost recovery of rate base to
12 producers.

13 Ultimately, it is the end-use customers on the Peoples system who will bear the added cost
14 burden of higher priced interstate supplies as producers tire of the added costs on the Peoples
15 system and move their supplies off the Peoples system to other markets.

16 **Q. MR. GREGORINI IN HIS TESTIMONY DESCRIBES THE DECLINE IN LOCAL**
17 **PRODUCTION FROM CONVENTIONAL WELLS IN PEOPLES STATEMENT**
18 **NO. 2, PAGE 14, LINE 1. WHEN ASKED IF THE IMPLEMENTATION OF RATE**
19 **AGS ON THE EQUITABLE SYSTEM COULD BE A REASON FOR THAT**
20 **DECLINE, WHAT WAS HIS RESPONSE?**

21 A. In response to SBI-Peoples-II-2 (attached hereto as Exhibit 1 (EDB-1)), Mr. Gregorini
22 replied "No" to the question, "Can Mr. Gregorini say with certainty that none of the decline
23 in volume on the Equitable system is related to Rate AGS?" He cannot say with certainty

1 that the decline in production on the Equitable system was not related to the implementation
2 of Rate AGS.

3 **Q. HAS PEOPLES IMPLEMENTED ANY PRICE INCENTIVE MECHANISMS TO**
4 **ENCOURAGE NEW PRODUCTION IN DISTRIBUTION AREAS WHERE LOCAL**
5 **GAS IS THE ONLY SOURCE OF SUPPLY?**

6 A. No. Peoples, in response to SBI-Peoples-I-35 and SBI-Peoples-II-17 (attached hereto as
7 Exhibit 1 (EDB-1)), has stated it has not needed any incentive mechanisms to get the supply
8 it needs in these isolated areas. As conventional supplies continue to decline, the
9 implementation of Rate AGS for Peoples is not helpful in encouraging the development of
10 local low-cost supply in isolated areas where local gas is the only source of supply. Currently
11 there are 903 end-use customers on the Peoples' combined system that have local gas as their
12 only source of supply and 3,515 customers that are served directly from the gathering system.
13 SBI-Peoples-I-12 and SBI-Peoples-I-13 (attached hereto as Exhibit 1(EDB-1)).
14 Again, Peoples is failing to look at the implications of shifting rate base cost recovery to
15 producers and those implications include the impact on end-use customers served using local
16 supply.
17 From a policy standpoint, these impacts need to be taken into consideration.

18 **XIV. MIMA AGREEMENT AND WATER VAPOR**

19 **Q. DO YOU HAVE ANY CONCERNS WITH THE PROPOSED RATE AGS AS IT**
20 **RELATES TO WATER VAPOR CONTENT OF PENNSYLVANIA SUPPLY**
21 **ENTERING THE PEOPLES GATHERING SYSTEM?**

22 A. Water vapor content of gas supply is specified in the MIMA accompanying proposed
23 Rate AGS and the same language appears in the MIMA accompanying the existing PES

1 Agreement. Water vapor content is specified as a maximum of seven (7) pounds per million
2 cubic feet unless allowed to be higher by negotiation. The PES Program, since it was not a
3 mandatory program, allowed the producers the option to self-treat their supply, if necessary,
4 in order to obtain a gas quality acceptable for injection into Peoples' gathering system and
5 forego payment of the PES Program charge. Alternatively, producers could pay the PES
6 Program fee and be allowed to deliver gas into Peoples' gathering system using less stringent
7 water vapor standards through a negotiation of these less stringent standards as per the
8 MIMA. The PES Program fee included contributions to enhance or install water dehydration
9 facilities on Peoples' gathering system.

10 Under Rate AGS, Peoples is proposing a mandatory fee of either a minimum of \$0.26 for
11 conventional supplies or an unknown to-be-negotiated rate for unconventional supplies and
12 no agreement at all in proposed Rate AGS or the referenced MIMA to relax water vapor
13 standards. Since proposed Rate AGS recovers a portion of the non-gas cost of the gathering
14 system, the proposed rate will include any dehydration facilities that were enhanced as a
15 result of the payment of the PES Program fees by producers, as well as any other dehydration
16 facilities that are part of the gathering system. Thus, Rate AGS should allow its ratepayers
17 the same level of relaxed water vapor standards that were given to former PES Program fee-
18 payers. The fee-payers under the PES Program were paying for relaxed water vapor
19 standards and the same should apply for Rate AGS ratepayers. The MIMA accompanying
20 proposed Rate AGS allows for, but does not require, a negotiation of water vapor standards
21 from the maximum of seven (7) pounds per million cubic feet requirement. The MIMA
22 accompanying proposed Rate AGS should state that the water vapor standards are fully
23 negotiable, and no maximum water vapor content should be stated. The benefit of relaxed

1 water vapor standards for those producers who signed the PES Agreement was a major
2 reason, in my client's view, as to why the PES Program was so well subscribed in 2015. In
3 2015, at the time the PES Agreement was being renewed and extended, Peoples changed its
4 tariff to tighten water vapor standards for non-PES Program subscribers.

5 If Peoples does not agree to relax water vapor standards in a producer's MIMA and a producer
6 must pay Rate AGS and also pay to self-treat the gas to the seven (7) pounds of water per
7 million cubic feet standard in order to deliver the gas into Peoples' gathering system, as set
8 forth in the MIMA on page 2 of Appendix B (attached hereto as Exhibit 6 (EDB-6)), then
9 the cost of Rate AGS to the producer is even higher than the stated rate. SBI-Peoples-I-28
10 (attached hereto as Exhibit 1 (EDB-1)). Producers will be paying in Rate AGS for
11 dehydration but also will be required to self-treat before the gas enters the Peoples system to
12 meet the seven (7) pound standard which will require their own dehydration investment as
13 well.

14 Peoples' proposed Retail Tariff and Supplier Tariff also make mention of the seven (7) pound
15 per million cubic feet water vapor standard.

16 I recommend, as part of removing proposed Rate AGS from Peoples' tariff, that the maximum
17 seven (7) pound per million cubic feet language be removed from Peoples' proposed Retail
18 and Supplier Tariffs and also from the MIMA and that maximum water vapor content be a
19 negotiable item as part of the MIMA. Alternatively, if Rate AGS in some form is to be
20 approved, then I would recommend that dehydration by Peoples be provided as service for
21 the rate paid by producers and that no additional dehydration be required from Pennsylvania
22 producers at point of entry of Pennsylvania supplies.

1 **XV. RECOMMENDATIONS AND SUMMARY**

2 **Q. WHAT ARE YOUR RECOMMENDATIONS FOR RATE AGS?**

3 A. My recommendations are as follows

- 4 1. Rate AGS, as proposed, should be rejected in its entirety for the Peoples Division.
5 Producers have paid more than a fair share of gathering system costs already (assuming
6 any share at all is fair) through PEP and PES Program fees and gathering system
7 retainage. The voluntary PES Program should remain in effect.
- 8 2. Rate AGS's proposed minimum rate is not supported by any evidence as to its
9 reasonableness or fairness and must be rejected for all of the reasons described in my
10 testimony. It results in a rate spike for some producers and does not conform to
11 principles of gradualism.
- 12 3. Rate AGS's proposed maximum rate is not supported as to its reasonableness or
13 fairness, can result in significant over-collection of fixed costs of the gathering system
14 to the enrichment of Peoples' owners and must be rejected for all of the reasons
15 described in my testimony.
- 16 4. Rate AGS's indexing is not supportable as to its reasonableness or fairness since there
17 is no supportable reason to index non-gas costs and this proposal will result in over-
18 collection of non-gas costs. This proposal must be rejected for all of the reasons
19 described in my testimony.
- 20 5. Rate AGS, in the present tariff of the Equitable Division, should be limited to gas
21 flowing into the gathering system only. Producers flowing gas into transmission or
22 distribution lines should not be forced to pay non-gas costs of the gathering system
23 when they are not using that system.

- 1 6. If Rate AGS for Peoples is not approved, Peoples' proposed Retail and Supplier Tariffs
2 and the MIMA Agreement should all be changed to eliminate mention of the seven (7)
3 pounds per million cubic feet of gas as the maximum allowable water vapor content of
4 gas and instead should be silent on the issue of maximum water vapor standard.
5 Producers should, through the MIMA, be able to negotiate water vapor standards that
6 are reasonable for Peoples and for the producer based on the individual situation and
7 the point of delivery.
- 8 7. If Rate AGS is not approved for the Peoples Division, the existing tariff page for
9 Rate GS for the Peoples Division should be changed immediately to comply with the
10 PAPUC Order in the last 2018 1307(f) gas cost case that limits the retainage to
11 conventional supplies coming into a gathering line or *distribution* line. The current
12 tariff language is overly broad and vague as to point of supply entry.
- 13 8. Equitable Division's Rate AGS should have the words "with a minimum" stricken from
14 the Rates section of the tariff to make it clear that retainage is 2%, as Commission
15 approved, from the 2018 1307(f) gas cost case and not a *minimum* of 2%.
- 16 9. Equitable Division's Rate AGS existing tariff language needs to be changed. The words
17 "as well as to deliver gas directly into the Company's distribution system" should be
18 stricken from the tariff in the Applicability section of Rate AGS in the Equitable
19 Division tariff. Producers who do not use the gathering system should not be charged
20 for it.

1 **Q. IF THE PAPUC DECIDES TO APPROVE RATE AGS IN SOME FORM FOR BOTH**
2 **THE PEOPLES AND EQUITABLE DIVISION PRODUCERS, WHAT WOULD YOU**
3 **RECOMMEND FOR THE STRUCTURE OF RATE AGS?**

4 A. I would recommend the following changes to proposed Rate AGS if rate AGS will be
5 approved, but to be clear my primary recommendation is that Rate AGS be eliminated from
6 the Peoples tariff:

- 7 1. If Rate AGS is allowed to become effective in some form, it should be a maximum rate not
8 exceeding \$0.26 Mcf (assuming that \$0.26 cents is the current average PES Program fee)
9 applied only to supplies flowing into the gathering system and applicable only to those
10 producers already paying at least \$0.26 per Mcf in either a PES Program fee or under
11 Equitable Division's Rate AGS. There should be no indexing of the rate.
- 12 2. To address the issue of gradualism as discussed in my testimony, for those producers
13 currently paying less than \$0.26 per Mcf either through a PES Program fee or through the
14 Equitable Division's Rate AGS, the rate increase for such producers should not exceed the
15 overall average rate increase for end-use customers as allowed in either a final order or
16 settlement of this proceeding. For those producers not currently paying a PES Program fee
17 at all, their new fee under Rate AGS should be set at the current straight average rate
18 currently being charged to producers on the Peoples system that are getting a rate increase,
19 which is \$0.10, and then that rate should be increased by the overall average increase for
20 end-use customers as allowed in either a final order or settlement of this proceeding. In
21 setting the rate for all producers who flow gas into the gathering system, these rates should
22 allow for downward flexibility, if needed, to reflect value-of- service to producers and with

1 the goal of keeping low-cost supplies on the Peoples system for the benefit of end-use
2 customers. A one size fits all approach is not good for producers or end-use customers.

3 3. Rate AGS, if permitted to take effect should not be expanded to include non-conventional
4 supplies that do not use the gathering system. The Peoples Division has no non-
5 conventional supplies flowing into the gathering system and the Equitable Division has
6 only two wells with 387,166 Mcf annually that flow directly into the gathering system.
7 Producers who do not use the gathering system should not be assigned gathering system
8 costs.

9 4. Rate AGS for the recovery of non-gas costs, if allowed to take effect for the Peoples
10 Division in some form, should be limited to gas flowing into the gathering system only and
11 not into the distribution system or the transmission system. The administrative burden
12 argument, used by Peoples in its 2018 1307(f) gas cost case as a reason why gas from
13 conventional wells should have a 2% retainage applied whether the gas flowed into a
14 gathering line or a distribution line, should not be permitted to be used in this proceeding
15 as an excuse to charge producers for non-gas costs of a pipeline system they do not use.
16 Producers who flow their supplies directly into a distribution line or a transmission line are
17 not making use of the gathering system and should not be paying for the non-gas costs of
18 the gathering system.

19 5. If Rate AGS in some form is allowed to take effect, the language referencing a water vapor
20 standard should be stricken from Peoples' Retail Tariff, the Supplier Tariff, and also from
21 the MIMA. If Rate AGS is imposed on Peoples' producers, then Peoples should provide
22 all dehydration for the Pennsylvania supplies entering the gathering system in exchange

1 for payment of the rate and Pennsylvania gas supplies at the gathering system point of entry
2 should be accepted without dehydration by producers.

3 **Q. ARE THERE ANY OTHER RECOMMENDATIONS YOU WOULD LIKE TO**
4 **MAKE?**

5 A. Yes. Peoples should discontinue billing and collecting PIOGA fees in its Equitable Division.
6 In the Peoples Division, it should instruct the billing agent, PIPSCO, to stop billing and
7 collecting PIOGA fees as part of PES Program billings and should also stop any billing of
8 PIOGA fees in bills Peoples Division sends directly to producers that are not sent through
9 PIPSCO. Moving forward, regardless of whether Rate AGS is approved as proposed, in
10 some other form, or not approved at all, Peoples should no longer collect fees on behalf of
11 PIOGA or any other trade association unless and until it can demonstrate how ratepayers are
12 benefitted by such a practice.

13 **Q. ARE THERE ANY OTHER ISSUES YOU WOULD LIKE TO ADDRESS?**

14 A. Yes. If there is any outstanding discovery or yet to be received revisions to discovery, I
15 reserve the right to supplement or amend my testimony.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes. Thank you.

Attachment A

Diane Meyer Burgraff received her B.S. from West Virginia University in 1972 with a major in Mathematics and received her M.B.A. from the University of Pittsburgh in 1974 with an emphasis on Finance and Accounting. She also graduated from a six-week full time executive education program from the University of Pittsburgh in 1990. She was employed for almost twenty-five years with the Peoples Natural Gas Company in Pittsburgh, PA. There the former Ms. Meyer, held positions of increasing responsibility beginning as a Cost Analyst working on base rate cases and PGC filings and capital budget project analyses. She was promoted to Assistant Director of Rates from 1981-1984, and then to Director of Rates from 1984-1990. She was elected Vice President of Financial and Rates from 1991 until a corporate realignment in 1997 when many financial responsibilities moved to CNG Corporate. After 1997 until her departure from Peoples Gas in 1999, she was Vice President of Rates and Regulatory Affairs. As Financial Vice President, the former Ms. Meyer was responsible for Accounting, Treasury, Rates and Budget functions including taxes, payroll, bill payment processing, general and plant accounting, cash management, rates, long term planning and budgeting, and gas well accounting. For two years she was also responsible for the Information Technology area. Approximately 150 people reported to her as Financial Vice President.

At Peoples Gas, Ms. Meyer testified in every base rate case from 1981-1999, approximately eight of them during that time frame, most of the gas cost proceedings during that time frame, and many other complaint cases and other cases involving her former employer in various courts.

Since leaving Peoples Gas, Diane Meyer Burgraff has worked as an independent consultant and expert witness and has testified on behalf of PA Office of Consumer Advocate and the WV

Consumer Advocate Division of the Public Service Commission. She has also submitted testimony for clients such as IOGA of PA (now PIOGA), IECPA, and natural gas suppliers.

Mrs. Burgraff resides in Williamsburg, VA. She serves as an Executive Partner at the Mason School of Business at The College of William and Mary.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

PEOPLES NATURAL GAS COMPANY, LLC

**:
:
:
:**

R-2018-3006818

**EXHIBITS
OF
DIANE MEYER BURGRAFF**

ON BEHALF OF

SNYDER BROTHERS, INC ("SBI")

APRIL 29, 2019

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Russell Feingold

SBI-I-4 From a cost-causation standpoint and not a value of service standpoint, does Mr. Feingold believe that producers should be held responsible for some or all of the costs of Peoples' gathering system?

Response: Yes.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-7 Please provide workpapers, documents, emails, and any other documentation used to derive the minimum rate proposed for Rate AGS and the maximum rate proposed for Rate AGS.

Response: Peoples established the proposed minimum gathering rate at \$0.26 per Mcf because it represents a rate level that could be assessed to producers in a low-natural gas market period and, in our judgement, would not lead to potential producer shut-ins and may help to mitigate declining production trends. The proposed minimum rate and this supporting rationale was in part based on feedback received from PIOGA during discussions regarding a revised Rate AGS rate structure to replace the existing PA PES program at the Peoples Division and the AGS tariff at the Equitable Division. Those discussions focused on ways to establish a reasonable and ongoing producer contribution to offset end-use customer's charges and that would also not create an economic disincentive for conventional produces to continue to produce gas supplies into the Peoples' systems.

The maximum Rate AGS rate is equal to the fully allocated gathering cost of service for the fully projected future test year as set forth in Peoples Exhibit RAF-3 to witness Feingold's testimony.

DTI SP App Index - January First of the Month ("FOM") Close

<u>FPFTY</u>		<u>@ 1/2/2019</u>
		<u>\$/Dth</u>
Nov-19	\$	2.188
Dec-19	\$	2.402
Jan-20	\$	2.566
Feb-20	\$	2.513
Mar-20	\$	2.350
Apr-20	\$	2.080
May-20	\$	1.933
Jun-20	\$	1.927
Jul-20	\$	1.908
Aug-20	\$	1.914
Sep-20	\$	1.750
Oct-20	\$	<u>1.724</u>
Avg.	\$	2.105
Gathering	\$	0.260
Minimum		12.4%

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-9 Please provide workpapers showing how Rate AGS revenues at present rates and at proposed rates were developed. Please list the producer by letter or number, not a name, such as producers A, B, etc. For each producer list the future test year volumes, rate at present and at proposed rates, and revenue that when added together produce the Revenue at present and at proposed rates for Rate AGS.

Response: See attached. The development of the Rate AGS revenues was calculated by system, rather than by discrete producer.

Peoples Natural Gas Company
Docket No. R-2018-3006818
SBI 9

FPPTY Volume By Month

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	1,721,946	1,716,448	1,710,968	1,705,506	1,700,061	1,694,633	1,689,223	1,683,830	1,678,454	1,673,095	1,667,754	1,662,429	20,304,346
PNGD	System 2	72,793	72,561	72,329	72,098	71,868	71,639	71,410	71,182	70,955	70,728	70,502	70,277	858,342
EGCD	System 1	954,272	957,485	944,575	869,511	853,973	627,930	919,155	1,036,478	752,213	771,171	733,653	718,734	10,139,149
EGCD	System 2	332,056	321,680	311,627	301,889	292,455	283,316	274,462	265,885	257,576	249,527	241,729	234,175	3,366,376
														34,668,213

Present Rate

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
PNGD	System 2	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16
EGCD	System 1	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72
EGCD	System 2	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22

FPPTY Revenue at Present Rate

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	\$ 447,706	\$ 446,277	\$ 444,852	\$ 443,432	\$ 442,016	\$ 440,605	\$ 439,198	\$ 437,796	\$ 436,398	\$ 435,005	\$ 433,616	\$ 432,232	\$ 5,279,130
PNGD	System 2	\$ 11,647	\$ 11,610	\$ 11,573	\$ 11,536	\$ 11,499	\$ 11,462	\$ 11,426	\$ 11,389	\$ 11,353	\$ 11,316	\$ 11,280	\$ 11,244	\$ 137,335
EGCD	System 1	\$ 687,076	\$ 689,389	\$ 680,094	\$ 626,048	\$ 614,861	\$ 452,109	\$ 661,792	\$ 746,264	\$ 541,593	\$ 555,243	\$ 528,230	\$ 517,488	\$ 7,300,187
EGCD	System 2	\$ 73,052	\$ 70,770	\$ 68,558	\$ 66,416	\$ 64,340	\$ 62,329	\$ 60,382	\$ 58,495	\$ 56,667	\$ 54,896	\$ 53,180	\$ 51,519	\$ 740,603
														\$ 13,457,254

Peoples Natural Gas Compa
 Docket No. R-2018-3006818
 SBI 9

FPFTY Volume By Month

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	1,721,946	1,716,448	1,710,968	1,705,506	1,700,061	1,694,633	1,689,223	1,683,830	1,678,454	1,673,095	1,667,754	1,662,429	20,304,346
PNGD	System 2	72,793	72,561	72,329	72,098	71,868	71,639	71,410	71,182	70,955	70,728	70,502	70,277	858,342
EGCD	System 1	954,272	957,485	944,575	869,511	853,973	627,930	919,155	1,036,478	752,213	771,171	733,653	718,734	10,139,149
EGCD	System 2	332,056	321,680	311,627	301,889	292,455	283,316	274,462	265,885	257,576	249,527	241,729	234,175	3,366,376
														34,668,213

Proposed Rate

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
PNGD	System 2	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
EGCD	System 1	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
EGCD	System 2	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22

FPFTY Revenue at Proposed Rate

Gathering System		11/30/2019	12/31/2019	1/31/2020	2/29/2020	3/31/2020	4/30/2020	5/31/2020	6/30/2020	7/31/2020	8/31/2020	9/30/2020	10/31/2020	TME 10/31/2020
PNGD	System 1	\$ 447,706	\$ 446,277	\$ 444,852	\$ 443,432	\$ 442,016	\$ 440,605	\$ 439,198	\$ 437,796	\$ 436,398	\$ 435,005	\$ 433,616	\$ 432,232	\$ 5,279,130
PNGD	System 2	\$ 18,926	\$ 18,866	\$ 18,806	\$ 18,746	\$ 18,686	\$ 18,626	\$ 18,567	\$ 18,507	\$ 18,448	\$ 18,389	\$ 18,331	\$ 18,272	\$ 223,169
EGCD	System 1	\$ 248,111	\$ 248,946	\$ 245,589	\$ 226,073	\$ 222,033	\$ 163,262	\$ 238,980	\$ 269,484	\$ 195,575	\$ 200,504	\$ 190,750	\$ 186,871	\$ 2,636,179
EGCD	System 2	\$ 73,052	\$ 70,770	\$ 68,558	\$ 66,416	\$ 64,340	\$ 62,329	\$ 60,382	\$ 58,495	\$ 56,667	\$ 54,896	\$ 53,180	\$ 51,519	\$ 740,603
														\$ 8,879,080

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-12 How many sales customers and transportation customers by class are served directly from the Peoples Division and the Equitable Division gathering systems? Please provide this information separately for the Peoples Division and the Equitable Division and separately by rate schedule if available.

Response: Peoples has approximately 3,515 meters directly connected to gathering systems.

Division	Retail	Transportation	Grand Total
EGCP	2,138	192	2,330
PNGC	913	272	1,185
Grand Total	3,051	464	3,515

The requested information by rate schedule is not readily available.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-13 Reference Peoples Statement No. 2, Page 18, Lines 22-23. How many customers by class of customer on the Peoples Division gathering system and the Equitable Division gathering system are located in areas where gas supply coming from the Peoples Division or the Equitable Division gathering system is the only source of supply? Please provide this information separately for the Peoples Division and the Equitable Division. If the information is only available in aggregate form, please provide the information in that form.

Response: The table below details the number of customers by class, by system type, where local production currently is the only source of supply. Absent the local production in these areas, it is possible that gas service to these customers may be able to be maintained with revisions to Peoples' facilities to create bi-directional feeds and create new delivery points into the systems.

Owner and class	Distribution	Gathering	Grand Total
Residential	588	268	856
Commercial	35	11	46
Industrial	1	-	1
Grand Total	624	279	903

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-14 Reference Peoples Statement No. 2, Page 14, Lines 7-8.

- a. Provide the total volume of non-conventional gas that flowed through the Peoples Division and the Equitable Division gathering systems in the historic and future test periods. Please provide this information separately for the Peoples Division and the Equitable Division. If the information is only available in aggregate form, please provide the information in that form.
- b. Provide the volume referenced in (a) that went to off-system markets for the Peoples Division and the Equitable Division. Please provide this information separately for the Peoples Division and the Equitable Division. If the information is only available in aggregate form, please provide the information in that form.

Response:

- a. Two non-conventional wells flow into the gathering system, both are located on the Equitable Division, and they had a total throughput for the historic test period of 387,166 Mcf. Peoples does not estimate future test period production by well.
- b. None of the volumes from subpart (a). were nominated off-system.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

- SBI-I-17** Does any Pennsylvania gas supply enter Peoples' system directly into transmission or distribution lines?
- a. If the response is "yes", then provide the annual amount of that supply for the historical and future test periods for the Peoples Division and the Equitable Division. Please provide this information separately of the Peoples Division and the Equitable Division. If the information is only available in aggregate form, please provide the information in that form.

Response: Yes. Peoples does have local production that enters into Peoples transmission and distribution lines. The majority of which (85%) is from non-conventional production.

The annual amount for the historical test period for the Peoples Division is 1.115 Bcf and for the Equitable Division is 6.045 Bcf. Peoples does not estimate production for the future test year by this breakout.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-18 What is the percentage of UFG on the Peoples Division gathering system and the Equitable Division gathering system for the historic year or most recent twelve-month period available? Please provide this information separately for the Peoples Division and the Equitable Division. If the information is only available in aggregate form, please provide the information in that form.

Response: The gathering systems on Peoples Division have 8.7% UFG for the twelve month reporting period ended August 31, 2018. The gathering system on the Equitable Division has 9.2% UFG for the same period. These two systems provide for a total gathering loss rate of 8.9% for all of Peoples over the same twelve month period.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-28 Now that the PES Program is being abandoned and the proposed new Rate AGS is a mandatory charge from producers to recover gathering system base rate costs, which includes dehydration equipment, will those formerly added more stringent water vapor standards be eliminated since suppliers will now be paying for dehydration investment through their Rate AGS? Insofar as your response references any work papers, documents, emails, or any other documentation, please provide copies thereof.

Response: No. The dehydration equipment owned and operated by Company along with the gas quality provisions contained in the tariff are both necessary to protect Peoples' pipeline systems and to ensure that natural gas of adequate quality is delivered to customers.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-29 How much money has been paid to date by producers under the PES Program?

Response: Refer to the attachment for the requested information for 2012-2018. The requested information prior to 2012 is not readily available because it was managed and housed in a financial system no longer utilized and maintained by the Company.

Year	PES Revenues
2011	\$ 5,936,360.97
2012	\$ 12,465,867.83
2013	\$ 11,291,247.02
2014	\$ 10,496,380.98
2015	\$ 9,034,166.97
2016	\$ 7,234,382.51
2017	\$ 7,237,245.87
2018	\$ 7,140,101.42
2019	\$ 1,010,870.00
Total	\$ 71,846,623.57

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-31 Please list PES Program funds by year from the inception of the PES Program and how those funds were invested by project and by property account on Peoples' books.

Response: Refer to the attachment for the requested information for 2012-2018. The requested information prior to 2012 is not readily available because it was managed and housed in a financial system no longer utilized and maintained by the Company. The PES Program funds are committed by Peoples and the producers through the Project Review Committee (PRC) for both capital and expense to enhance or maintain throughput of Pennsylvania produced natural gas. People's accounting system tracks the capital but not the expense associated with the PRC projects. Some examples of expense items include compression rentals, engine overhauls, pipeline pigging and field equipment communications.

SBI-1-31
Attachment

Reconcile Finance PA PES Projects to Fixed Asset Records

2012		2013		2014		2015		2016		2017		2018	
Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD	Row Labels	Sum of DEC YTD
1. PRODUCTION ENHANCE	\$ 610,677.98	1. PRODUCTION ENHANCE	\$ 383,010.71	1. PRODUCTION ENHANCE	\$ 1,152,418.82	1. PRODUCTION ENHANCE	\$ 2,070,145.23	1. PRODUCTION ENHANCE	\$ 307,565.98	1. PRODUCTION ENHANCE	\$ 820,789.03	1. PRODUCTION ENHANCE	\$ 2,987,395.72
51378	\$ 904.06	55057.1.1	\$ 167.70	2014016.1.1	\$ 22,127.29	2014025.1.2	\$ 262.53	2015010.1.1	\$ (60,929.52)	ST152 SALVAGE	\$ (1,498.00)	ST152 RET UNIT 3	\$ 46,521.00
51378.1.1.1	\$ 24.27	55058.1.1	\$ 264.55	2014019.1.1	\$ (0.00)	2015010.1.1	\$ 274,587.97	55587.1.1	\$ (1,309.49)	ST151 RET CHILLER	\$ 6,076.36	55882.9	\$ (54,823.60)
55057.1.1	\$ 13,163.87	55059.1.1	\$ 109.56	2014025.1.2	\$ 64,847.95	55531.1.2	\$ 1,124.85	55694.1.1	\$ 10,434.70	ST151 SALVAGE	\$ (2,052.80)	KINTER SALVAGE	\$ (5,840.05)
55058.1.1	\$ 10,609.26	55060.1.1	\$ 98.29	55062.1.1	\$ 368.32	55532.1.2	\$ 1,124.85	55694.4.4	\$ 14,890.54	KINTER MAIN UNIT INST	\$ 50,111.80	KINTER MAIN UNIT INST	\$ 2,083,021.30
55059.1.1	\$ 7,249.49	55061.1.1	\$ 226.63	55231.1.3	\$ (3,645.00)	55533.1.2	\$ 1,124.85	55695.1.2	\$ 219,686.88	XS263-INST 800' PIPE - PAPEP	\$ 113.29	ST151 INST MOISTURE ANALYZER	\$ 461.65
55060.1.1	\$ 5,515.47	55062.1.1	\$ 125.29	55531.1.2	\$ 153,646.33	55535.1.2	\$ (502.07)	55781.1.3	\$ 51,175.78	ST151 INST MOISTURE ANALYZER	\$ 7,747.14	ST132 INST MOISTURE ANALYZER	\$ 746.67
55061.1.1	\$ 14,096.60	55063.1.1	\$ 259.74	55531.4.4	\$ 1,174.81	55541.1.1	\$ 74,214.15	55782.1.3	\$ 65,617.09	ST132 INST MOISTURE ANALYZER	\$ 3,240.67	ST152 INST UNIT 3	\$ 99,234.31
55062.1.1	\$ 7,321.59	55064.1.1	\$ 447.75	55532.1.2	\$ 172,510.13	55587.1.1	\$ 20.16	55834.1.11	\$ 8,000.00	INTANGIBLE CIAC-PAPEP	\$ 51,000.00	55916.1.3	\$ 818,074.44
55063.1.1	\$ 17,623.76	55065.1.1	\$ 272.96	55533.1.2	\$ 241,173.79	55597.1.2	\$ 102,433.69	Grand Total	\$ 307,565.98	ST152 INST UNIT 3	\$ 383,922.80	Grand Total	\$ 2,987,395.72
55064.1.1	\$ 17,018.47	55231.1.3	\$ 32,246.85	55534.1.2	\$ 0.00	55597.4.4	\$ 388.79			ST151 INST CHILLER	\$ 322,127.77		
55065.1.1	\$ 17,706.24	55364.1.2	\$ (60,629.58)	55535.1.2	\$ 41,385.92	55598.1.2	\$ 57,737.52			Grand Total	\$ 820,789.03		
55150.1.1.1	\$ 168,634.51	55375.1.2	\$ 388,109.92	55541.1.1	\$ 370,542.98	55598.4.4	\$ 1,020.00						
55151.1.1.1	\$ 166,549.67	55453.1.2	\$ 21,311.05	55557.1.1	\$ 86,996.97	55599.1.2	\$ 52,564.92						
55195.1.3	\$ 18,351.69	Grand Total	\$ 383,010.71	55587.1.1	\$ 1,289.33	55666.1.2	\$ 278,489.63						
55231.1.3	\$ 94,149.40			Grand Total	\$ 1,152,418.82	55694.1.1	\$ 1,112,035.32						
55364.1.2	\$ 60,629.58					55695.1.2	\$ 113,518.07						
55375.1.2	\$ 1,234.58					Grand Total	\$ 2,070,145.23						
5V07356482	\$ (10,104.53)												
Grand Total	\$ 610,677.98												

Finance PA PES Proj matches: Fixed Asset PA PES Project

2014016.1.1	WBS 2014016.1.1
2015010.1.1	WBS 2015010.1.1
55195.1.3	WBS 55195.1.3
55231.1.3	WBS 55231.1.3
55375.1.2	WBS 55375.1.2
55453.1.2	WBS 55453.1.2
55531.1.2	WBS 55531.1.2
55531.4.4	WBS 55531.4.4
55532.1.2	WBS 55532.1.2
55533.1.2	WBS 55533.1.2
55541.1.1	WBS 55541.1.1
55694.1.1	WBS 55694.1.1
55694.4.4	WBS 55694.4.4
55695.1.2	WBS 55695.1.2
55782.1.3	WBS 55782.1.3
55834.1.11	WBS 55834.1.11

Fixed Asset PA PES Project Only (No Finance Match)

51376-11 ST 15900 ARNOLD STATION MIST EXTRACTO
55574-ST157 RET CRANKSHAFT- PAPEP
6' OF 12" PROJ 36365.8
WBS 2013 O/H ADJ PNG.1
WBS 33421.1.3
WBS 36365.1.3
WBS 38641.1.3.1
WBS 38641.1.3.2
WBS 38641.1.3.3
WBS 38641.1.3.4
WBS 41576.1.2
WBS 51369.1.1.1
WBS 51376.1.1.1
WBS 51377.1.1.1
WBS 51407.1.1.1
WBS 55163.1.3
WBS 55574.1.3
WBS 55595.1.3
WBS 55774.1.3
WBS 55837.1.3

\$'s in:

2011
2014
2011
2014 (Overhead)
2010-2011
2011
2011
2011
2011
2011
2010-2011
2011-2012
2011
2011
2011
2011-2012
2012-2013
2014
2014-2015
2016-2017
2016-2017

Finance PA PES Project Only (No Fixed Asset Match)

51378
2014019.1.1
2014025.1.2
51378.1.1.1
55057.1.1
55058.1.1
55059.1.1
55060.1.1
55061.1.1
55062.1.1
55063.1.1
55064.1.1
55065.1.1
55150.1.1.1
55151.1.1.1
55364.1.2
55534.1.2
55535.1.2
55557.1.1
55587.1.1
55597.1.2
55597.4.4
55598.1.2
55598.4.4
55599.1.2
55666.1.2
55781.1.3
5V07356482

11 TP 7911 LAUREL RIDGE FITLER SEPARATOR
G259 INST VILLAGE CONNECT - PAPEP
HRD013 INST M&R EQUIPMENT
11 TP 7911 LAUREL RIDGE FITLER SEPARATOR
TP7625 INST ANALYZER
TP371 INST ANALYZER
TP7200 INST ANALYZER
TP598 INST ANALYZER
TP371-TP7625 INST ANALYZER
TP944 INST ANALYZER
TP7676-TP7215 INST ANALYZER
TP7625-TP7600-TP7800 INST ANALYZER
TP371-TP4555 INST MOIST ANALYZER
TP7300 INST 20" STL BLAIR
TP7300 INST 20" STL CAMBRIA
CANCELED - ST156 INST 10" VALVE
14KIS-XS353 INST VILLAGE M&R - PAPEP
XS339 ADD RUN
GP2077 INST 900' of 6" PLA
CANCEL-GP418 INST 1500' of 6" PLA
XS359 INST EQUIPMENT
XS359 R/W
XS358 INST M&R STATION
XS358 R/W
XS357 INST M&R STATION
XS362 INST M&R STATION
ST151 INST MOISTURE ANALYZER
GP1032 ESTIMATE 0 VARIOUS 11111

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-35 What, if anything, is Peoples doing to encourage or provide incentive for producers to drill new gas wells for the benefit of customers served in isolated areas where production is declining, and the customers are served from gathering lines and run the risk of losing natural gas as their energy source due to pipeline abandonment? Please describe any incentives Peoples is offering to encourage well production in these areas. Insofar as your response references any work papers, documents, emails, or any other documentation, please provide copies thereof.

Response: Refer to the proceeding and Recommended Decision in Pa PUC Order dated August 11, 2016 in Docket Nos. R-2016-2528562 and R-2016-2529260. Per this Order, the Company received approval of a price incentive mechanism that can be offered to local producers to encourage the production of local gas in specific areas where the Company may require local gas supplies for the efficient operation of its system. To date, Peoples has not utilized this mechanism because it has been able to utilize other more cost effective supply options to ensure the availability of supplies. Peoples intends to continue to explore the possible use of this price incentive when and where it may be needed.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-40 If a producer injects Pennsylvania gas directly into Peoples' transmission or distribution system and does not make use of Peoples' gathering system, why would they be charged a negotiated rate under Rate AGS or any rate at all under Rate AGS? Insofar as your response references any workpapers, documents, emails, or any other documentation, please provide copies thereof.

Response: Refer to the response to SBI-I-42 regarding local gas entering non-gathering systems. Regarding non-traditional local gas entering the distribution or transmission system, refer to Peoples Statement No. 2, page 23, lines 16 through 23 and Page 24, lines 1 through 3.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-42 Does Peoples charge the two (2) percent retainage charge on Pennsylvania gas supply that does not use Peoples' gathering system? If yes, why?

Response: Yes. Application of the producer retainage charge was approved by the PUC in Docket Nos. R-2018-2645278 and R-2018-3000236 (Peoples Natural Gas 1307(f)-2018 Proceeding).

Below is an excerpt from the PUC Order, pages 75 and 76:

Peoples has given several reasons it believes applying the proposed charge to both distribution and gathering system is more efficient than having a different application for the Rate GS tariff for the Peoples Division and a different Rate AGS tariff for Equitable. For instance, Peoples has indicated that it modelled the proposed producer charge after Equitable's Rate AGS tariff which applies both gathering fees and retainage to production entering both its distribution and gathering lines. PNG St. 1-R at 27. According to Peoples, this is to prevent the Company from having to introduce different rules depending on which company's system a well ties into. PNG St. 1-R at 27; Peoples Gas St. 1-R at 26; PNG R.B. at 15. Secondly, Peoples avers the difference between applying the charge to only a gathering system when compared to applying it to both distribution and gathering systems is so minimal that it is not worth the challenges the Company would face in proposing two different tariffs for the two divisions of the Company. PNG M.B. at 16. Peoples argue [sic] a recalculation based on the volumes from gathering system-only compared to both gathering and distribution system results in an increase from 2.0% to 2.17%, a less than 10% difference. Tr. at 56. Finally, Peoples contends the proposed Rate GS tariff also avoids the possibility of differential treatment for producers based on their point of connection to Peoples' system. PNG R. Exc. at 21-22. Here, we find the reasons given by Peoples to support its proposed retainage charge to be reasonable. We further note that PIOGA has not presented any evidence in this proceeding to demonstrate that the application of the proposed producer charge to both gathering and distribution system similar to Equitable's already-existing Rate AGS is unreasonable.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-49 Reference Peoples Statement No. 2, Page 22, Lines17-23 and Peoples Natural Gas Exhibit No. JAG – 2. Please provide the derivation of the 12.4% referred to in Rate AGS and provide all supporting documents.

Response: Refer to the attachment. The average natural gas market price in our region (DTI South Point) for the FPFTY was projected to be \$2.10 per Dth, as of January 2019. This price and projected period represents a low natural gas market price period and one where higher gathering charges could detrimentally affect local supplies into the systems. The 12.4% factor was derived from: 1) the average projected natural gas market price in our region (DTI South Point) for the FPFTY of \$2.10 per Dth; and 2) the proposed minimum gathering rate of \$0.26 per Mcf as described in response to SBI-I-7.

DTI SP App Index - January First of the Month ("FOM") Close

<u>FPFTY</u>	<u>1/2/2019</u> <u>\$/Dth</u>
Nov-19	2.188
Dec-19	2.402
Jan-20	2.566
Feb-20	2.513
Mar-20	2.350
Apr-20	2.080
May-20	1.933
Jun-20	1.927
Jul-20	1.908
Aug-20	1.914
Sep-20	1.750
Oct-20	<u>1.724</u>
Avg.	2.105
Gathering	\$ 0.260 12.4%

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-I-51 As a rate that is being set based on value of service principles, what are the costs of alternatives that are available to producers that Peoples used in determining the value of service for Rate AGS? Please list the cost of each alternative and how that was used in rate setting.

Response: The cost of alternatives for producers would include shutting in production, reworking wells to improve production, or laying new pipelines to alternative markets. The Company has not quantified the costs of these alternatives.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-II-2 Reference Peoples Statement No. 2, Page 14, Line 1.

- a. Please provide by year, beginning in 2012, the volumes of conventional local production separately for Equitable and Peoples.
- b. Can Mr. Gregorini say with certainty that none of the decline in volume on the Equitable System is related to Rate AGS?

Response:

- a. The following table lists the conventional production for the years 2012-2018. Note: The conventional production data for the Equitable division is only available for 2014-2018, since the Peoples' acquisition of the Equitable Gas utility assets.

	PNG	EGC
2012	35,805,144	N/A
2013	33,631,385	N/A
2014	28,430,737	8,466,212
2015	26,304,420	7,540,846
2016	22,104,643	6,933,048
2017	20,636,236	6,776,964
2018	21,219,208	6,183,001

- b. No.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-II-7 Reference Peoples' response to SBI-Peoples-I-7. Please provide all workpapers, contemporaneous notes, and any other documents that support the assertion that "feedback" received by Peoples from PIOGA was a basis for the minimum rate proposal of \$0.26 for Rate AGS.

Response: Peoples did not take contemporaneous notes or work papers when that discussion took place.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-II-9 Reference Peoples' response to SBI-Peoples-I-9. What are System 1 and System 2 as referenced in Peoples' response?
a. Please explain what each system is and why the rate is different for each system.

Response: System 1 refers to conventional production and System 2 refers to non-conventional production. The EGC System 2, which is non-conventional production would pay a negotiated rate under Rate AGS, whereas the other systems would pay the market based rate.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-II-17 Reference Peoples' response to SBI-Peoples-I-35. Please provide a copy of the price incentive mechanism referred to in response to SBI-Peoples-I-35.

Response: Below is the price incentive mechanism approved in Peoples' 2016 1307(f) proceeding. There is no "copy" per se.

Production incentives, in the form of higher gas purchase prices, may be offered in discrete areas of the Company's system that: (a) are experiencing declining receipts of local gas volumes, would improve service reliability with additional local gas volumes, and have no current economically viable alternative to receipts of local gas to serve customers; or (b) have limited sources of gas supply feeding the system, would improve service reliability with additional supply feeds, and have no current economically viable alternatives to such additional supply feeds in order to improve service reliability.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Russell Feingold

SBI-II-24 Reference Peoples' response to SBI-Peoples-I-48. Please explain why producers receiving service under Rate AGS should be charged for a return component for the working capital that Peoples must keep on hand to pay purchased gas costs before revenue receipt.

Response: Peoples' total gathering cost of service was derived under the presumption that the responsibility for these costs would be shared between the utility's end-use customers and gas producers. However, recognizing that gas producers do not cause Peoples to incur a working capital component to accommodate the lag associated with the timing of the payment and receipt of revenues related to purchased gas costs, the total gathering cost of service of \$26,559,887 used to establish the maximum rate under Rate AGS should be reduced by \$78,893, or 0.3%. The document entitled, SBI-II-24 Attachment 1 provides the supporting basis for this calculation.

Peoples Natural Gas Company LLC

Total Gathering Cost of Service

Revision to reflect the proper allocation of gas cost cash working capital

Cost Component	As Filed Amount	Revised Amount	Difference
Rate Base			
<i>Plant in Service</i>			
Intangible Plant	\$6,303,250	\$6,294,275	(\$8,975)
Production Plant	\$124,160,959	\$124,160,959	\$0
General Plant	\$6,003,790	\$6,003,790	(\$0)
Total Plant in Service	\$136,467,999	\$136,459,024	(\$8,975)
<i>Depreciation Reserve</i>			
Intangible Plant	\$2,977,641	\$2,973,401	(\$4,240)
Production Plant	\$53,322,074	\$53,322,074	\$0
General Plant	\$2,253,738	\$2,253,738	\$0
Total Depreciation Reserve	\$58,553,454	\$58,549,214	(\$4,240)
<i>Other Rate Base Items</i>			
Materials and Supplies	\$134,191	\$134,191	(\$0)
Prepayments	\$268,603	\$268,603	(\$0)
Cash Working Capital	\$1,474,819	\$681,837	(\$792,982)
Deferred Income Taxes	(\$8,709,824)	(\$8,709,824)	(\$0)
Total Other Rate Base Items	(\$6,832,212)	(\$7,625,194)	(\$792,982)
Total Net Rate Base	\$71,082,334	\$70,284,616	(\$797,718)
Expenses			
Natural Gas Production and Gathering	\$9,791,837	\$9,791,837	\$0
Administrative & General	\$5,231,285	\$5,231,079	(\$206)
Depreciation Expense	\$3,926,018	\$3,924,915	(\$1,103)
Taxes Other Than Income Taxes	\$697,338	\$697,338	\$0
Total Expenses	\$19,646,478	\$19,645,170	(\$1,308)
Return on Net Rate Base	\$5,685,172	\$5,621,370	(\$63,802)
Federal Income Taxes on Return	\$1,228,237	\$1,214,453	(\$13,784)
Total Gathering Cost of Service	\$26,559,887	\$26,480,994	(\$78,893)
Gathering Service Revenues			
At Present Rates (HTY)	\$15,544,187	\$15,544,187	\$0
At Proposed Rates (FPFTY)	\$8,929,271	\$8,929,271	\$0

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

SBI-II-26 Reference Peoples Statement No. 2, Page 18, Lines 19-20. Please provide a calculation of the reduction in pipeline demand costs that is enjoyed by Peoples' sales and transportation customers because of the use of local gas for the HTY, FTY, FPFTY, and the five calendar years preceding the HTY.

Response: The reduction in pipeline demand costs can be calculated by multiplying the local gas peak day supply times Peoples average demand costs for all other pipeline transportation services.

The estimated cost reduction for the HTY, FTY and FPFTY would be:

				Peoples' Average Peak Day Local Supply	Demand Cost Interstate Pipelines	Estimated Cost Reduction
	YEAR		Dth			
HTY/FTY/FPFTY^	2019		28,496	\$ 8.48	\$ 2,899,753	
	2018		34,008	\$ 8.36	\$ 3,411,683	
	2017		32,864	\$ 8.38	\$ 3,304,804	
	2016		34,008	\$ 8.38	\$ 3,419,844	
	2015*		44,187	\$ 8.38	\$ 4,443,445	
^Use 2018 as a proxy for each of the HTY, FTY and FPFTY						
*Prior to October 2015 Peoples Division and Equitable Division had separate gas cost rates.						

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

- SBI-III-3** Does Peoples bill or collect fees on behalf of any other trade association?
- a. If the response is "no," then why is Peoples collecting fees for PIOGA?
 - b. Does PIOGA pay for this service, or is Peoples receiving compensation in some other form from PIOGA for this service?
 - c. If the response is "yes," then what is Peoples' compensation for this service?

Response: No.

- a. Under the current program, Peoples collects its PA PES fees and a \$0.01/Mcf fee (on behalf of PIOGA) directly from producers that sell gas to Peoples. It does this by netting those fees against the amounts that Peoples pays for gas purchases from those same producers. Peoples already has in place an invoice process with these producers so assessing PA PES fees in this manner creates no additional administrative responsibilities.
- b. No.
- c. N/A.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

- SBI-III-10** Reference Peoples' response to SBI-Peoples-II-17.
- a. For the 1.115 Bcf coming into the transmission and distribution system for the Peoples Division for the HTY, please provide a breakdown as follows: transmission-conventional, transmission-non-conventional, distribution-conventional, distribution-non-conventional.
 - b. Please provide the same breakdown described in part (a) for the 6.045 Bcf of gas coming into the Equitable Division system for the HTY.

Response:

- a. For the Peoples Division, 789,453 Mcf out of the 1.115 Bcf is from non-conventional production of which 1,838 Mcf came into a transmission line and 787,615 came into a distribution line. The conventional volumes are not routinely aggregated between production entering the transmission lines versus distribution lines so that breakout is not readily available. However, Peoples estimates 238,736 Mcf came into a transmission line and 87,181 Mcf came into a distribution line.
- b. For the Equitable Division, our original response to SBI-II-17 inadvertently omitted a couple production meters therefore the correct amount is 6.577 Bcf of which all is non-conventional and enters a distribution system.



September 29, 2015

Re: IOGA-PA / Peoples Production Enhancement Service Agreement

Dear Producer:

Peoples Natural Gas Company and the Independent Oil & Gas Association of Pennsylvania have entered into an agreement effective April 2016, to extend the existing Production Enhancement Service Agreement (PES) that is set to expire and would eliminate certain benefits and services fees associated with the existing interstate pipeline agreement.

The PES program has been in effect since the mid 2000's with two major goals of the program; enhance deliverability of PA production and to integrate services to economize the cost of meeting the water vapor requirements for pipeline quality natural gas. Enhancements made to the systems include installing compressor stations and pipeline interconnects, upgrading and installing pipelines, strategically located water dehydration system to bring the production into compliance with pipeline quality gas. We believe all parties have benefited from this agreement and believe it is in the best interest of all to extend the agreement.

During the term of the extended PES agreement each producer will continue to receive the benefits of the PES program, however the parties have agreed to eliminate the off-system pipeline capacity fee (currently \$0.1659/MCF billed each month as part of PES) and the current gas retainage charge for off-system deliveries resulting in annual producer cost savings of \$6,000,000. The services that will continue to include:

1. Continued operation and maintenance of existing utility compression
2. Negotiated water vapor standard
3. Access to Equitrans AVC capacity
4. Peoples/IOGA-PA gathering investment of \$1,500,000 annually to enhance the deliverability of PA production on the Peoples system through new interconnections with the Equitable and Peoples TWP systems

The details of the new fees, and the other provisions of the agreement, are included in the attached "Amendment to Production Enhancement Service Agreement".

The effective date of the agreement is the beginning of Peoples' April 2016 production period. Peoples must have 80% participation by volume in the program or the new agreement with IOGA-PA will be terminated. Therefore, your timely attention and execution of the attached documents is critical to the implementation of this agreement.

In order to implement the terms of the agreement for the April 2016 production period, the enclosed Amendments to Production Enhancement Agreement must be returned to Peoples at the following address by November 1, 2015:

Leslie Tafel Peoples Natural Gas Company 225 North Shore Drive, Pittsburgh, PA 15212

Both parties plan to renegotiate the fees on Exhibit B when Peoples is eligible to file a new rate case with the Pennsylvania Public Utility Commission. The effective date of those new rates cannot occur prior to January 1, 2018.

Sincerely,

Jeffrey S. Nehr

Jeffrey S. Nehr
Vice President, Gas Supply and Business Development
Peoples Natural Gas

Lou D. D'Amico
President and Executive Director
Pennsylvania Oil and Gas Association

Supplement No. 98
Gas—PA PUC No. 45

PEOPLES NATURAL GAS COMPANY LLC

RATES AND RULES GOVERNING THE FURNISHING OF NATURAL GAS SERVICE TO RETAIL GAS CUSTOMERS

Quarterly 1307(f) Gas Cost,
Rider E, Merchant Function Charge,
Rider F, Universal Service Charge
Filing

ISSUED: December 31, 2018
BY: Morgan K. O'Brien
President
375 North Shore Drive
Pittsburgh, PA 15212

EFFECTIVE: January 1, 2019

NOTICE

This tariff makes changes to existing rates.
(See page 2)

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. 98 TO GAS-PA PUC NO. 45
 EIGHTY-NINTH REVISED PAGE NO. 2
 CANCELLING EIGHTY- EIGHTH REVISED PAGE NO. 2

LIST OF CHANGES

	<u>Current</u>	<u>Proposed</u>	<u>Increase/ (Decrease)</u>
Rider B			
<u>Rate RS, SGS, MGS, LGS, NGPV</u>			
Capacity Charge	\$1.0398	\$0.9953	(\$0.0445)
Gas Cost Adjustment Charge	(\$0.0418)	(\$0.0372)	\$0.0046
Natural Gas Supply Charge	\$2.9474	\$3.8865	\$0.9391
<u>Rider E - Merchant Function Charge</u>			
RS	\$0.1024	\$0.1257	\$0.0233
SGS,MGS,LGS	\$0.0261	\$0.0321	\$0.0060
Rider F- Universal Service Charge	\$0.4961	\$0.5479	\$0.0518

ISSUED: December 31, 2018

EFFECTIVE: January 1, 2019

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. 95 TO GAS—PA PUC NO. 45
SECOND REVISED PAGE NO. 57
CANCELLING FIRST REVISED PAGE NO. 57

RATE GS – GATHERING SERVICE
(C)

AVAILABILITY

Service under this rate schedule is available to any party desiring to deliver conventional well gas directly into the Company's system, provided that there exists: (1) a gas purchase agreement with the Company or an executed Rate GS Service Agreement; and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATES

All volumes of gas received at any point under this service will be subject to a 2.0% retainage rate.

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

CHARACTER OF SERVICE

The Company's only obligation under this Rate Schedule shall be to receive gas from any conventional well and to permit that gas to flow against the existing pressure in the Company's facilities. The Company shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 22 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit the Company's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

(C) Indicates Change.

ISSUED: September 28, 2018

EFFECTIVE: October 1, 2018

Appendix C – Equitable Tariff No. 46 – effective January 1, 2019

SUPPLEMENT NO. 67
TO

GAS - PA. P.U.C. NO. 46

Peoples Natural Gas Company LLC
EQUITABLE Division

RATES and RULES

FOR

GAS SERVICE IN

CITY OF PITTSBURGH

AND TERRITORY ADJACENT THERETO

(For Lists of Communities Served, see Page No. 4)

Quarterly 1307(f) Gas Cost,
Rider F, Merchant Function Charge,
Rider D, Universal Service Charge
Filing

ISSUED: December 31, 2018

EFFECTIVE: January 1, 2019

By: Morgan K. O'Brien
President
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212

NOTICE

This tariff makes changes to existing rates.
(See page 2)

Appendix C – Equitable Tariff No. 46 – effective January 1, 2019

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. 66
TO GAS - PA. P.U.C. NO. 46
SIXTIETH REVISED PAGE NO. 2
CANCELING FIFTY-NINTH REVISED PAGE NO. 2

LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

	<u>Current</u>	<u>Proposed</u>	<u>Increase</u> <u>(Decrease)</u>
Rate RS			
Natural Gas Supply Charge	\$ 3.9872	\$ 4.8818	\$ 0.8946
Natural Gas Delivery Charge	\$ 3.1269	\$ 3.1315	\$ 0.0046
Rate GSS			
Natural Gas Supply Charge	\$ 3.9872	\$ 4.8818	\$ 0.8946
Natural Gas Delivery Charge	\$ 2.5492	\$ 2.5538	\$ 0.0046
Rate GSL			
Natural Gas Supply Charge	\$ 3.9872	\$ 4.8818	\$ 0.8946
Natural Gas Delivery Charge	\$ 2.4532	\$ 2.4578	\$ 0.0046
Rate FDS			
Capacity and Balancing Charge	\$ 1.0398	\$ 0.9953	\$ (0.0445)
Rider A - Purchased Gas Cost			
Current PGC	\$ 3.9454	\$ 4.8446	\$ 0.8992
C factor	\$ 3.9872	\$ 4.8818	\$ 0.8946
E factor	\$ (0.0418)	\$ (0.0372)	\$ 0.0046
Rider F - Merchant Function Charge			
Rate RS	\$ 0.1024	\$ 0.1257	\$ 0.0233
Rate GSS and Rate GSL	\$ 0.0261	\$ 0.0321	\$ 0.0060
Rider D - Universal Service			
	\$ 0.2246	\$ 0.2904	\$ 0.0658

Appendix C – Equitable Tariff No. 46 – effective January 1, 2019

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. 64
 TO GAS - PA. P.U.C. NO. 46
 FIRST REVISED PAGE NO. 82
 CANCELLING ORIGINAL PAGE NO. 82

RATE AGS - APPALACHIAN GATHERING SERVICE

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company.

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system as well as to deliver gas directly into the Company's distribution system, provided that there exists: (1) a gas purchase agreement with the Company or an executed Rate AGS Service Agreement; and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATES

All volumes of gas received at any point under this service will be subject to a gathering rate (billed in dekatherms) and a retainage rate with a minimum of 2%. All rates for this service shall be determined by negotiation. (C)

SURCHARGES AND RIDERS

Customers served under this rate schedule are subject to Rider E Distribution System Improvement Charge (DSIC) except that the DSIC rate may be reduced or eliminated for any customer with competitive alternatives or negotiated contracts.

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

CHARACTER OF SERVICE

Equitable's only obligation under this Rate Schedule shall be to receive gas from any Appalachian receipt point and to permit that gas to flow against the existing pressure in Equitable's facilities. Equitable shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 11.13 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit Equitable's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

(C)Indicates Change

**Original Tariff Gas—PA PUC No. 47
Cancels and Supersedes Tariff Gas – PA PUC No. 45 and 46**

PEOPLES NATURAL GAS COMPANY LLC

RATES AND RULES GOVERNING THE FURNISHING OF NATURAL GAS SERVICE TO RETAIL GAS CUSTOMERS

ISSUED: January 28, 2019
BY: Morgan K. O'Brien
President
375 North Shore Drive
Pittsburgh, PA 15212

EFFECTIVE: March 29, 2019

NOTICE

This tariff combines Tariff Gas – PA PUC No. 45 for the Peoples Division and Tariff Gas – PA PUC No. 46 for the Equitable Division. Upon approval of this Tariff Gas – PA PUC No. 47, all Peoples Natural Gas customers (including the former Peoples and Equitable Divisions) will be subject to the rates and rules set forth herein.

This tariff makes changes to existing rates.
(See page 2)

PEOPLES NATURAL GAS COMPANY LLC

GAS—PA PUC NO. 47
ORIGINAL PAGE NO. 2**LIST OF CHANGES**

Page	Page Description	Revision Description
2, 2A, 2B	List of Changes	List of Changes
3, 4	Summary of Rates	Summary of prices for each rate schedule and rider updated.
3A, 4A	Summary of Rates	Pages removed; no longer needed.
5	Table of Contents	“Ratepayer” changed to “Customer”. Rate GL added from Equitable Division tariff. Rider names updated.
6	Definitions of Terms	Applicant definition updated. “Ratepayer” changed to “Customer”. “Customer” definition added.
7	Definitions of Terms	“Ratepayer” changed to “Customer”. “Ratepayer” definition removed.
8	Classification of Customers	“Ratepayer” changed to “Customer”. Definition of residential, commercial, and industrial customer modified.
9	Classification of Customers	“Ratepayer” changed to “Customer”.
10	Rates Available Under This Tariff	“Ratepayer” changed to “Customer”. Rate GL added from Equitable tariff.
11	Description of Territory	Additional cities/boroughs and townships included.
12	Description of Territory	Additional boroughs and townships included.
14	Description of Territory	Additional boroughs and townships included.
15	Description of Territory	Additional townships included.
16	Description of Territory	Additional cities/boroughs and townships included.
16A	Description of Territory	Additional townships included.
17	Rules and Regulations	Additional language added for conditions of furnishing service to customers. “Ratepayer” changed to “Customer”. Transfer fees and connect fees eliminated.
18	Rules and Regulations	Moved cash deposit language into part b. “Ratepayer” changed to “Customer”.
19	Rules and Regulations	“Ratepayer” changed to “Customer”. Calculation of interest rate for commercial and industrial deposits modified to match residential calculation. Additional descriptive language added for cases where Applicant cannot furnish a cash deposit.
20	Rules and Regulations	Modified language for connection of service. Meter installation specifications from Equitable tariff included. Residential main allowance added.
20A	Rules and Regulations	New Page Added
21	Rules and Regulations	“Ratepayer” changed to “Customer”. Turn-on fees updated. Winterizing and collection language added.
22	Rules and Regulations	Non-liability language added. “Ratepayer” changed to “Customer”. Measurement of gas language modified.
23	Rules and Regulations	“Ratepayer” changed to “Customer”. Accepted forms of payment added. Billing cycle language added.
24	Rules and Regulations	Billing cycle language added. Final bill language added. Dishonored Payment language from Equitable Division tariff added.
25	Rules and Regulations	“Ratepayer” changed to “Customer”. Obstruction of meter language added. Meter ownership language added.
26	Rules and Regulations	Rule 15 moved to page 26. Renamed Section 17 “Emergency Curtailment”. Language added to Section 16. “Ratepayer” changed to “Customer”. Moved “Discontinuance of Service and Curtailment” section to page 27.
27	Rules and Regulations	Renamed Section 17 “Emergency Curtailment”. Removed “Gas Shortage Curtailment Related to Long-Term Supplies” section. Old language from Page 29 moved here.
28	Rules and Regulations	Deleted old Section 17 language. Moved appendix to this page.

ISSUED: January 28, 2019

EFFECTIVE: March 29, 2019

PEOPLES NATURAL GAS COMPANY LLC

GAS—PA PUC NO. 47
ORIGINAL PAGE NO. 2A**LIST OF CHANGES (CONTINUED)**

29	Rules and Regulations	Rules and Regulations renumbered. Section 18 Priority of Service Curtailment moved from Section 17. Service Agreement and Flexible Rates added. "Ratepayer" changed to "Customer".
30	Rules and Regulations	"Ratepayer" changed to "Customer".
31	Rules and Regulations	"Ratepayer" changed to "Customer".
32	Rules and Regulations	"Ratepayer" changed to "Customer". Rules and Regulations renumbered.
33	Rules and Regulations	"Ratepayer" changed to "Customer". Additional release of customer information language and contact information added. Rules and Regulations renumbered.
35	Rules and Regulations	Language added from supplier tariff. Various fees eliminated. Remaining fee amounts updated. Rules and Regulations renumbered.
36	Rate RS – Residential Service	"Ratepayer" changed to "Customer". Customer and delivery charges updated. Late payment charge language modified. Rider name updated.
37	Customer Assistance Program	Availability description updated. "Ratepayer" changed to "Customer".
38	Customer Assistance Program	Monthly payment amount updated. "Ratepayer" changed to "Customer".
39	Customer Assistance Program	"Ratepayer" changed to "Customer". Rules 7 and 8 modified.
39A	Pilot Extended Customer Assistance Program	"Ratepayer" changed to "Customer".
40	Rate SGS – Small General Service	"Ratepayer" changed to "Customer". Customer and delivery charges updated. Rider name updated.
41	Rate SGS – Small General Service	"Ratepayer" changed to "Customer".
42	Rate MGS – Medium General Service	"Ratepayer" changed to "Customer". Customer and delivery charges updated. Rider name updated.
43	Rate MGS – Medium General Service	"Ratepayer" changed to "Customer".
44	Rate LGS – Large General Service	"Ratepayer" changed to "Customer". Customer and delivery charges updated. Rider name updated.
45	Rate LGS – Large General Service	"Ratepayer" changed to "Customer".
46	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer". Language added to rule (7).
47	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer".
48	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer".
49	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer". Language added to rule (17).
50	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer". Customer charges updated.
51	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer". Delivery charges updated.
51A	Rate GS-T – General Service Transportation	Late payment charge moved to this page.
52	Rate GS-T – General Service Transportation	"Ratepayer" changed to "Customer". Liability point 3 updated.

PEOPLES NATURAL GAS COMPANY LLC

GAS—PA PUC NO. 47
ORIGINAL PAGE NO. 2B**LIST OF CHANGES (CONTINUED)**

53	Rate GS-SB – General Service – Standby	“Ratepayer” changed to “Customer”.
54	Rate GS-SB – General Service – Standby	“Ratepayer” changed to “Customer”. Customer charges updated.
55	Rate GS-SB – General Service – Standby	Language moved to page 54. Page now intentionally left blank.
57	Rate Appalachian Gathering Service	New rate added.
58	Rate GL – Gas Lights	Rate added from Equitable Division’s tariff.
60	Rate CER – Competitive Energy Rate	Rate language modified. “Ratepayer” changed to “Customer”.
61	Rider A – State Tax Surcharge	Rider renamed. Rate Revised.
62	Rider B – Recovery of Purchased Gas Costs	Rider renamed. “Ratepayer” changed to “Customer”.
63	Rider B – Recovery of Purchased Gas Costs	Rider renamed. “Ratepayer” changed to “Customer”.
63A	Rider B – AVC Capacity Charge	Rider renamed. “Ratepayer” changed to “Customer”.
63B	Rider B – AVC Capacity Charge	Rider renamed. “Ratepayer” changed to “Customer”.
64	Rider C – Transition Cost Mechanism	Rider renamed. “Ratepayer” changed to “Customer”.
65	Rider C – Transition Cost Mechanism	Rider renamed. “Ratepayer” changed to “Customer”.
66	Rider Supplier Choice	Rate Revised. “Ratepayer” changed to “Customer”.
67	Rider E – Merchant Function Charge	Rider renamed. Rate Revised. “Ratepayer” changed to “Customer”.
68	Rider F- Universal Service	Rider renamed. Rate revised. “Ratepayer” changed to “Customer”. Bad debt offset percentage updated.
69	Rider G – Gas Procurement Charge	Rider renamed. Rate revised. “Ratepayer” changed to “Customer”.
71	Rider H – Ratepayer Trust Rate Credit	Rider eliminated.
72	Rider H – Ratepayer Trust Rate Credit	Rider eliminated.
73	Rider J – Rager Mountain Storage Credit	Rider eliminated.
74	Rider K – Distribution System Improvement Charge (DSIC)	Rider renamed. Rate revised.
75	Rider K – Distribution System Improvement Charge (DSIC)	Riders renamed.
76	Rider K – Distribution System Improvement Charge (DSIC)	Rider renamed.

PEOPLES NATURAL GAS COMPANY LLC

GAS—PA PUC NO. 47
ORIGINAL PAGE NO. 57

RATE APPALACHIAN GATHERING SERVICE

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system, as well as to deliver gas directly into the Company's distribution and transmission system, provided that:

- (1) a Master Interconnect and Measurement Agreement ("MIMA") has been executed between the Company and the party; and
- (2) the party is in compliance the MIMA, the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATES

The gathering rate (\$/Mcf) will be set on a monthly basis in an amount equal to 12.4% of the beginning of the month price (\$Dth) published in Platts, Gas Daily publication, under the heading Appalachia, Dominion, South Point, but in no event shall be less than \$0.26 per Mcf, plus applicable retainage. The gathering rate shall not exceed the fully allocated cost of service associated with gathering system, as determined in the most recent base rate case proceeding.

Gathering of natural gas from unconventional sources, including but not limited to, horizontally drilled Marcellus and Utica shale gas and landfill gas, shall be negotiated and agreed to within the MIMA.

TERM

The terms for gathering service shall be a set forth in the MIMA.

CHARACTER OF SERVICE

The Company's only obligation under this Rate Schedule shall be to receive gas from any gathering receipt point and to permit that gas to flow against the existing pressure in the Company's facilities. Peoples shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Item 24 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit the Company's right to interrupt service or to take other action as may be required to alleviate conditions, which threaten the integrity of its system.

Revised

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Joseph Gregorini

- SBI-II-28** Are producers who deliver gas into the Equitable Division gathering system getting a rate reduction under proposed Rate AGS?
- a. If the response is "yes," then please list separately for the Peoples Division and the Equitable Division the number of producers that are getting a rate reduction, the associated volumes, and the average rate at present rates and at proposed rates.
 - b. Please list the number of producers and associated volumes that are getting a rate increase for each the Peoples Division and the Equitable Division separately and the average rate at present rates and proposed rates.

Response:

a.	Division	No. of	HTY 12- month Mcf	Current Straight Avg Rate	Proposed Avg Rate
		Producers Rate Reduction			
	Peoples	151	19,099,995	\$0.31	\$0.26
	Equitable	108	10,385,183	\$0.67	\$0.26
	Peoples AVC Direct	11	7,646,372	\$0.16	N/A

b.	Division	No. of	HTY 12- month Mcf	Current Straight Avg Rate	Proposed Avg Rate
		Producers Rate Increase			
	Peoples	30	3,126,218	\$0.10	\$0.26
	Equitable	9	36,334	\$0.00	\$0.26

*Proposed rate is an index rate with a minimum of \$.26 /Mcf. Peoples AVC Direct production is gas being delivered from an interstate pipeline to Peoples' system therefore charging a rate to "gather" supplies is not applicable after implantation of Rate AGS on Peoples Division.

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held September 20, 2018

Commissioners Present:

Gladys M. Brown, Chairman
Andrew G. Place, Vice Chairman, Statement
Norman J. Kennard
David W. Sweet
John F. Coleman, Jr.

Pennsylvania Public Utility Commission
Office of Small Business Advocate
Office of Consumer Advocate

R-2018-2645278
C-2018-3000494
C-2018-3000567

v.

Peoples Natural Gas Company, LLC –
Peoples Division

Pennsylvania Public Utility Commission
Office of Small Business Advocate
Office of Consumer Advocate

R-2018-3000236
C-2018-3000496
C-2018-3000573

v.

Peoples Natural Gas Company, LLC –
Equitable Division

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the Joint Petition for Partial Settlement (Joint Petition or Partial Settlement) filed on June 22, 2018, by the Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), and Peoples Natural Gas Company LLC (Peoples, PNG or the Company) acting on behalf of its Peoples Division (Peoples Division) and its Equitable Division (Equitable)¹ (collectively, the Joint Petitioners) with regard to the Company’s annual adjustment and reconciliation of its natural gas cost recovery rates that was filed pursuant to Section 1307(f) of the Public Utility Code (Code), 66 Pa. C.S. § 1307, to become effective October 1, 2018.² Also, before the Commission for consideration and disposition are the Exceptions of the Pennsylvania Independent Oil & Gas Association (PIOGA) filed on August 2, 2018,³ to the Recommended Decision (R.D.) of Administrative Law Judge (ALJ) Jeffrey A. Watson, which was issued on July 25, 2018, in the above-captioned proceeding. Replies to Exceptions were filed by the OCA, the OSBA and the Company on August 8, 2018. In addition, on August 17, 2018, PIOGA filed a Motion to Strike certain statements of fact it alleges Peoples made for the first time in these proceedings in its Replies to Exceptions (Motion to Strike). On

¹ Throughout this document, Peoples Division, Equitable and Peoples Gas will be collectively referred to as “the Peoples Companies” or “the Companies.”

² PIOGA and Direct Energy have indicated that although they are not a party to the Partial Settlement, they do not oppose the Partial Settlement. PIOGA notes that it does object to the Proposed Findings of Fact, and Standards, Findings and Proposed Conclusions of Law contained in the Partial Settlement to the extent that they are inconsistent with or conflict with PIOGA’s positions on the contested producer retainage issues.

³ By Secretarial Letter dated July 25, 2018, deadlines for filing Exceptions and Reply Exceptions were shortened. Thereafter, the deadlines were extended by agreement of the Parties and the Commission’s Office of Special Assistants to August 2, 2018, and August 8, 2018, respectively.

August 27, 2018, Peoples filed an Answer to the Motion to Strike (Answer). For the reasons stated, *infra*, we shall deny the Motion to Strike and deny the Exceptions, in part, and grant them, in part, consistent with the discussion contained in the body of this Opinion and Order. Specifically, to the extent that PIOGA is requesting that Peoples file a tariff supplement for its Equitable Division reflecting the 2.0% minimum retainage charge for gas delivered into Peoples' system, we shall grant PIOGA's Exception No. 7. Further, we shall adopt the ALJs' Recommended Decision that grants the Joint Petition to approve the Partial Settlement without modification and modify the ALJ's Recommended Decision in accordance with our disposition of PIOGA's Exception No. 7, *infra*.

I. Background

Peoples' filing in this case was made pursuant to Section 1307 of the Public Utility Code (Code), 66 Pa. C.S. § 1307. This is an annual filing made by all large natural gas distribution companies (NGDCs) that provides for the Company's annual adjustment and reconciliation of its natural gas cost recovery rates. More specifically, Section 1307(f) governs the recovery of natural gas costs and permits NGDCs with gross intrastate annual operating revenues in excess of \$40,000,000 to file tariffs reflecting actual and projected increases or decreases in their natural gas costs, to become effective six months from the date of filing. 66 Pa. C.S. § 1307(f)(1). In this case, Peoples filed a tariff supplement in which it proposed, *inter alia*, a decrease of \$0.16/Mcf in its rates for recovery of purchased gas costs (PGC) applicable to residential sales service customers for both the Peoples and Equitable Divisions for service rendered on and after October 1, 2018. In addition, the Company proposed PGC rate changes for other customer classes as follows:

<u>Peoples Division Rate Schedule</u>	<u>Existing Tariff Rates⁴</u> (\$/Mcf)	<u>As-Filed Gas Cost Change</u> (\$/Mcf)	<u>Percent Change</u>
RS	\$8.6347	(\$0.1637)	-1.9%
Commercial SGS	\$7.1054	(\$0.1454)	-2.0%
Industrial SGS	\$6.6540	(\$0.1454)	-2.2%
Commercial MGS	\$6.9272	\$0.0291	0.4%
Industrial MGS	\$6.2307	\$0.0290	0.5%
Commercial LGS	\$6.8369	\$0.3294	4.8%
Industrial LGS	\$6.1718	\$0.3295	5.3%

Partial Settlement at ¶ 37.

<u>Equitable Division Rate Schedule</u>	<u>Existing Tariff Rates⁵</u> (\$/Mcf)	<u>As-Filed Gas Cost Change</u> (\$/Mcf)	<u>Percent Change</u>
RS	\$8.5085	(\$0.1642)	-1.9%
GSS	\$7.3684	(\$0.1456)	-2.0%
GSL	\$7.0989	\$0.0289	0.4%
GSL >25,000 Mcf/yr	\$6.7985	\$0.3293	4.8%

Partial Settlement at ¶ 37.

⁴ Peoples Division net billing rate effective January 1, 2018.

⁵ Peoples – Equitable Division net billing rate effective January 1, 2018.

II. History of the Proceeding

On March 2, 2018, Peoples submitted its pre-filing information in support of its annual PGC filing to the Commission pursuant to 52 Pa. Code §§ 53.64 and 53.65.

I&E entered a Notice of Appearance on March 9, 2018. On March 15, 2018, the OCA filed a Notice of Appearance, Public Statement, and Formal Complaint at Docket Nos. C-2018-3000494 and C-2018-3000496. On March 20, 2018, the OSBA filed a Notice of Appearance, Public Statement, and Formal Complaint at Docket Nos. C-2018-3000567 and C-2018-3000573. Also, on April 2, 2018, PIOGA filed a Petition to Intervene.

On April 2, 2018, Peoples filed with the Commission its definitive PGC filing, including supporting information required by the Commission Regulations, Peoples' Direct Testimony, Exhibits, and Pro Forma Tariff Supplement reflecting actual and projected changes in natural gas costs and other tariff changes.

On April 5, 2018, a Prehearing Conference was held as scheduled. Counsel for the Peoples Division and Equitable, the OCA, the OSBA, I&E and PIOGA attended the conference. PIOGA's Petition to Intervene was granted at the Prehearing Conference.

On April 6, 2018, the ALJ issued a Prehearing Order, establishing the litigation schedule, granting PIOGA's Petition to Intervene, and consolidating the Formal Complaints of the OCA and the OSBA with this Section 1307(f) rate proceeding. In addition, the ALJ consolidated the PGC proceedings for both Divisions of the Company at Docket Nos. R-2018-2645278 and R-2018-3000236 with the Peoples Gas Company (Peoples Gas) proceeding at Docket No. R-2018-2645296 for purposes of hearing.

On April 30, 2018, Direct Energy Services, LLC (Direct Energy) filed a Petition to Intervene, and on May 9, 2018, ALJ Watson issued an Interim Order granting Direct Energy's Petition.

As a result of settlement discussions, the Joint Petitioners were successful at resolving all but one issue in this proceeding prior to the scheduled evidentiary hearings. The issue reserved for litigation is Peoples' proposal to charge producers a retainage rate of 2.0% to contribute toward the costs associated with unaccounted for gas (UFG), sometimes referred to as lost and unaccounted for gas (LUFGE), on the Company's gathering system.

An evidentiary hearing was held on June 4, 2018, at which time the Joint Petitioners' pre-filed testimony and exhibits were admitted into the record, and certain witnesses were cross-examined with respect to the issue reserved for litigation. During cross-examination of Company witness Lynda W. Petrichevich, PIOGA made an "On the Record Data Request," and on June 14, 2018, the Company filed its response.

On June 19, 2018, Main Briefs were filed by Peoples, the OCA, and the OSBA. PIOGA filed its Main Brief on June 20, 2018. Also, on June 20, 2018, PIOGA's late filed cross-examination Exhibit No. 4, which consisted of Peoples' answer to PIOGA's On the Record Data Request, was admitted by interim order.

On June 22, 2018, the Joint Petition was filed by the Joint Petitioners. The Joint Petitioners' Statements in Support of the Partial Settlement were attached to the Joint Petition as appendices. The non-signatory parties, PIOGA and Direct Energy, did not oppose the Joint Petition.

On June 26, 2018, Reply Briefs were filed by the OCA and Peoples, and PIOGA filed its Reply Brief on June 27, 2018.

On July 17, 2018, the ALJ issued an order, admitting the Joint Petition into the record along with the attached appendices, and closing the record. In a Recommended Decision issued on July 25, 2018, ALJ Watson recommended approval of the Joint Petition, without modification, and Peoples' request to apply additional retainage charges to producers to recover gathering system unaccounted for gas. R.D. at 1, 5, 41, 47, 49-50, 87-90 and 96-97.

As noted, Exceptions were filed by PIOGA on August 2, 2018. Replies to Exceptions were filed by Peoples, the OCA and the OSBA on August 8, 2018. In addition, a Motion to Strike was filed by PIOGA on August 17, 2018. Peoples filed an Answer on August 27, 2018.

III. Introduction

As a preliminary matter, we note that any issue that we do not specifically delineate shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); also see, generally, *University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

In his Recommended Decision, the ALJ made eighty-eight Findings of Fact and reached twenty-seven Conclusions of Law. R.D. at 5-21, 90-95. The Findings of Fact and Conclusions of Law are incorporated herein by reference and are adopted without comment unless they are either expressly or by necessary implication rejected or modified by the Opinion and Order.

A. Burden of Proof

Section 315(a) of the Code provides:

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

66 Pa. C.S. § 315(a). A public utility has the burden of proof to show that a proposed rate is “just and reasonable” and the evidence produced by a utility in meeting its burden must be substantial. *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505 (Pa. Cmwlth. 1980), and *Brockway Glass v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). In this instance, Peoples has the burden of proof in this proceeding to establish that it is entitled to the relief it is seeking with regard to the rates and modifications included in its filing.

B. Least Cost Fuel Procurement Policy

As discussed, *supra*, Section 1307(f) of the Code governs recovery of natural gas costs and allows NGDCs with gross intrastate annual operating revenues in excess of \$40,000,000 to file tariffs reflecting actual and projected increases or decreases in their natural gas costs, with the tariffs becoming effective six months from the date of filing. 66 Pa. C.S. § 1307(f)(1). Section 1307 further provides that the Commission, after a hearing, shall determine the portion of the Company’s natural gas distribution costs in the previous twelve-month period that meet the standards set out in Section 1318 of the Code. 66 Pa. C.S. § 1307(f)(5). Section 1318 provides that no rates for a natural gas distribution utility shall be deemed just and reasonable unless the Commission finds that the utility is pursuing a least cost fuel procurement policy, consistent with the

utility's obligation to provide safe, adequate and reliable service to its customers. 66 Pa. C.S. § 1308(a).

In determining whether Peoples is pursuing a least cost fuel procurement policy under Section 1318 of the Code, specific findings must be made as follows:

(1) The utility has fully and vigorously represented its ratepayers' interests before the Federal Energy Regulatory Commission.

(2) The utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of the utility's ratepayers.

(3) The utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies.

(4) The utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

66 Pa. C.S. § 1318(a)(1)-(4).

Peoples does not purchase gas, transportation or storage from an affiliated interest, as defined at 66 Pa. C.S. § 2101. However, the Company is a party to a number of affiliated interest, natural gas exchange agreements. *See* PGC 30-day Pre-filing at 134. With respect to purchases from affiliates, the Commission is required to make the following specific findings:

(1) That the utility has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests.

(2) That each contract for the purchase of gas from an affiliated interest is consistent with a least cost fuel procurement policy.

(3) That neither the utility nor its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

66 Pa. C.S. § 1318(b)(1)-(3).

Section 1317 of the Code, 66 Pa. C.S. § 1317, requires the submission of certain information to enable the Commission to make a least cost fuel procurement finding. The Commission has promulgated regulations pursuant to the statutes that include extensive filing requirements that also govern such filings. *See*, 52 Pa. Code §§ 53.64 (filing requirements for natural gas distributors with gross intrastate annual operating revenues in excess of \$40 million) and 53.65 (special provisions relating to natural gas distributors with gross intrastate annual operating revenues in excess of \$40 million with affiliated interests). The ALJ concluded that Peoples complied with these requirements. R.D. at 13.

C. Settlements

The policy of the Commission is to encourage settlements, and the Commission has stated that settlement rates are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code §§ 5.231, 69.401. A full settlement of all the issues in a proceeding eliminates the time, effort and expense that otherwise would have been used in litigating the proceeding, while a partial settlement may significantly reduce the time, effort and expense of litigating a case. A settlement,

whether whole or partial, benefits not only the named parties directly, but, indirectly, all customers of the public utility involved in the case.

Regulatory proceedings are expensive to litigate, and the reasonable cost of such litigation is an operating expense recovered in the rates approved by the Commission. Partial or full settlements allow the parties to avoid the substantial costs of preparing and serving testimony and the cross-examination of witnesses in lengthy hearings, the preparation and service of briefs, reply briefs, exceptions and replies to exceptions, together with the briefs and reply briefs necessitated by any appeal of the Commission's decision, yielding significant expense savings for the company's customers. For this and other sound reasons, settlements are encouraged by long-standing Commission policy.

Despite the policy favoring settlements, the Commission does not simply rubber stamp settlements without further inquiry. In order to accept a settlement such as that proposed here, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. PUC v. C. S. Water and Sewer Assoc.*, 74 Pa. P.U.C. 767 (1991).

In this case, the Joint Petitioners have reached an accord on many of the issues and claims that arose in this proceeding and submitted the Partial Settlement. The Joint Petitioners have the burden to prove that the Partial Settlement is in the public interest.

IV. The Joint Petition for Partial Settlement

A. Least Cost Fuel Procurement Policy

As discussed, *supra*, in determining whether Peoples is pursuing a least cost fuel procurement policy, the Commission must make specific findings set forth in Sections 1318(a) and (b) of the Code. The Joint Petitioners requested that the Commission make specific findings of fact in that regard that are set forth in Paragraphs 38 through 66 of the Joint Petition and which the ALJ has adopted and included in the Recommended Decision as Findings of Fact Nos. 1 through 88. Joint Petition at 9-18; R.D. at 5-21. In addition, the Joint Petitioners requested that the Commission find, based on the evidence presented by the Parties, that: (1) Peoples' gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended January 31, 2018; and (2) Peoples' projected purchases and purchasing policies during the eight-month interim period beginning February 1, 2018, and the projected twelve-month period beginning October 1, 2018 (the period of time the proposed rates would be in effect), meet the standards set forth in Sections 1318(a) and (b).⁶ Joint Petition at 18-20. The ALJ found that Peoples is pursuing a least-cost fuel procurement policy pursuant to Section 1318 in his Conclusions of Law Nos. 2 through 9. R.D. at 90-92. Notwithstanding our disposition of the one outstanding issue in this proceeding, *infra*, based on our review of the record and the terms of the Joint Petition, *infra*, we find that Peoples has met the terms of Section 1318 of the Code.

⁶ It is noted in the Joint Petition that, regarding the eight-month interim period and the twelve-month projected period, it is expressly understood and agreed that this finding is made solely for the purpose of setting prospective rates that shall continue to be subject to the standards of Section 1318 of the Code, 66 Pa. C.S. § 1318, and to further review in an appropriate future proceeding. Joint Petition at 20.

B. Terms and Conditions of the Partial Settlement

The Joint Petitioners have agreed to the Partial Settlement covering all issues except for one. The remaining Parties to this proceeding, PIOGA and Direct Energy, did not oppose the Partial Settlement. In the Partial Settlement, the Joint Petitioners reached agreement on the findings pursuant to 66 Pa. C.S. § 1307(f) and 66 Pa. C.S. § 1318 of the Code. Additionally, the Joint Petitioners expressed their agreement with respect to the following issues: (1) Lost and Unaccounted for Gas; (2) Sharing Mechanism; (3) Allegheny Valley Connector Capacity Costs; and (3) Miscellaneous Issues. Joint Petition at 6-7.

The Partial Settlement consists of the Joint Petition containing the terms and conditions of the Partial Settlement and Appendices A through E, which include the tariff supplement describing the agreed-upon rates in Appendix A, and the Statements in Support filed by Peoples, the OCA I&E, and the OSBA in Appendix B through E, respectively.

The essential terms of the Partial Settlement are set forth in ¶¶ 25-35. The Joint Petitioners agreed to the following terms and conditions:⁷

A. LOST AND UNACCOUNTED FOR GAS

25. [Peoples] will be subject to a gathering UFG target (“UFG target”) of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021.

26. There will be no adjustment for gathering system UFG for the year ending August 31, 2017, and no gathering UFG target for the year ending August 31, 2018.

⁷ The terms of the Joint Petition are presented with the original paragraph numbering.

27. In evaluating whether the gathering UFG target is achieved, there will be volumetric credits for (1) actual producer retainage charges or (2) any additional gathering retainage charges approved because producer retainage charges are not approved by the Commission.

28. Exceedances of the gathering UFG target after reflection of the above credits will create a rebuttable presumption that the excess is unreasonable. That presumption may be rebutted by a demonstration that [Peoples] has taken reasonable actions to reduce gathering UFG and/or demonstration that other factors, such as but not limited to, production on the gathering systems has declined thereby increasing the percentage of gathering UFG experienced. The overall level of [Peoples'] UFG will also be considered.

29. [Peoples] will aggressively implement the [Peoples Companies'] Combined UFG Mitigation Plan to Address Gathering Pipelines ("UFG Mitigation Plan") presented in this proceeding, including: (1) the "find-it / fix it" program under which bare steel gathering lines will be leak surveyed on an annual basis and found leaks will be prioritized for repair, and (2) the plan to remove and replace at-risk gathering pipelines.

30. In order to ensure ongoing safe operations of all gathering facilities, [Peoples] agrees to continue the practice of treating all non-jurisdictional [Department of Transportation] (DOT) gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program. This would include damage prevention locates, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys.

Joint Petition at 6-7.

Paragraphs 25 through 30 represent a resolution between Peoples and I&E on the issue of whether a cap should be set on gathering system UFG and whether

Peoples should be prevented from recovering the costs of UFG volumes that are in excess of the cap. I&E's concern regarding the level of Peoples' gathering system UFG stemmed from the Company's 2017 UFG report to the Commission.⁸ I&E explained the UFG targets for distribution systems set by the Commission for NGDCs but notes an absence of similar UFG goals for gathering systems. I&E Statement in Support at 6-7. Commission Regulations at 52 Pa. Code § 59.111(c) address UFG as follows:

(1) Each NGDC and city natural gas distribution operation shall, at a minimum, reduce distribution system loss performance in accordance with the metrics in the following table, beginning with its first subsequent Purchased Gas Cost (PGC) or Gas Cost Rate (GCR) filing after August 11, 2014. The metric starts with 5% in the first year and decreases by 0.5% every year in the subsequent years until it reaches 3% as shown in the following table:

<u>Year</u>	<u>Percent UFG</u>
1	5.00 %
2	4.50 %
3	4.00 %
4	3.50 %
5	3.00 %

Consequently, the UFG target for distribution lines, mandated by Commission Regulations, was set at 3.5% and decreased to 3% for the twelve months ending August 31, 2018. I&E noted that the Company is currently under those targets with a reported 2.42% UFG on its distribution system but expressed concern with regards to the Company's reported 10.16% UFG on its gathering system, which is an increase from the previous year's 9.2% gathering system UFG. Through its testimony in this case, I&E proposed setting an initial cap of 8% on gathering system UFG and stepping the cap down to 5% over three years. In addition, I&E recommended disallowance of gathering

⁸ Peoples reported a distribution system UFG of 2.42% and a gathering system UFG of 10.16% for the twelve months ending August 31, 2017.

system UFG volumes in excess of its proposed initial 8% cap. I&E Statement in Support at 6-7 (citing I&E St. No. 1 at 5, 6-7). Although, the OCA did not take a position on this issue in this proceeding, the OCA has always expressed concern over the relatively high level of Peoples' gathering system UFG in the Company's PGC proceedings. OCA Statement in Support at 6.

Peoples opposed I&E's recommendations in rebuttal testimony; nonetheless, the Joint Petitioners reached a resolution of these issues as reflected in the Partial Settlement. Joint Petition at ¶¶ 25-30. The Partial Settlement establishes UFG targets for Peoples' gathering system for three consecutive years beginning with the twelve months ending August 31, 2019. For that year the target will be 9.0%. For the year ending August 31, 2020, the target will be 8.5%, and for the year ending August 31, 2021, it will be 7.5%. Partial Settlement at ¶ 25. There will be no target for the year ending August 31, 2018 and there will be no retroactive adjustment for gathering system UFG for the twelve months ending August 31, 2017. *Id.* at ¶ 26. Further, the Partial Settlement employs the use of rebuttable presumption to allow Peoples to offer a reasonable explanation for why the cap is exceeded in a given year and calls for aggressive implementation of the Company's UFG Mitigation Plan. *Id.* at ¶¶ 28-29.

B. SHARING MECHANISM

31. [Peoples] current off-system sales/capacity release sharing mechanism, of 75% to customers and 25% to the Company, shall continue indefinitely. If in a future proceeding any party proposes in direct testimony to change the current mechanism, other parties may offer their own contrary proposals in the next scheduled round of testimony to be submitted in such case. [Peoples] agrees that it retains the ultimate burden of proof if the sharing mechanism is challenged in a future proceeding.

Joint Petition at 7.

Peoples proposed that the current mechanism for sharing proceeds from off-system sales and capacity release revenues (75% to customers and 25% to Company) which is scheduled to expire on September 30, 2018, be extended indefinitely.⁹ Peoples averred that several other NGDCs have adopted this approach, including its affiliate, Peoples Gas. PNG Statement in Support at 6 (citing PNG St. 3 at 18; PNG St. 3-R at 5).

The OCA noted that although several Parties to this proceeding expressed concern over the effect an indefinite extension would have on the sharing and which party would bear the burden of proof with regard to any future changes to the sharing mechanism, the Joint Petitioners, nonetheless, agreed to Peoples' proposed indefinite extension. Partial Settlement at ¶ 31. As part of the Settlement, Peoples acknowledged that it retains the ultimate burden of proof if the sharing is challenged in a future proceeding. OCA Statement in Support at 5.

I&E supports the settlement on this issue because, among other things, it is clear that in future proceedings, parties will have the right to offer contrary proposals regarding the issue, and consistent with the Code, the burden of proof regarding the sharing mechanism will always remain with Peoples. I&E Statement in Support at 13. I&E avers that the proposal is in the public interest because it benefits both the Company and its ratepayers as Peoples will receive a monetary incentive to maximize its effort to increase capacity release and off-system sales activity, while the Company's customers will, in turn, benefit from its efforts in the form of reduced gas costs. *Id.* at 13-14.

Although, the OSBA did not initially support the Company's proposed indefinite extension due to concern on the existing burden of proof, the OSBA believes

⁹ In the 2017 PGC proceedings, the Parties agreed to extend the sharing mechanism for an additional one-year period through September 30, 2018. 2017 PGC proceedings Settlement Petition at ¶ 26.

the settlement is in the public interest because Peoples “agrees that it retains the ultimate burden of proof if the sharing mechanism is challenged in a future proceeding.” OSBA Statement in Support at 4-5 (citing OSBA St. 1 at 1).

C. ALLEGHENY VALLEY CONNECTOR COSTS

32. [Peoples] will retain its current method of recovering Allegheny Valley Connector capacity costs. This agreement is for the purposes of settlement of the current case only and this matter may be revisited in future PGC cases.

Joint Petition at 7.

Peoples proposed to allocate the costs of the Allegheny Valley Connector (AVC), an interstate pipeline owned by Equitrans, L.P. (Equitrans), based on customer demand, like Peoples does with other interstate capacity costs. PNG Statement in Support at 6 (citing PNG St. 3 at 13; PNG St. 3-R at 2, 4). According to Peoples, because it transferred ownership of these facilities to Equitrans when it acquired Peoples Gas, the costs of these facilities have been allocated on the basis that they were recovered by Peoples Gas when it owned the facilities. PNG Statement in Support at 6-7 (citing PNG St. 3 at 13).

The OCA proposed to retain the current allocation and objected to the Company’s proposal to include AVC capacity costs with other PGC capacity costs on the basis that doing so would deviate from the fixed percentage of AVC capacity costs assigned to each customer class as part of the 2013 settlement of the merger between Peoples and Equitable. According to the OCA, such a deviation would result in assigning an additional \$1.66 million to the Residential Class. OCA Statement in Support at 6-7; OCA St. 1 at 6; OCA St. 1-S at 2-3. However, as part of the settlement, Peoples agreed to retain its current method of recovering AVC capacity costs rather than combining all

capacity costs into a single charge. The Parties also agreed that the current method will apply only to this case and that this issue may be raised in any future PGC case. OCA Statement in Support at 7.

D. MISCELLANEOUS

33. Except as revised by this Partial Settlement and subject to a decision on the issue reserved for litigation (*i.e.*, gathering system retainage), the proposed rates and other requested approvals contained in the Company's PGC filing should be approved.

34. In accordance with the provisions of 52 Pa. Code § 53.64(i)(5), the Company's compliance filing in this proceeding will reflect updated actual and projected over/undercollections through September 30, 2018.

35. Joint Petitioners Joint Petitioners agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Gas Statement No. 2 and related exhibits included in the 1307(f)-2018 definitive filing.

Joint Petition at 7.

In addition to the specific terms to which the Joint Petitioners have agreed, the Partial Settlement contains certain general, miscellaneous terms. The Partial Settlement is conditioned upon the Commission's approval of the terms and conditions without modification. The Partial Settlement establishes the procedure by which any of the Joint Petitioners may withdraw from the Partial Settlement and proceed to litigate this case, if the Commission should act to modify the Partial Settlement. Partial Settlement at ¶ 88. The Joint Petitioners reserved their respective rights to brief and argue their respective positions if the Commission does not approve the Joint Petition. The Joint Petition also provides that the Joint Petition reflects a compromise of competing positions

and may not be cited as precedent in any future proceeding, except as required to implement the Joint Petition. Joint Petition at 23.

The Joint Petitioners respectfully requested that the ALJ and the Commission approve the Partial Settlement, including all terms and conditions thereof, subject to the resolution of the issue reserved for briefing. Partial Settlement at 25.

C. ALJ's Recommendation

The ALJ found that the proposed Partial Settlement was reasonable and in the public interest, and therefore, recommended its approval without modification. The ALJ noted that the settlement finds support from the Joint Petitioners, as well as their experts and counsel, who have considerable knowledge and experience in PGC proceedings and who have participated in numerous settlement discussions and formal negotiations, providing a strong base upon which to build a consensus on the settled issues. R.D. at 30. Furthermore, the ALJ found the proposed Partial Settlement is in the public interest because the resultant rates are just and reasonable and comply with the requirements of the Code for PGC proceedings. *Id.* at 48.

Additionally, the ALJ stated that resolution of all issues in this case by Partial Settlement, while reserving for litigation only one issue that was not resolved by agreement among the parties, minimizes the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense, which is ultimately passed on to the ratepayers, while securing for ratepayers a settlement of all other issues that is in the public interest. *Id.* at 49.

The ALJ stated that each of the provisions of the Partial Settlement is reasonable, supported by substantial evidence and supports the finding that, as a whole, the Partial Settlement is in the public interest. Therefore, the ALJ concluded that the

Joint Petition is in the public interest and thus recommended that the Joint Petition be granted without modification. *Id.* at 49-50.

D. Disposition

The majority of the issues in the Partial Settlement were resolved in principle prior to the evidentiary hearing. At the hearing, the Parties' pre-served testimony and exhibits were admitted into the record and cross-examination was waived, excluding those witnesses being called to address the remaining contested issue regarding the producer retainage charge. The Partial Settlement was not signed by all the Parties, but also was unopposed by any Party.

As noted, the areas of concern raised by the Parties were extensively addressed in pre-served testimony that was admitted into the record of this proceeding. Therefore, we find that the Joint Petition is supported by substantial evidence.

As discussed, *supra*, the benchmark for determining the acceptability of a settlement or partial settlement is whether the proposed terms and conditions are in the public interest. Specifically, the proposed terms of the Joint Petition ensure, *inter alia*:

- the ongoing safe operations of all Peoples' gathering facilities by:
 1. creating measurable standards for UFG on Peoples gathering system, designed to further reduce UFG;
 2. aggressively implementing the Company's UFG Mitigation Plan, designed to find solutions to reducing UFG on the Company's gathering system; and
 3. continuing the Company's practice of treating all non-jurisdictional (DOT) gathering lines as part of its normal distribution compliance program.

- a reasonable compromise regarding Peoples' requests to indefinitely extend the current mechanism for sharing proceeds from its off-system sales and capacity release revenues (75% to customers and 25% to Company), but, nonetheless, allowing Peoples to retain the ultimate burden of proof if the sharing is challenged in a future proceeding.
- a reasonable compromise for Peoples to retain its current method of recovering AVC capacity costs rather than combining all capacity costs into a single charge and preserving the right of the Parties to revisit the issue in future PGC proceedings.

Accordingly, we concur with the ALJ and the Joint Petitioners that each of the provisions of the Joint Petition are reasonable and we shall adopt the Joint Petition in its entirety, without modification, as being in the public interest and consistent with applicable statutes governing Section 1307(f) filings.

Additionally, as with most settlements, this settlement is also in the public interest because it will conserve the resources of the Commission and the Parties. The resolution of the issues contained in the Joint Petition will avoid further litigation on those issues, thereby, serving judicial efficiency and allowing the Parties and the Commission to conserve their resources, the costs of which will ultimately be borne by ratepayers.

V. Contested Issue

A. Proposed Producer Retainage Charge

1. Background

In his direct testimony, OCA witness Mr. Mierzwa explained that a portion of the gas delivered to customers is either UFG, storage losses or used in company operations. He also explained that, for sales customers, these losses are recovered

through PGC rates, and for transportation customers, these losses are typically recovered through a retainage charge. OCA St. No. 1 at 8. The Company is proposing a retainage rate of 6.6% across all non-discounted transportation customer classes.¹⁰ PNG Revised Exh. No. 5. Those customers that have been granted a discounted retainage charge will pay an average of 1.1%. When combined, the discounted and non-discounted retainage charges result in an overall effective retainage charge of 6.2%. PNG Revised Exh. No. 5.

In this proceeding, Peoples updated its calculation of UFG and Company Use (CU) based upon a new two-year average ended August 31, 2017, which is consistent with the recently filed UFG reports to the Commission. PNG Revised Exh. No. 5. See TABLE 1. below.

TABLE 1

	Distribution System UFG		Gathering System UFG		Total System UFG		Company Use		Total UFG & CU	
	(Mcf)		(Mcf)		(Mcf)		(Mcf)		(Mcf)	
16-Aug	3,133,997	2.75%	3,032,495	6,544,217	5.50%	886,730	0.80%	7,430,947	6.30%	
17-Aug	2,749,205	2.42%	3,117,826	6,476,327	5.50%	844,454	0.70%	7,320,781	6.20%	
			2-Year Average	6,510,272	5.50%	865,592	0.70%	7,375,864	6.20%	

Peoples has been working on reducing its UFG since 2011. According to Peoples, for the 2017 UFG reporting period, the loss rate of the gathering system was 10.16%. PNG St. 1 at 9-10. Therefore, in its effort to reduce gathering system UFG, Peoples is proposing in this proceeding to charge conventional gas producers (producers) a retainage rate of 2.0% (proposed producer charge) for gas delivered into the Company's system. PNG St. 1 at 13. The Company indicated that the proposed producer charge is new to the Peoples Division but Equitable already has a Commission-approved tariff

¹⁰ The Company is authorized by its tariff to discount retainage for customers when certain competitive circumstances exist. Peoples St. No. 3 at 5.

provision for a negotiated retainage rate for wells connected to the gathering and distribution systems (Equitable Rate AGS). PNG St. 1 at 15. Therefore, for consistency between both the Peoples Division and Equitable, Peoples is proposing in this proceeding, to change Equitable Rate AGS to provide for a minimum retainage rate of 2.0% from production from all new wells connected to Equitable's system. *Id.* Peoples averred UFG and CU recovered from the producers through the producer charge would reduce the amount of UFG and CU recovered from Peoples' sales and transportation customers. PNG St. 3 at 3; PNG M.B. at 10. However, the question posed in the instant proceeding is whether Peoples' proposal assess a producer retainage charge on all gas delivered by conventional gas producers to Peoples' system or the OCA's proposal to assess other retainage charges to recover a portion of gathering system UFG, should be approved.

a. UFG Mitigation Plan

Peoples explained that during the course of the 2017 PGC settlements, the Peoples Companies submitted a detailed UFG Mitigation Plan, entitled *The Peoples Companies Combined UFG Mitigation Plan to Address Gathering Pipelines* in their respective PGC proceedings.¹¹ PNG Exh. 2. In its UFG Mitigation Plan, the Peoples

¹¹ Peoples averred that per Paragraph No. 25 of the terms of settlement of the 2017 PGC settlements, Peoples agreed to provide by April 2, 2018, a report from its UFG team providing an analysis and recommendations to mitigate UFG, with a specific focus on the gathering system. PNG St. 1 at 12. Therefore, following the 2017 PGC proceedings, Peoples assembled a cross-functional UFG team to assess, analyze and take deliberate steps to mitigate UFG. According to Peoples, the UFG team will be led by a new, senior, full-time manager with a primary job description of managing UFG reduction initiatives. Peoples plans to continue UFG reduction initiatives, prioritize enhanced leak repair where appropriate and replace pipelines that cannot be repaired. Peoples will also continue to monitor supply interconnects to ensure accurate measurement and backflow prevention equipment is effective. Peoples also plan to continue system segmentation efforts to identify and report UFG based on pipeline function. PNG St. 1 at 10-11; PNG St. 2 at 51.

Companies made several recommendations on areas for additional UFG mitigation activities, including: (1) additional segmentation to enhance identification of potential UFG targets; (2) accelerated leak repair for bare steel gathering; (3) gathering pipeline improvement strategy; (4) removal/replacement of at-risk gathering pipelines; (5) further analysis to be performed concerning certain gathering pipelines; (6) gathering pipelines abandonment considerations and communication; (7) gas measurement enhancements; (8) unauthorized use; and (9) mapping enhancements. PNG St. 1 at 12.

The Companies explained that the need for the UFG Mitigation Plan and the primary driver for separating the removal and replacement of gathering from the removal and replacement of the remaining at-risk distribution pipelines is because the gathering systems generally have a lower density of customers and a lower risk ranking than distribution system pipelines.¹² The PUC-approved Combined Distribution Long Term Infrastructure Improvement Plan (LTIIP) focuses on the Peoples Companies' distribution and transmission systems, while the UFG Mitigation Plan is designed to find solutions to reducing UFG on the Peoples Companies' gathering systems that collect conventional or shallow gas to serve their customers. The Peoples Companies have shown that distribution has 71% of the at-risk pipe and about 99% of the customers served off at-risk pipe, while gathering has 29% of the at-risk pipe and only about 1% of the customers. PNG Exh. No. 2 at 13-15.

b. Gathering System

The Commission and the Pipeline and Hazardous Materials Safety Administration (PHMSA) define gathering line as a pipeline that transports gas from a current production facility to a transmission line or main and a distribution line as a

¹² At-risk gathering pipelines have generally lower risk scores primarily due to the lack of population around the pipe. PNG Exh. No. 2 at 14.

pipeline other than a gathering or transmission line. 52 Pa. Code § 59.1; 49 C.F.R. § 192.3. Peoples stated that its system is unique when compared to other NGDCs in Pennsylvania because it owns and operates gathering systems that provides direct access to local natural gas suppliers. According to the Peoples Companies,' their systems have a total of 2,100 miles of older low-pressure gathering pipelines much of which has provided service for producers and customers for many years and are nearing the end of their useful life. PNG St. 1 at 9-10. These lines, according to the Companies, provide direct access to local natural gas supplies from approximately 130 local Pennsylvania producers at over 2,000 conventional local Pennsylvania gas meters. Peoples Gas Statement in Support at 4; PGC 30-day Pre-filing at 113; Peoples Gas Exh. No. 2 at 17. The Peoples Companies also averred there are about 900 miles of at-risk gathering lines in their system that require further investigation to ascertain the lines that should be replaced or abandoned. *Id.* at 14.

Peoples indicated that the gathering systems historically have provided a direct benefit to its customers through lower purchased gas commodity costs and reductions in interstate pipeline transportation costs. PNG Exh. 2 at 1-2. Peoples contended that due to the unique nature of its system, the storage facilities, gathering pipelines, and compressor assets contribute to the levels of gas it uses for company operations and UFG. Peoples averred that, as a result, the levels of gas used in company operations and total system UFG are higher than typical distribution-only systems. *Id.* at 2. Peoples further noted that although it has operated the system as an integrated system, in recent years, it has installed gas measurement equipment at various strategic locations of the system for the sole purpose of isolating a gathering system or a portion thereof in order to separately determine the UFG on that isolated gathering system. *Id.* at 3. Hence, Peoples has been reporting separate distribution and gathering system losses since 2014¹³ as shown in Figure 1 below:

¹³ PNG St. 1 at 10.



Figure 1: Peoples’ distribution and gathering system UFG reporting (Reference: PNG Exh. No. 2 at 4).

The UFG that has been separately determined to be attributable to the gathering system for the twelve months ending August 31, 2017 is shown in Table 2 below:

TABLE 2

Unaccounted for Gas Calculation for the Twelve Months Ending August 31, 2017
(Reference I&E Exh. No. 1, Sch. 1)

	<u>Distribution System</u> (Mcf)	<u>Gathering System</u> (Mcf)	<u>Total System</u> (Mcf)
<u>Receipts</u>			
Producers on Distribution	0	0	0
Producers on Gathering	18,898,103	30,698,622	23,043,391
Other Sources	<u>94,734,838</u>	<u>0</u>	<u>94,734,838</u>
	113,632,941	30,698,622	117,778,229
Delivered	109,781,608	26,816,277	110,044,551
Adjustments	1,102,128	764,519	1,257,351
UFG	<u>2,749,206</u> 2.42%	<u>3,117,827</u> 10.16%	<u>6,476,327</u> 5.50%

c. Capital Investments

Under their proposed UFG Mitigation Plan, the Peoples Companies are proposing to spend approximately \$21.1 million over the next four years. Over the last four years alone, Peoples spent \$4.1 million in capital expenditures on gathering line replacements and over \$13.0 million in gathering maintenance expenditures. PNG St. 1-R at 3. The Peoples Companies averred that under the current ownership, the Companies have increased capital spending significantly on the distribution systems. Specifically, for the five years prior to the acquisitions of the Peoples Companies and the current five-year period of 2014-2018, the Peoples Division increased its capital spending from \$201.1 million to \$465.2 million, a 131% increase. Equitable also increased its capital spending from \$165.5 million to \$297.3 million, an 80% increase. PNG St. 5-R at 5-7. The Companies explained that although this amount is much smaller than the amount of capital spent on the distribution system, due to safety reasons, the Peoples

Companies have devoted the vast majority of their initial post-acquisition capital investment toward replacing at-risk distribution pipelines. PNG St. 5-R at 7-8.

2. Position of the Parties

a. Peoples' Position

Peoples stated that transportation and sales customers bear the entire responsibility for the costs of the Company's UFG while conventional gas producers currently do not contribute toward recovery of the Company's gathering system UFG. According to Peoples, it is time for the producers to contribute their share toward the cost of the gathering system UFG for the following reasons: (1) they are primary beneficiaries of the gathering system as it often provides the only way to move their gas to the market; (2) gathering charges for the recovery of UFG are common in Pennsylvania; and (3) without the proposed charge, conventional gas producers have no incentive to help Peoples reduce UFG on the gathering system. PNG M.B. at 5-6. Peoples explained that the proposed producer charge would apply to all conventional gas producers delivering their gas to Peoples' system because the producers flow the vast majority of their gas on the gathering system. Peoples further argued that if the proposed charge were calculated to apply only to volumes on the gathering system, the impact would be negligible. *Id.* at 6.

According to Peoples, while the producer retainer charge is new to the Peoples Division, Equitable "already has approved tariff provisions for a negotiated retainage charge rate" and Peoples is now proposing a minimum retainage rate of 2.0% for Equitable for production from all new wells in Equitable. PNG St. 1 at 15. Peoples averred the proposed charge is intended to begin "a long-term process of rationalizing the costs and the recovery of costs of systems that were constructed primarily for the purpose of gathering gas rather than serving end use customers." PNG St. 1 at 13.

Peoples indicated that while it has been successful in reducing distribution UFG substantially below the levels prescribed in the Commission's Regulations, it has found it difficult to reduce gathering system UFG. According to Peoples, there are currently 1,221 miles of at-risk pipe in the gathering system and the estimated cost to replace the 923 miles of the "yellow category" at-risk pipe is \$738 million.¹⁴ PNG Exh. 2 at 17. Hence, the Companies have developed a UFG Mitigation Plan to identify what gathering line should be replaced and have implemented an initial phase of the plan. PNG Exh. 2. The Companies averred that the UFG Mitigation Plan includes an increased spending commitment to remove and replace at-risk gathering pipe, a new "find it/fix it" program to leak survey bare steel gathering pipe on an annual basis and to prioritize found leaks for repair including the installation of additional segmentation meters in the gathering system to better identify gathering system segments with UFG problems. *Id.*

Peoples indicated that the proposed producer retainer charge will help to further enhance implementation of the UFG Mitigation Plan. According to Peoples, because the producers substantially benefit from the existence of the gathering systems, especially, because they transport their product through the gathering lines, it is important that they share in the cost of the UFG incurred to carry conventional production to the city gate. In addition, Peoples stated that the proposed producer retainage charge is estimated to recover approximately 19% of the UFG on the gathering system and will

¹⁴ According to Peoples, the yellow category of pipe represents gathering pipe that is continuing to be evaluated to determine whether the pipe should be replaced or removed. The remaining at-risk gathering pipe has been classified as either red or green, meaning it either will be replaced to maintain safe and adequate service or it will be removed because it has been determined there is no current production and no customers served by the line. PNG Exh. 2 at 16-17.

also serve as an incentive to help reduce gathering system UFG.¹⁵ PNG M.B. at 21. Considering the fact that approximately 81% of the gathering system UFG would be recovered from Peoples' customers and only 19% will be recovered from the producers, Peoples believe the proposed charge is just and reasonable and should be approved by the Commission. PNG M.B. at 11.

b. PIOGA's Position

PIOGA, on the other hand, opposed the proposed charge stating it is unjust and unreasonable. PIOGA M.B. at 6, 14-15. PIOGA contended that the Company's claim that the producer retainage charge would reduce the UFG borne by sales and transportation customers is unfounded. *Id.* at 6-7. PIOGA averred that Peoples should maintain its current uniquely integrated system operation and historical cost allocation methodology. PIOGA questioned why the Company is suddenly proposing to assign gathering system UFG costs to producers when, in the 2017 PGC proceedings, the Company was vehemently opposed to the OCA's proposal to assign a similar charge to Peoples' transportation customers. *Id.* at 8-9.

In an attempt to refute the Company's reliance on accounting definitions or classifications for pipelines, PIOGA proposed the following definitions it believes more accurately describes Peoples' unique pipeline systems as it pertains to UFG:

Production Pipeline: a pipeline connecting a single well to either a gathering pipeline or Distribution Pipeline, and that may have a free gas landowner customer connected to it.

¹⁵ According to the Company, under the proposal, retainage from gathering would be 593,390 Mcf (418,883 Mcf for Peoples Division and 174,507 Mcf for Equitable), whereas the total gathering system UFG was 3,117,826 Mcf. PNG M.B. at 21.

Gathering Pipeline: a pipeline that may have free gas landowner customers connected but no PUC regulated customers connected, that aggregates production from multiple Production Pipelines and then connects with a Distribution Pipeline or a Transmission Pipeline.

Distribution Pipeline: a pipeline that has PUC regulated customers connected to it.

PIOGA M.B. at 9-11 (citing PIOGA St. 1-SR at 6). Based on the above definitions, PIOGA contends the Company's focus on conventional gas producers to achieve the goals of its UFG Mitigation Plan is misplaced. M.B. at 11.

PIOGA also disagreed with Peoples' characterization of its gathering and distribution systems as "gatherers." PIOGA argued the Companies are not "true" gatherers with respect to their gathering systems because, unlike Peoples' system, gathering pipelines, for the most part, are owned by FERC-regulated pipeline. *Id.* at 12-13. Furthermore, PIOGA rejected the notion that the conventional gas producers are major contributors to Peoples' high gathering system UFG. Rather, PIOGA argued the current state of the Companies' gathering system pipelines is due to years of neglect on the part of the Company. *Id.* at 13-14 (citing PIOGA St. 1 5, 8-13, 15-20). In addition, PIOGA also averred that rather than limiting the proposed charge to only its gathering pipelines, Peoples is proposing to apply the charge to both gathering and distribution system production deliveries. PIOGA argued Peoples has not provided any evidentiary support for the language contained in its Rate GS tariff's proposal to apply the charge to deliveries into the Company's distribution or transmission pipelines. PIOGA M. B. at 14-15 (citing PNG St. 1 at 9-15).

Next, PIOGA contended that Peoples did not provide any evidence or a proposed tariff to support approval of its proposed minimum 2.0% retainage rate on

production from all new wells connected to the Equitable system.¹⁶ PIOGA M.B. at 15. According to PIOGA, Peoples' argument that the proposed 2.0% minimum for Equitable is to ensure consistency between both divisions does not pass the "just and reasonable" test because the Company needs more evidence to support that argument. In addition, PIOGA contended that Peoples' proposed Rate GS tariff is not consistent with Equitable's Rate AGS tariff because the tariff proposed by Peoples in the instant proceeding cannot be applied to deliveries of natural gas from conventional wells into Peoples' distribution system and the proposed Rate GS is limited to deliveries from conventional wells, whereas Equitable's Rate AGS is not. PIOGA M.B. at 15-17 (PNG St. 1-R at 26).

Finally, PIOGA argued the proposed producer charge is bad policy, especially, considering Peoples' statement that the producer retainage rate "is the beginning of a long-term process" of assigning gathering systems costs to conventional producers. PIOGA M.B. at 17 (PNG St. 1 at 13). PIOGA contended that an approval of the proposed charge will result in a slippery slope and so the proposal should be rejected. PIOGA M.B. at 17-18.

c. OCA's Position

Currently, all of the Peoples' customers are assessed the same retainage charge whether or not they use the gathering system. The OCA, which has always expressed concern with the level of responsibility of transportation and sales customers for gathering system UFG, supports the proposed charge because it would initiate the process of recognizing the differences in the responsibility for gathering system UFG by collecting additional retainage for use of the gathering system and also help reduce the

¹⁶ Equitable already has an approved tariff, Rate AGS, that provides for a negotiated retainage rate for wells connected to the Equitable gathering or distribution systems. M.B. at 15 (citing PNG St. 1 at 15).

losses recovered from transportation and retail sales customers.¹⁷ OCA M.B. at 5-7 (citing OCA St. 1 at 9). According to the OCA, Peoples’ “practice of assessing a single retainage charge is inconsistent with the Commission’s current approach of assessing or incurring purchased gas costs and the unbundling of natural gas supply services.” OCA M.B. at 7 (citing OCA St. 1-S at 4).

From the OCA’s perspective, approval of the proposed charge will begin the process of appropriately assigning responsibility for gathering system UFG to entities that benefit from, or use, the Company’s gathering system. OCA M.B. at 8 (citing OCA St. 1 at 10). Further, because it is not unusual for gatherers to collect a retainage charge on gas delivered into the gathering system, the OCA believes it is reasonable for producers who benefit from the gathering system to pay their fair share of the gathering system UFG. OCA M.B. at 8. The OCA also supports the Company’s calculation of the retainage charge at 6.6%. Therefore, the OCA averred that if the Commission approves the proposed producer charge, it should also approve the 6.6% retainage charge. *Id.* (citing OCA St. 1 at 10).

Nonetheless, should the Commission decide not to approve the proposed producer charge, the OCA proposed an alternative additional retainage charge on the

¹⁷ OCA witness Mierzwa explained in this proceeding:
[T]he most significant component of the Company’s total losses occur on its gathering system, and transportation customers are a proportionately greater user of the gathering system than sales customers. For example, during the historic review period, transportation customers purchased nearly 30 Bcf of gas from local producers that was delivered by the Peoples’ gathering system. By comparison, Peoples purchased approximately 16 Bcf of gas from local producers to serve PGC customers that was delivered by the gathering system.

OCA M.B. at 7 (citing OCA St. 1 at 9) (citations omitted).

transportation customer volumes delivered on the gathering system. OCA's witness Mierzwa explained:

Peoples' gathering system is used to collect gas from local production wells and deliver that gas to Peoples' distribution system. Those customers that do not utilize Peoples' gathering system to obtain their gas supplies from local production wells utilize interstate pipelines to have their gas delivered to Peoples' distribution system. Customers using interstate pipelines to acquire gas supplies are required to pay retainage to the interstate pipelines. Customers relying on Peoples' gathering system to deliver gas to Peoples' distribution are not required to pay any portion of the interstate pipeline retainage assessed to customer relying on interstate pipelines to deliver gas to Peoples' distribution system.

OCA M.B. at 9 (citing OCA St. 1 at 10). Because PIOGA also agrees with the OCA's proposed alternative charge, should the Commission decide not to approve the proposed producer charge, the OCA requested that a gathering system retainage charge of 2.0% should be assessed on the volumes delivered on the gathering system in the Peoples Division. OCA M.B. at 9 (citing OCA St. 1 at 10; OCA St. 1-S at 4).

Finally, the OCA stated that if the Commission rejects both the producer retainage charge and the gathering system retainage charge, because there would be a retainage deficiency amounting to 0.4 percentage points that the Company would need to recover from sales and non-discounted transportation customers, the OCA recommended

that the Commission increase the retainage charge from 6.6% to 7.0%.¹⁸ OCA M.B. at 9-10.

d. OSBA's Position

The OSBA is also in support of the proposed producer retainage charge. The OSBA dismissed PIOGA's argument against the charge stating that while PIOGA's witness, Mr. Hillebrand, "is technically correct that producers do not cause the high gathering system losses, in the sense that gathering system losses depend upon the physical condition of pipeline segments, operating pressures, etc., rather than the fact that producers are connected to the system, the same could be said for the Company's sales and transportation customers." OSBA M.B. at 2-3 (citing OSBA St. 1-R at 2).

Consistent with the above, the OSBA contended that if Mr. Hillebrand's argument against cost assignment rings true for the producers, then it must also apply to sales and transportation customers, which leaves the NGDCs responsible for the entire cost of the Company's gathering system UFG. OSBA M.B. at 3. Responding to Mr. Hillebrand's argument that there is a difference between producers and customers because producers supply the gas while customers consume the gas, the OSBA argued

¹⁸ OCA witness Mierzwa explained:

As shown on Revised Peoples Exhibit No. 5, page 1, the proposed producer retainage is projected to recover 418,333 Mcf. Without assessing either a producer retainage charge or a separate gathering system, the 418,333 Mcf would be recoverable from PGC and non-discounted retainage transportation customers. The projected PGC and non-discounted retainage transportation customer receipt volumes total 101,103,271 Mcf. To recover the additional 418,333 Mcf, Peoples' retainage rate would be increased by 0.4 percentage points from 6.6 percent to 7.0 percent.

OCA M.B. at 10 (citing OCA St. 1 at 11).

there is no difference as both the producers and the customers clearly benefit from their connection to the Company's system. Therefore, the OSBA concluded the producers should pay their fair share of the UFG cost and help to mitigate increases in the Company's end use retainage rate. The OSBA also stated that if the Commission does not approve the proposed producer retainage charge, the retainage rate for end use customers would be 7.0%. *Id.* at 3-4.

e. I&E's Position

I&E did not take a position on this issue.

B. ALJ's Decision

In his analysis, ALJ Watson addressed the following issues: (a) whether the proposed charge is just and reasonable; (b) whether Peoples' historical practice of not charging producers a gathering retainage prohibits prospective changes; (c) whether the proposed charge is inconsistent with the integrated nature of the Company's distribution, transmission, and gathering systems; (d) PIOGA's argument to redefine Peoples' gathering and distribution pipelines; (e) whether PIOGA's allegations of "fault" are a basis for denying recovery of a portion of gathering system UFG from conventional gas producers; (f) whether applying the producer retainage charge to all conventional production is reasonable in this proceeding; and (g) whether the proposed producer retainage charge is appropriate policy for the unique situation presented in this proceeding. R.D. at 76-90.

1. Whether the Proposed Producer’s Gathering Retainage Charge is Just and Reasonable

The ALJ found that the proposed gathering retainage charge on producers is just and reasonable. According to the ALJ, the producers are primary beneficiaries of the gathering system because it is their only means of moving their product to the market. R.D. at 76 (citing Companies M.B. at 10-13). The ALJ noted that consistent with the commitments and steps taken by Peoples following the 2017 PGC proceedings, including the UFG Mitigation Plan, and the accompanying investments to reduce gathering system UFG, the proposed charge is one way of helping Peoples achieve its goal of reducing gathering system UFG. R.D. at 76-77. Furthermore, the ALJ explained that in line with the additional commitments made by Peoples to address gathering system UFG pursuant to the Partial Settlement, it is reasonable for the producers, as beneficiaries of the gathering system, to contribute their portion toward the reduction of the Company’s gathering system UFG. *Id.* at 77 (citing Partial Settlement ¶¶ 25, 29-30; PNG R.B. at 5-6). The ALJ concluded the charge is necessary to “properly balance the interests of both consumers and producers, where there is currently no balance at all. R.D. at 89.

2. Whether Peoples Natural Gas’ Historical Practice of Not Charging Producers a Gathering Retainage Charge Prohibits Prospective Changes

The ALJ disagreed with PIOGA’s argument in which it opposed the proposed retainage charge because Peoples’ system has always been an integrated system and there is no basis to separate costs related to gathering systems at this time. According to the ALJ, this type of proceeding, which is conducted annually and affords the Parties with an opportunity to examine whether PGC rates are just and reasonable, is an appropriate avenue to address the issues involving the Company’s system including the gathering system UFG and associated proposed retainage charge. R.D. at 77-78 (citing 66 Pa. C.S. & 1307(f)). According to the ALJ, the fact that other Parties in this

proceeding including I&E and the OCA also have offered proposals in this proceeding, it is reasonable to conclude that Peoples is not precluded from proposing to partially unbundle the costs associated with its gathering system UFG. R.D. at 78-79 (citing I&E St. 1 at 18; OCA St. 1 at 11; PNG R.B. at 6-7). Therefore, the ALJ concluded that Peoples' historical practice of not charging producers for gathering retainage does not foreclose such a charge from being adopted in the instant proceeding. R.D. at 88.

3. Whether the Proposed Producer's Gathering Retainage Charge is Inconsistent with the Integrated Nature of the Company's Distribution, Transmission and Gathering System

The ALJ rejected PIOGA's argument that the proposed gathering retainage charge is improper because Peoples' gathering system was "constructed as part of an integrated operation to provide natural gas to customers." R.D. at 79 (PIOGA M.B. at 10, 12-13, 18-19). The ALJ was not persuaded by PIOGA's argument that the proposed charge should be denied consistent with the Commission's statute and deference interpretation in the Commonwealth Court's decision in *Crown Castle NG East LLC v. Pa. Pub. Util. Comm'n* 198 A.3d 617 (Pa. Cmwlth. 2018) (*Crown Castle*), stating it is not persuasive to deny the proposed charge. The ALJ explained that *Crown Castle* is distinguishable from this case because it involved the Commission's interpretation of a statute and not how a utility classifies its facilities or recovers the costs of providing services on those facilities. R.D. at 80. According to the ALJ, the Company's proposed charge is a legitimate charge because it is consistent with the Commission's and PHMSA's regulatory definitions and FERC's "modified primary function test." The ALJ stressed that the classification of the pipelines into distribution, gathering, and transmission does not change the fact that the Company's system is integrated. *Id.* (citing PNG M.B. at 18-19; PNG R.B. at 10). Therefore, the ALJ concluded that in spite of the unique nature of Peoples' integrated system, which is similar to its Equitable Division and other integrated pipeline systems, Peoples can impose charges for individual cost

components of its system, which in this case, is the gathering pipelines. R.D. at 88 (citing PNG R.B. at 2).

4. PIOGA’s Argument to Redefine PNG’s Gathering and Distribution Pipelines

The ALJ rejected PIOGA’s proposed definitions for distribution and gathering pipelines because they are not industry-recognized definitions and are not applied by any regulatory agency. R.D. at 89. On the other hand, the ALJ found that Peoples’ definitions are in alignment with the definitions set forth in PHMSA and the Commission’s Regulations, as well as FERC’s “modified primary function test” to classify its pipeline for safety and operational purposes. R.D. at 82 (citing PNG M.B. at 10-11; PNG R.B. at 11). The ALJ concluded that PIOGA failed to present any concrete evidence to establish that the connection of customers to gathering plant would alter the essential nature of the plant as gathering. R.D. at 82 (citing PNG R.B. at 11). The ALJ also rejected PIOGA’s attempt to introduce a stipulation that Peoples is not a true gatherer in the instant proceeding. R.D. at 82-83.

5. Whether PIOGA’s Allegations of “Fault” Are a Basis for Denying Recovery of a Portion of Gathering System UFG from Conventional Gas Producers

In addressing this issue, the ALJ dismissed PIOGA’s argument that the producers should not be held responsible for the gathering system UFG because Peoples neglected to invest or only invested minimal amounts or approximately 2.2% of its capital expenditures on its gathering system in the past five years. R.D. at 83 (citing PIOGA M.B. at 13). The ALJ did not find this argument persuasive because the record shows that Peoples spent \$17.1 million in capital expenditure over the past four years to improve and upgrade its gathering pipeline infrastructure, and Peoples has committed to spend an additional \$21.1 million over the next four years for additional improvements

and upgrades. R.D. at 84. The ALJ noted that PIOGA testified in this proceeding that Peoples' gathering lines were built to gather conventional gas supplies. R.D. at 89. Therefore, the ALJ agreed with Peoples' and the OSBA's arguments that because producers are primary beneficiaries of Peoples' gathering system, they should also be responsible for paying for a share of the gathering system UFG, as proposed by the Company. R.D. at 83 (citing OSBA M.B. at 3; PNG R.B. at 12-13).

6. Whether Applying the Producer Retainage Charge to all Conventional Production is Reasonable in this Proceeding

The ALJ noted that PIOGA opposed Peoples' request to apply the proposed retainage charge on all production from conventional gas producers delivered into the Company's system because (1) Peoples failed to provide substantial evidence to support the application of the charge to production from those wells that delivers directly into Peoples' distribution lines, R.D. at 84-85 (citing PIOGA M.B. at 14-17; PNG R.B. at 14-15); and (2) Peoples' reliance on the fact that Equitable currently has a similar charge (Rate AGS) and it would be administratively easier if Peoples' extended a similar charge to all conventional production delivered into its facilities is not a sufficient reason to approve the charge for deliveries from conventional wells into Peoples' distribution and transmission pipelines. The ALJ acknowledged PIOGA's argument that because Peoples has already identified what it characterizes as gathering lines, there is no basis for expanding the tariff language beyond what Peoples' evidence addresses to accommodate Peoples' preference. R.D. at 85 (citing PIOGA R.B. at 3).

The ALJ also noted Peoples' argument that it presented sufficient evidence in the instant proceeding that supports the proposed charge and that it clarified during this proceeding that the proposed charge applies to all conventional production delivered into its facilities. R.D. at 86 (citing PNG M.B. at 15; PNG St. 1-R at 27). The ALJ observed that although PIOGA disputed Peoples' argument that there is "administrative ease of

applying the same rate to both of its Companies and not hav[ing] to introduce different rules depending on which company a well ties into,” PIOGA failed to present any evidence to refute Peoples’ claim. R.D. at 86 (citing PNG M.B. at 15; PNG St. 1-R at 27).

The ALJ also acknowledged Peoples’ argument that even if the proposed charge were to be applied only to volumes delivered into the gathering system, the difference would be minimal. R.D. at 86 (citing PNG M.B. at 16). According to the ALJ, Peoples contended that if it “were to recalculate the retainage charge on the basis of using only gathering and try to get the same amount of collection of UFG from that charge,” the charge would only increase from 2 percent to 2.17 percent, or less than a 10% change. R.D. at 86 (citing Tr. at 56). Therefore, the ALJ concluded that PIOGA did not dispute Peoples’ calculation or claim and therefore, the unrebutted evidence is clear that the difference between the proposed charge and a charge calculated based on gas volumes delivered into the gathering system would be minimal and should not be an issue. R.D. at 86 (citing PNG R.B. at 15-16).

7. Whether the Proposed Producer Retainage Charge is Appropriate Policy for the Unique Situation Presented in this Proceeding

Finally, the ALJ rejected PIOGA’s argument that the proposed charge would exacerbate the decline of conventional wells and potentially jeopardize the provision of safe and reliable service or result in a slippery slope. According to the ALJ, despite making this assertion, PIOGA has failed to provide any actual data or analysis to support this conclusion. The ALJ lauded Peoples’ substantial capital investments to replace at-risk pipe in order to address safety and reliability of its system including the gathering system. R.D. at 86-87. The ALJ found no merit in PIOGA’s argument because PIOGA has stipulated in this proceeding that the charge will not have a material effect on the production from existing wells or the production from new wells. Therefore, the ALJ

disagreed with PIOGA's claim that the proposed retainage charge is poor policy. The ALJ concluded that the proposed producer charge would properly balance the interests of both the Company's customers and the producers, especially, because there is currently no balance in the charges. R.D. at 89.

C. Exceptions, Replies and Dispositions

In its Exceptions, PIOGA generally criticizes Peoples' "about-face" position on this matter, the timing of the request, and the procedure used by Peoples in requesting the proposed producer retainage charge in the instant proceeding. Exc. at 1-4. PIOGA requests that the Commission reject the ALJ's recommendation and approve either of the OCA's retainage rate proposals, which are: (1) an additional 2.0% gathering retainage charge assessed to transportation customers on volumes delivered on the Company's gathering system; or (2) a 7.0% customer retainage rate. *Id.* at 23 (citing OCA St. 1 at 3, 11; OCA St. 1 at 11).

1. PIOGA's Exception No. 1, Replies and Disposition

In its Exception No. 1, PIOGA disagrees with the ALJ's conclusion that the proposed producer retainage charge is just and reasonable because the Company "is making substantial commitments to address gathering UFG" and it is reasonable for conventional natural gas producers to pay "for a portion of gathering system UFG." Exc. at 4 (citing R.D. at 77; Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). Citing to Finding of Fact Nos. 55 and 56,¹⁹ PIOGA argues that not only is Peoples

¹⁹ Finding of Fact No. 55 states "[c]onventional gas producers are the primary users and beneficiaries of the gathering system, so it is reasonable for those producers to finally contribute toward the costs of gathering system UFG." R.D. at 17 (citing PNG St. 1-R at 17). Finding of Fact No. 56 states "[a]bsent the existence of these gathering lines, the producers would not be able to move their gas to a market. R.D. at 17 (citing PNG St. 5-R at 5).

spending minimal amounts on gathering system when compared to the investment on its distribution system but that PIOGA provided un rebutted evidence in this proceeding showing that the Company's gathering pipelines were constructed as part of an integrated pipeline system to serve utility customers using conventional production from utility-owned wells as well as independent producer-owned wells, prior to federal deregulation of natural gas production.²⁰ Exc. at 4-5 (citing R.D. at 64-65).

Additionally, regarding the integrated pipeline system, PIOGA references Peoples' testimony that the gathering line development involved connecting both utility-owned wells to serve Peoples' customers and the independent producer wells and that the pipeline systems of the Peoples Companies "operate very much the same, and are of the same vintage." Exc. at 5-6 (citing Tr. at 69-70; PNG St. 1-R at 19). From PIOGA's perspective, because the gathering system is integrated with the distribution system and serves all customers who use the integrated system, it is improper to say that conventional producers are the primary users and beneficiaries of Peoples' gathering pipelines. According to PIOGA, Peoples and its customers benefit more, as these pipelines have been, and continue to be, essential to the provision of the Company's natural gas distribution service. Based on the above benefits and other benefits including reduction in interstate pipeline transportation capacity costs, PIOGA avers the ALJ's conclusion is inaccurate and should be rejected. Exc. at 6-7 (citing PNG Exh. 2 at 1-2; PNG Exh. 5-R).

In Reply, Peoples disagrees with PIOGA's argument. The Company argues the proposal is part of a comprehensive plan to address gathering system UFG and is only aimed at sharing a small percentage of the UFG experienced on the Company's gathering system with conventional local gas producers who benefit from the gathering system.

²⁰ PIOGA asserts that under the UFG Mitigation Plan, the Peoples Companies are only committing \$21.1 million to gathering system compared to almost \$822.5 million for distribution system over the next five years. PIOGA Exc. at 4.

PNG R. Exc. at 1, 5. The Company opines the proposed charge is just and reasonable because it equitably allocates the responsibility for the costs of gathering system UFG. *Id.* at 5. The Company criticizes PIOGA's argument that Peoples and its customers benefit more from the gathering lines than the conventional gas producers. According to Peoples, conventional gas producers are the primary beneficiaries of the gathering lines because without these lines, they would not be able to move their gas to the market. PNG R. Exc. at 4-5 (citing PIOGA Exc. at 5-7). From Peoples' perspective, because producers are contributors to the gathering system UFG and the Company is not proposing to charge the producers all of the costs of gathering system UFG, rather a fraction of the losses (19% of the gathering system UFG), the Commission should uphold the ALJ's recommended approval of the proposed charge. PNG R. Exc. at 5.

Additionally, the Company contends the proposal was borne out of the Company's renewed commitment to reduce UFG on their gathering systems following the 2017 PGC proceedings, including implementing a UFG Mitigation Plan with a focus on reducing gathering lines UFG. *Id.* at 2, 5-6. In addition, the Company avers that consistent with the Partial Settlement, it has also made additional commitments to reduce gathering UFG including agreeing to be subject to a gathering system UFG of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021. *Id.* at 6 (citing R.D. at 77). The Company avers that in addition to its pledge to aggressively implement the UFG Mitigation Plan and ensure ongoing safe operations of all gathering facilities, Peoples has agreed to continue treating all non-jurisdictional DOT gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program. This, according to the Company, would include damage prevention locates, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys. PNG R. Exc. at 6.

Finally, the Peoples disputes PIOGA's criticism of the Company's limited investment on gathering lines. Peoples acknowledges that while it has made significant investment to its entire system, its initial post-acquisition capital investments were focused on replacing at-risk distribution pipelines due to safety reasons. The Company points out that distribution pipelines represent 71% of the targeted pipeline miles and serve 99% of its customers while gathering pipelines represent 29% of the targeted pipeline miles and directly serve only 1% of the Companies' customers. PNG R. Exc. at 7 (citing PNG R.B. at 13). Noting that the Company's pipeline investments were driven by the requirements of the federally mandated Gas Distribution Integrity Management Program (DIMP), which places substantial emphasis on the number of customers located on or near an at-risk pipeline, Peoples dismisses, as completely unfounded, PIOGA's attempt to criticize its investment levels on gathering lines. PNG R. Exc. at 7-8 (citing PNG R.B. at 13).

In support of the ALJ's recommendation on this matter, the OSBA also dismisses PIOGA's criticism of Peoples' investment on gathering system, as misplaced. The OSBA avers that because Peoples' pipeline investments are driven by both customer safety and UFG and because there are more customers per mile served by the distribution system compared to the gathering system, there is no basis for the criticism. OSBA R. Exc. at 3 (citing PNG St. 5-R at 5; Table II). From the OSBA's point of view, the \$13.75 million allocation by Peoples for the gathering system UFG is significant and should be applauded. OSBA R. Exc. at 3. In addition, responding to PIOGA's argument regarding the integrated system, the OSBA asserts, as PIOGA itself confirmed in its Exceptions, that both the conventional gas producers and the Company's customers benefit from the gathering system. Therefore, according to the OSBA, it is only logical for both entities to contribute toward the gathering system UFG costs. *Id.* at 3-4 (citing PIOGA's Exc. at 5). Based on the above, the OSBA agrees with the ALJ's finding that the proposed producer charge is just and reasonable. OSBA R. Exc. at 4.

The OCA also supports the proposed producer retainage charge. The OCA avers the ALJ properly concluded that the proposed producer charge is just and reasonable and is necessary to account for differences in the responsibility for UFG. OCA R. Exc. at 2 (citing R.D. at 74-90; OCA M.B. at 6-10; OCA R.B. at 2-4). The OCA reaffirms its position that the current process of assessing the retainage charge to all customers whether or not they use the gathering system is inappropriate. OCA R. Exc. at 3 (citing OCA M.B. at 6; OCA St. 1 at 10-11). According to the OCA, because transportation customers and PGC customers do not have the same degree of usage of the gathering system, it is not proper to impose the same retainage charge on each group of customers. OCA R. Exc. at 3. The OCA argues, the “producer retainage charge proposed by Peoples is one way to begin the process of recognizing the differences in the responsibility for gathering system LUFUG in the Peoples Division by collecting additional retainage for the use of the gathering system.” *Id.* (citing OCA M.B. at 8; OCA St. 1 at 10-11; OCA St. 1S at 4). The OCA contends it is not unusual for gatherers to collect a retainer charge on gas delivered into the gathering system which supports the ALJ’s conclusion that the 2.0% producer retainage charge is just and reasonable and is necessary to account for the differences in the responsibility for LUFUG. OCA R. Exc. at 3-4.

The OCA further argues, the fact that PIOGA acknowledges the need for an alternative approach than the proposed producer charge is telling. According to the OCA, PIOGA agrees with the OCA’s alternative approach to recognizing differences in the responsibility for gathering system LUFUG through an additional transportation customer gathering retainage charge” and requests that the Commission approve this approach. *Id.* at 4 (citing OCA M.B. at 9; OCA R.B. at 3; OCA St. 1S at 4; PIOGA M.B. at 19). Therefore, the OCA requests that if the Commission decides to reject the ALJ’s recommended approval of the proposed producer charge, the Commission should adopt the unopposed 2.0% gathering system charge proposed by the OCA. OCA R. Exc. at 4 (citing OCA M.B. at 9; OCA R.B. at 3). The OCA also submits that if the

Commission elects not to approve either of the above two proposals, the Commission should increase the Company's retainage rate to 7.0% to account for a retainage deficiency amounting to 0.4 percentage points that would need to be recovered from sales and non-discounted transportation customers. OCA R. Exc. at 4 (citing OCA M.B. at 9; OCA R.B. at 4).

a. Disposition

Upon review, we shall deny PIOGA's Exception No. 1 and adopt the ALJ's recommendation approving the proposed producer charge. However, while we approve Peoples' proposed producer charge, we are also putting Peoples on notice regarding its gathering system UFG going forward, especially, as it pertains to Peoples' compliance with the settlement terms regarding its gathering system UFG in the instant proceeding.²¹ Joint Petition at 3.

We note that despite agreeing to improve its UFG, specifically, its gathering system UFG consistent with the settlements of the 2017 PGC proceedings, Peoples, nonetheless, reported an increase in its gathering system UFG in the instant proceeding. For example, while Peoples' combined distribution UFG of 2.42% is less than the Commission's mandated distribution UFG target of 3.5%, Peoples' reported gathering system UFG in the instant proceeding for the year ended August 31, 2017, was 10.16%, an increase over the 9.2% gathering system UFG for the year ended August 31, 2016, it reported in the 2017 PGC proceedings.²² I&E St. 1 at 5-6.

²¹ Settlement Paragraph 25 states "Peoples Natural Gas will be subject to a gathering system UFG target ("UFG target") of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021. Joint Petition at 3.

²² Peoples' gathering system UFG has steadily increased in the past three years, including: 8.9% for the reporting year ended August 31, 2015; 9.2% for the year ended August 31, 2016; and 10.2% for the year ended August 31, 2017. OCA St. 1 at 7.

Also, we note that while our Regulations only addressed losses on the distribution system and not gathering systems we have concerns regarding the increasing levels of Peoples' UFG. In this regard, the comments made by Vice Chairman Place in his Statement concerning the Peoples TWP LLC 2017 PGC proceedings are particularly relevant in our disposition here:

While I am supportive of the Settlement, I want to express my concern about the increasing levels of Lost and Unaccounted for Gas (LUFG). Specifically, for the 12 months ending August 31, LUFG on the Peoples/Equitable system has increased steadily from 3.79% to 4.4% to 5.54%, respectively over the last 3 years. Similarly, LUFG on TWP has increased steadily from 2.27% to 2.88% to 3.36% to 3.91%, respectively over the last 4 years. Moreover, LUFG has increased in absolute terms, despite lower throughput in 2016 for all Companies.

The Companies have been on notice for some time about these high loss factors. As far back as August 30, 2007, Vice Chairman Cawley expressed concern regarding Equitable's large values for LUFG and Company Use. Equitable was reminded of these concerns in similar statements in 2008 and again in 2014.

Similarly, Peoples was on notice for its high LUFG volumes beginning on September 13, 2017. Peoples was reminded of these concerns in similar statements in 2008, and again in 2010, but given time to allow their new LUFG mitigation measures to take effect. Further, TWP was also provided notice about these concerns on June 16, 2010.

As early as 2008, Peoples committed to monitoring LUFG on gathering systems and quantify these [loss] levels under its PGC settlement agreement. Additionally, measurement was to occur at customer offtakes, company use points and gas receipt points into the transmission system. In Peoples 2009 PGC Settlement, the Company further agreed to report, in its next 1307(f) filing, on the progress of its LUFG mitigation

measures as described in the Direct Testimony of Joseph A. Gregorini. As part of the settlement in this case, Peoples agreed to provide and had attached thereto an Appendix “B” - a summary of ten mitigation measures and approximate completion dates. In its 2011 PGC, Peoples committed to use reasonable efforts to implement its “2011 Unaccounted-For-Gas Plan and Report” (LUGF Plan). The LUGF Plan set forth a target LUGF rate of 4.65% by 2014. In its 2014 PGC settlement, Peoples committed to continuing its efforts to reduce lost and unaccounted for gas on its gathering, distribution and transmission facilities. More specifically, Peoples explained that it would identify gathering pipelines with high leak frequency and prioritize them for its Repair//Replace program, in order to further reduce LUGF. In its 2016 PGC settlement, the Company again committed to continue its efforts to reduce LUGF.

As far back as 2008, Equitable has been developing plans to mitigate LUGF. In Equitable’s 2008 PGC docket, Equitable agreed to track and report efforts made to reduce LUGF on its system. Equitable further articulated its LUGF reduction measures in its 2009 PGC filing. These measures included main line replacement, pressure testing of house lines, leak surveys, third-party damage reduction strategies, theft reduction, and elimination of measurement error. In its 2010 PGC filing, Equitable identified its primary UFG reduction initiatives to include: (1) segmentation of the gathering system; (2) line walking; (3) meter-size testing; and (4) a more stringent large meter calibration program. In 2014, Equitable again committed to continue its efforts to reduce lost and unaccounted for gas on its gathering, distribution and transmission facilities, and reiterated its intention to execute its (1) Enhanced Leak Repair Program, which prioritizes leak repairs; (2) Measurement Improvement Program, designed to audit and improve measurements at producer interconnects and to study the impact of temperature on the measurement accuracy of non-compensated meters; (3) Interconnect Improvement Program, designed to eliminate the possibility of gas backflow; and (4) Pipeline Improvement Plan, to abandon or replace pipelines that are obsolete or cannot be repaired. Under last year’s joint PGC filing in 2016, Equitable and Peoples’ mitigation plan included increased leak repair on Class 2 and Class 3 leaks to reduce the duration

of leaks and resulting UFG, more frequent monitoring of high or low volume meters to ensure they are operating within an acceptable measurement range, and review of producer and customer meters that appear inactive to mitigate gas theft or unintended reverse flow. Lastly, Peoples asserts it monitors system pressures to make sure the Company is not operating at pressures higher than what is required to serve its customers, thus reducing gas loss through pipe leakage or measurement errors.

Under the current settlements before us, the Companies propose to assemble a cross-functional team to assess, analyze and take deliberate steps to mitigate LUFG. The LUFG team will be led by a new, senior, full-time manager with a primary job description of managing LUFG activity. Peoples' immediate plan is to continue the LUFG reduction initiatives described in their filing, which the Companies claim have proven over time to be effective. In addition, the Companies have started a process to review the ongoing value of owning, operating and maintaining various portions of its gathering system. Peoples plans to study the projected cost of owning and operating various segments of its gathering system in the future and to assess options, recognizing that while customers served directly from the gathering system comprise less than 1% of Peoples' total customer base, this is still a substantial number of customers, and even more are served from distribution systems connected to the gathering system. The Company will prioritize Enhanced Leak Repair, will continue to monitor supply interconnects to ensure accurate measurement and backflow prevention equipment is effective, and will continue system segmentation efforts to identify and report LUFG based on pipeline function. However, Peoples explains that it is not feasible to expect immediate and significant reductions in UFG as a result of UFG mitigation efforts.

I take exception to this statement. Many of these LUFG reduction plans have been on the books since at least 2008 – over a decade, as documented in the previous cases addressed by the Commission. The Companies have had sufficient time to explore the effectiveness of these strategies. I agree with the Office of Investigation and Enforcement (I&E) and the Office of Small Business Advocate (OSBA) - it is time for

Peoples' UFG mitigation plan to show positive results. This is fundamentally important as the Companies current LUFG is not only costing customers upwards of \$23.9M per year but also losing to the atmosphere substantial quantities of a potent greenhouse gas.

Pa. PUC, et al. v. Peoples TWP LLC, Docket No. R-2017-2586317, Statement of Vice Chairman Andrew G. Place at 1-2, 4 (August 31, 2017). (Vice Chairman Statement)

We acknowledge the substantial and laudable steps the Company has taken since the 2017 PGC proceedings. For instance, the Peoples Companies have indicated that following the 2017 PGC proceedings and pursuant to the settlements of those proceedings, they have, among other things, assembled a cross-functional UFG team to assess, analyze and take deliberate steps to mitigate UFG. According to the Companies, the UFG team will be led by a new, senior, full-time manager with a primary job description of managing UFG reduction initiatives. The Peoples Companies plan to continue UFG reduction initiatives, prioritize enhanced leak repair where appropriate and replace pipelines that cannot be repaired. They have also indicated they will continue to monitor supply interconnects to ensure accurate measurement and effective backflow prevention equipment. The Companies also plan to continue system segmentation efforts to identify and report UFG based on pipeline function. PNG St. 1 at 10-11.

According to Peoples, the above activities eventually led to the development of the UFG Mitigation Plan, which, the Companies have indicated, is the basis for the proposed producer charge. The charge, they say, is intended to recognize that the producers substantially benefit from the existence of the gathering systems and should share in the cost of UFG incurred to carry conventional production to the city gate. But most importantly, the Companies allege the proposed producer charge will help incent the producers to help contribute to the reduction of gathering system UFG. PNG R. Exc. at 2-3. As earlier indicated, the Peoples Companies made several

recommendations on areas for additional UFG mitigation activities, including:

- (1) additional segmentation to enhance identification of potential UFG targets;
- (2) accelerated leak repair for bare steel gathering;
- (3) gathering pipeline improvement strategy;
- (4) removal/replacement of at-risk gathering pipelines;
- (5) further analysis to be performed concerning certain gathering pipelines;
- (6) gathering pipelines abandonment considerations and communication;
- (7) gas measurement enhancements;
- (8) unauthorized use; and
- (9) mapping enhancements. PNG St. 1 at 12.

Nonetheless, as highlighted in Vice Chairman Place's Statement, the Peoples Companies have been making similar commitments to monitor and reduce UFG on their gathering systems since 2008 but have, over the years, not effectively complied with reducing gathering system UFG, as shown in their steadily increasing gathering system UFG levels for the past three years, as reported in the instant proceeding. OCA St. 1 at 7; Vice Chairman Statement at 1-2, 4. Hence, while we acknowledge PNG's claim that the proposed producer charge is one component of a comprehensive plan to address gathering system UFG, we are also cognizant of the Companies' past commitments to address gathering system losses with no accompanying positive results. PNG R. Exc. at 1. Here, per the Partial Settlement, Peoples has agreed to reduce its gathering system UFG to 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021. Joint Petition at 3. Consequently, we reiterate that failure of the Company to comply with these agreed-upon UFG target levels described above may necessitate an adjustment to disallow certain costs in Peoples' future PGC proceedings. Vice Chairman Statement at 5.

The reasonableness of a mitigation measure depends on whether the measure was successful in reducing UFG, not whether such measures were carried out. Nonetheless, in the instant proceeding, we are permitting the Company to recover its UFG costs despite the fact that its UFG cost have increased from 2016 to 2017. We put the

Company on notice, however that if its reported total UFG in next year's Section 1307(f) proceeding (*i.e.*, for the twelve months ending August 31, 2018) should exceed the Company's total 5.5% UFG level reported for the twelve months ending August 31, 2017 (PNG Exh. No. 5 at 1), we may consider disallowing the recovery of the costs associated with the excess UFG, unless the Company could justify its failure in reducing UFG levels.

Also, as previously indicated, currently the justifiable cost of all UFG is passed through to customers via PGC rates and retainage charges. While presumably that new investment in capital or costs associated with change in operations to reduce UFG should be paid for by customers through base rates, the underlying issue, should any producer retainage charge be approved, is what the appropriate cost sharing or level of reasonableness is appropriate between customers and conventional gas producers. The producer retainage rate of 2.0% was simply proposed by Peoples in this proceeding in order to minimally increase the current retainage rate by 0.2%, from 6.4% to 6.6%, coincidentally recovering approximately 19% of gathering system UFG from producers. However, this fact does not diminish the purpose and the reasoning behind the Company's proposal of such a charge. Therefore, while we are adopting the ALJ's recommendation approving the proposed producer charge, we shall direct Peoples to develop and submit as part of its next Section 1307(f) filing, a cost allocation study, supported by either empirical evidence or compelling logic, to determine more accurately what portion of UFG costs should be recovered from conventional gas producers.

Before concluding this disposition, we note that our approval of the Company-proposed producer retainage charge is consistent with the ALJ's conclusion that because the producers are also beneficiaries of Peoples' gathering system, it is only logical that they also contribute to the costs associated with the gathering system UFG. R.D. at 88-90. We note that approximately 81% of the gathering system UFG would be recovered from Peoples' customers while only 19% will be recovered from the

conventional gas producers. This is only a fraction of the total cost of the gathering system UFG. PNG M.B. at 11. It is clear that at the moment, only transportation and sales customers bear the burden of the Peoples Companies' gathering system UFG. As beneficiaries of the gathering system, we believe it is fair and in the public interest that the producers also contribute to the costs associated with the Company's gathering system. The record in this proceeding is clear that the gathering system often provides the only way that producers can move their gas to market. It is also clear that Equitable already have a gathering system retainage charge for producers, as shown in Equitable Rate AGS. We note that PIOGA's witness testified, that without the proposed producer charge, producers have no incentive to reduce UFG on its gathering system. Tr. at 92. Thus, we agree with the OCA that approval of the proposed charge will begin the process of assigning responsibility for gathering system UFG to those that benefit and/or use the gathering system and that this will reduce the losses that otherwise would have been recovered from retail sales and transportation customers. OCA St. 1 at 9-10.

2. PIOGA's Exception No. 2, Replies and Disposition

In its Exception No. 2, PIOGA avers the ALJ misunderstood its argument in concluding that Peoples' historical practice of not charging producers a gathering charge prohibits the proposed charge. Exc. at 7 (citing R.D. at 77-79; Finding of Fact Nos. 69, 70 and 72; Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). In addition to questioning the Company's decision to suddenly charge a producer retainage rate, PIOGA disagrees with the ALJ's agreement with the Company's rationale for the charge. PIOGA submits that the ALJ's decision is based on a misunderstanding of the arguments PIOGA presented in this proceeding opposing the rationale. PIOGA disagrees that the producer retainage charge is necessary to provide conventional gas producers with an incentive to help Peoples reduce gathering system UFG. Exc. at 8-9 (R.D. at 78-79, 81; PIOGA R.B. at 8-9). PIOGA argues there is substantial evidence showing that these types of charges do not incent producers, as can be seen in the case of

producers paying extremely high retainage rates on gathering lines owned and operated by Peoples' affiliates.²³ Exc. at 9 (citing PIOGA M.B. at 14). Thus, PIOGA concludes that the ALJ's approval and acceptance of Peoples' rationale for proposing a producer retainage charge overlooks the mounting evidence PIOGA has produced in this proceeding to disprove the rationale. Exc. at 9-10.

Peoples rejoins that contrary to PIOGA's Exception No. 2, the ALJ fully understood the arguments put forth by PIOGA and soundly rejected them for the following reasons. First, the Company argues there is nothing that prohibits an ongoing review of the PGC, especially, when there is an existing provision that allows an evaluation of not only the appropriateness, but the justness and reasonableness of the PGC rates, on an annual basis. PNG R. Exc. at 8-9 (citing R.D. at 78, quoting 66 Pa. C.S. § 1307(f)). Secondly, Peoples contends it has made it abundantly clear throughout this proceeding that following the 2017 PGC proceedings, it embarked on an extensive and in-depth analysis on ways to reduce gathering system UFG, which ultimately led to the development of the UFG Mitigation Plan. Peoples argues the proposed charge is part of its commitment to effectively execute the UFG Mitigation Plan. PNG R. Exc. at 9 (citing PNG R.B. at 7).

Next, Peoples contends PIOGA's argument that the retainage charge will not incentivize producers contradicts PIOGA's testimony in this proceeding that absent the proposed retainer charge, conventional producers have no incentive to help reduce UFG on the gathering system. PNG R. Exc. at 9 (citing PNG R.B. at 7; Tr. at 92). Peoples argues that having a financial stake by way of the proposed charge will help producers contribute to the reduction of the Company's gathering system UFG. PNG R. Exc. at 9 (citing PNG R.B. at 7). Finally, the Company dismisses PIOGA's argument

²³ PIOGA argues Peoples' experience with the Goodwin and Tombaugh systems demonstrate that incentivizing producers with a gathering retainage charge does not work. Exc. at 9 (citing PIOGA M.B. at 14).

that eliminating “gathering fees” and “production enhancement fees” would be more of an incentive to producers than the proposed retainage charge. The Company argues this assertion is not supported by any evidence and does not help Peoples’ efforts to reduce gathering system UFG. PNG R. Exc. at 10 (citing PNG St. 5-R at 24).

The OSBA avers the ALJ clearly agrees with Peoples’ rationale that absent the producer retainage charge, the conventional gas producers have no incentive to reduce the gathering system UFG. The OSBA fully supports the ALJ’s approval of the charge and believes it will help incentivize the producers to reduce gathering system UFG. OSBA R. Exc. at 4 (R.D. at 78-79).

a. Disposition

Upon review, we shall deny PIOGA’s Exception No. 2. As we indicated in our earlier disposition, we agree that because the producers are beneficiaries of the gathering system, they should also contribute to the cost of the Company’s gathering system UFG. We do not have any problem with the proposed charge as we believe it would reduce the cost currently borne by the Company’s other customers as well as help incentivize the producers to contribute toward Peoples’ efforts to reduce its gathering system UFG. The Company has indicated that the proposed producer charge is part of a comprehensive effort to reduce its gathering system UFG levels as defined in the Company’s UFG Mitigation Plan developed after the 2017 PGC proceedings.

Furthermore, as PIOGA points out, Peoples Natural Gas opposed the OCA’s proposal in last year’s PGC proceeding. The OCA’s proposal in the previous PGC proceeding was similar the Company’s proposal in the present proceeding, in that both attempt to partially unbundle the integrated cost allocation on the system and reassign responsibility for UFG on the gathering system. However, the Company’s

proposal in the instant proceeding is both different than that proposed by the OCA and based on information that was not available until recently.

The OCA's proposal, referenced by PIOGA, was an attempt to assign responsibility for UFG on the gathering system to only those transportation customers who use the gas delivered through the gathering system by adopting separate retainage charges for distribution and gathering systems. Peoples Natural Gas opposed the OCA's proposal based on its belief that the assessment of an unbundled gathering system retainage rate to transportation customers would potentially create some practical and fairness issues as a result of the integrated nature of its gathering system:

Gas does not flow from the gathering system to a limited number of interconnection points with the Peoples system; rather, gas in the gathering system is already in the Peoples system. The gathering system is integrated with the distribution system and serves all customers who use the integrated system.

As long as the Company has had a transportation program, it has charged a single retainage rate to transportation customers, regardless of where the transportation customers source their gas. This is consistent with the Company's operation of its system as if it is an integrated whole, even though there are discrete sections of the system that are not fully integrated with the rest of the system.

* * *

Even more basic to the specific issue raised by the OCA, if a transportation customer purchases gas from a supplier who delivers gas to the Peoples system only from an interstate pipeline, but that customer is located downstream of the gathering system and is physically consuming gas that is delivered through the gathering system, should that customer pay the gathering system retainage? Should that customer

also pay retainage on the distribution system? Should that customer also pay retainage on the upstream pipeline that its supplier is using?

Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC, Docket Nos. R-2017-2586310, R-2017-2586318, Peoples St. No. 4-R at 14-16.

It is shown that the unbundling of gathering related costs and the task of reassigning them amongst specific customers is a complex undertaking. However, the Company's proposal in the instant proceeding is not such a proposal. We are of the opinion that the Company has provided substantial support for its proposed producer retainage charge, designed to recover of a portion of gathering system UFG (19%) from conventional gas producers, who likewise benefit from the use of the gathering system.

Furthermore, as explained *supra*, the Company has undertaken an in-depth, comprehensive analysis of ways in which to reduce gathering system UFG, developed the UFG Mitigation Plan, and committed to invest substantial capital in its gathering system, all of which have been accomplished since last year's PGC proceeding. Additionally, as we discussed in our earlier disposition, the producers as beneficiaries of the gathering system should also be required to contribute to the cost of the Company's gathering system UFG. Thus, approval of the producer charge will incentivize the producers to contribute toward PNG's efforts to reduce its gathering system UFG and reduce the cost currently borne by the Company's other customers.

Consistent with the foregoing discussion, we conclude that Peoples Gas provided sufficient support for its decision to establish the proposed producer retainage charge and that the ALJ adequately considered each Party's position in his recommendation to adopt the retainage charge. Accordingly, PIOGA's Exception No. 2 is denied.

3. PIOGA's Exception No. 3, Replies and Disposition

In its Exception No. 3, PIOGA avers the ALJ erred in concluding that the producer charge is consistent with the integrated nature of Peoples' distribution, transmission, and gathering systems. PIOGA also faults the ALJ for not taking judicial notice and not considering its Joint Stipulation and Request to Discontinue between the Commission and PIOGA (Joint Stipulation). Exc. at 11 (R.D. at 68, 79-83; Finding of Fact Nos. 58, 59, 61-63, 65-68; Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). Similar to its Exception No. 2, PIOGA questions the ALJ's rejection of its argument that the proposed producer charge is uncommon and the ALJ's agreement that the Peoples Companies' unique integrated system can be likened to the FERC-regulated interstate integrated pipelines and unregulated gathering companies with respect to charging producers separately for gathering retainage. Exc. at 11(citing R.D. at 80, 82). PIOGA contends Peoples' argument above is inaccurate and that Peoples has failed to identify, in the instant proceeding, any Commission-regulated NGDC that charges separately for gathering retainage, except its Equitable Division. In addition, PIOGA points out that the Commission has always maintained that gathering services "are generally provided on a contract basis rather than a "public utility" services basis. Exc. at 11-12. PIOGA also took issue with the ALJ's rejection of its Joint Stipulation and faults the ALJ for describing it as a "factual stipulation." *Id.* at 12-13.

In Reply, Peoples commends the ALJ's conclusion that PIOGA's arguments regarding this matter are without merit. PNG R. Exc. at 10-11. Peoples avers the ALJ was right in concluding that like integrated interstate pipelines and its Equitable Division, Peoples can charge separately for the gathering component of its integrated system. *Id.* at 11 (citing R.D. at 79-80). Peoples argues its Commission-approved Equitable Rate AGS tariff already charges any producer wanting to transport gas through the gathering system as well as to deliver gas directly into Equitable's distribution

system.²⁴ In addition, Peoples highlights several companies with interstate integrated pipelines that charges separately for gathering retainage. Peoples contends that because of the unique nature of its system, its integrated operations are comparable to the interstate integrated pipeline companies that charges separately for gathering retainage. PNG R. Exc. at 11-12 (citing PNG R.B. at 8-9).

Next, Peoples argues PIOGA also fails to recognize in its opposition to the charge that the 2.0% proposed rate in the instant proceeding is significantly less than that charged by other interstate pipelines in the area and is only meant to ensure the producers contribute their fair share to reduce the Company's gathering system UFG.²⁵ PNG R. Exc. at 12 (citing PNG M.B. at 12). In addition, in disputing PIOGA's allegation that Peoples failed to identify a Commission-regulated NGDC other than Equitable that charges a similar rate, Peoples reiterates it is the only jurisdictional utility with significant gathering system in Pennsylvania. PNG R. Exc. at 12 (citing PNG St. 5-R at 13). Peoples also dismisses PIOGA's mischaracterization of the Joint Stipulation as a "legal position" rather than a stipulation of facts. PNG R. Exc. at 12-13. Peoples argues that PIOGA's failure to present the Joint Stipulation prior to submitting its Main Brief is a violation of Peoples' due-process rights. According to Peoples, this prevented the Company from: (1) reviewing the stipulation during the evidentiary phase of this proceeding; (2) propounding discovery on PIOGA about the Joint Stipulation; (3) presenting evidence in rebuttal; and; (4) cross-examining PIOGA's witness about the Joint Stipulation. PNG R. Exc. at 13 (citing 66 Pa. C.S. § 332(c); *Schneider v. Pa. PUC*,

²⁴ Volumes under this service are subject to a gathering rate and a gas-in-kind retainage rate (for the recovery of gathering UFG) that is determined by negotiations. PNG R. Exc. at 11 (citing PNG R.B. at 8).

²⁵ According to Peoples, Equitrans charges 9.5% gathering retainage rate, as of August 1, 2016, Dominion Energy Transmission's FERC-approved gathering retainage rate was 9.34%, Columbia Gas Transmission LLC charges a 4.5% rate, which will increase annually by 0.5% until it reaches 6.0% in 2021. PNG R. Exc. at 11-12 (citing PNG M.B. at 12-13; PNG R.B. at 8-9).

479 A.2d 10, 15 (Pa. Cmwlth. 1984)). Peoples further argues that because the Joint Stipulation, which simply references how midstream gathering services are “generally” provided in Pennsylvania, is between PIOGA and the Commission, Peoples cannot be bound to it. Finally, Peoples concludes nothing in the Joint Stipulation invalidates the Company’s proposed charge and so the ALJ appropriately rejected the Joint Stipulation. PNG R. Exc. at 13-14 (citing PNG R.B. at 12).

In support of the ALJ, the OSBA argues Equitable already has a Commission-approved Rate AGS that charges a different rate for the gathering component of its integrated system. OSBA R. Exc. at 4 (citing R.D. at 79). According to the OSBA, integrated systems charge separate rates for gathering retainage and PIOGA has not offered any tangible reason for Peoples’ integrated system to be treated any differently. OSBA R. Exc. at 4.

a. Disposition

Clearly, PNG’s UFG rate has been a longstanding problem and must be mitigated as expeditiously as possible. The historic trend of increasing UFG rates on PNG’s system has resulted in negative consequences on public safety and the cost of service on sales and transportation customers. In response to that problem, PNG has repeatedly committed to review, report, analyze and monitor its UFG levels. However, the Company’s gathering UFG levels are continuing to increase. The Company attributes its high UFG levels to the uniqueness of its system compared to the systems of many other NGDCs, in that it includes gathering, transmission and storage assets.

We concur with PIOGA’s position that NGDCs charging producers separately for gathering retainage is not common. We further do not dispute PIOGA’s assertions that “in every example provided by PNG involving a FERC-regulated interstate integrated pipeline, the gathering pipelines serving state-regulated public utility

customers are owned by the FERC-regulated pipeline and not by the natural gas distribution public utility whose customers are served” or “that PNG has not identified *any* Commission-regulated natural gas distribution company that charges separately for gathering retainage, except its Equitable Division.” See PIOGA Exc. at 11-12.

Notwithstanding our agreement with PIOGA’s above assertions, it is important to note, however, that PNG is a unique gas utility entity in Pennsylvania. In the process of providing gas distribution service, PNG operates its gathering, transmission, storage and distribution facilities as an integrated system. The Company includes the capital costs of the investment in these pipeline facilities, including gathering pipelines, in rate base for ratemaking purposes. Furthermore, the Company includes the cost of operating and maintaining these pipeline facilities, as well as the associated depreciation expense, in its cost of service for ratemaking purposes. As noted by the Company both the Commission and PHMSA define “gathering line” as a “pipeline that transports gas from a current production facility to a transmission line or main” and define “distribution line” as a “pipeline other than a gathering or transmission line.” PNG M.B. at 18 (citing 52 Pa. Code § 59.1; 49 C.F.R. § 192.3). I&E witness Cline explained that a distribution system is designed to deliver natural gas directly to customers in high density population areas whereas PNG’s gathering systems were originally designed to gather natural gas from local production wells for the benefit of the entire system. Attaching customers to these lines was incidental to the original goal of obtaining local supply. I&E St. No. 1 at 9 (citing PNG Exh. No. 2 at 13-16). Therefore, PNG is not dissimilar from FERC-regulated companies that own gathering pipelines serving state regulated public utility customers.

Furthermore, we concur with the Company that its facilities in question are correctly classified as gathering facilities under FERC’s modified “primary function test,” which includes consideration of physical and geographical factors including: (1) the length and diameter of the pipelines; (2) the facilities’ geographical configuration; (3) the

extension of the facilities beyond the central point in the field; (4) the location of compressors and processing plants; (5) the location of the wells along all or part of a facility; and (6) the operating pressures of the pipelines. Peoples M.B. at 18-19.

Based on our review of the record, PIOGA's argument against the use of FERC's primary function test is weakened by its witness' lack of knowledge of the method of the test or its existence. We highlight the testimony of PIOGA witness, Mr. Hillebrand:

Q. Are you aware whether the Federal Energy Regulatory Commission uses a primary function test to determine whether facilities are gathering?

A. I am not.

* * *

Q. Could you read that definition for the record please?

A. "Gathering line means a pipeline that transports gas from a current production facility to a transportation line or main."

Q. Again, is there anything in that definition that establishes whether or not there are customers on a gathering line?

A. No.

Q. Are you aware of the term "mainline tap customers?"

A. No.

Q. How about the term "field line customers?"

A. No.

Q. The term "dual purpose meters?"

A. No.

Q. What about situations where a PUC-regulated customer is served directly off an interstate transmission line, are you aware of those situations, any of those situations?

A. Only through prior testimony here.

Tr. at 84-86.

Thus, we are not persuaded by PIOGA's argument on this issue. Accordingly, we acknowledge that PNG is "unique" in its position as a Pennsylvania gas utility that owns gathering pipelines. Therefore, we view the Company's integrated operations comparable to interstate integrated pipelines and conclude that due to its unique integrated system, the proposed retainage charge on producers is appropriate. As such, we agree with the ALJ's rationale that even though the Company operates an integrated system, like Equitable, it may also impose charges associated with the individual cost components of its system including gathering pipelines. R.D. at 88. We note that Equitable already charges a separate Commission-approved negotiated producer rate for its gathering system and so we find no issues with approving the proposed producer retainage charge for PNG. Also, while there currently are no regulated NGDCs operating in Pennsylvania that employ a similar charge, the record in this proceeding is inundated with evidence regarding similar systems including FERC-regulated interstate integrated pipelines and unregulated gathering companies that charge producers separately for gathering retainage. According to Peoples, its proposed 2.0% producer charge is very reasonable compared to the FERC-regulated interstate integrated pipelines which charges an average of 9.0% retainage rate. Furthermore, we acknowledge the Peoples Companies explanation that following the 2017 PGC proceedings, it decided to aggressively tackle its high gathering system UFG. Consequently, it developed a UFG

Mitigation Plan and ultimately proposed the producer retainage charge to help mitigate gathering system UFG.

In light of the foregoing discussion, we conclude that the ALJ did not err in finding that PNG can impose a producer retainage charge for the gathering component of the Company's integrated system. Therefore, we shall adopt the ALJ's decision on this issue and deny PIOGA's Exception No. 3.

4. PIOGA's Exception No. 4, Replies and Disposition

In its Exception No. 4, PIOGA disagrees with the ALJ's conclusion that PIOGA's alternative definitions of gathering and distribution pipelines do not support a rejection of the proposed producer retainage charges. PIOGA Exc. at 13 (citing R.D. at 81-82; Finding of Fact Nos. 82, 87, Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). In disputing the ALJ's ruling, PIOGA avers the ALJ focused on the fact that PIOGA's alternative definitions are not industry-supported and overlooked Mr. Hillebrand's extensive engineering experience and the basis for his testimony and alternative definitions. PIOGA Exc. at 13-14. PIOGA argues the ALJ also overlooked Peoples' inconsistent reporting of gas deliveries in its UFG reports for 2016 and 2017 including Peoples' inconsistent use of regulatory definitions. *Id.* at 13-17.

In Reply, Peoples points out several flaws in PIOGA's definitions including the limited knowledge of PIOGA's witness, Mr. Hillebrand, when it comes to experience

with natural gas utilities and pipeline classification.²⁶ According to Peoples, Mr. Hillebrand's attempt to classify gathering pipelines based on whether "PUC regulated customers" are connected to them is unsupported and not based on any actual experience. PNG R. Exc. at 14-16 (citing PNG M.B. at 17). Peoples argues PIOGA's definitions contradict the definitions set forth in PHMSA and the Commission's Regulations. For instance, according to Peoples, both the Commission and PHMSA define "gathering line" as a "pipeline that transports gas from a current production facility to a transmission line or main" and "distribution line" as a "pipeline other than a gathering or transmission line." PNG R. Exc. at 16 (citing 52 Pa. Code § 59.1; 49 C.F.R. § 192.3). Unlike PIOGA's definitions, nothing in the Commission and PHMSA definitions mention the type of customers, if any, that are connected to the pipeline, Peoples argue. PNG R. Exc. at 16 (citing PNG M.B. at 18). From Peoples' perspective, PIOGA's alternative definitions are only intended to excuse the producers from contributing their fair share by way of the retainage charge to the Company's gathering system UFG. PNG R. Exc. at 19.

Peoples also argues PIOGA's definitions contravene FERC's "modified primary function test" which FERC uses to determine if facilities are non-jurisdictional gathering facilities. PNG R. Exc. at 16 (citing PNG M.B. at 18-19). Peoples further argues PIOGA's definitions, among other things, are contrary to FERC precedent and would lead to irrational outcomes. Finally, disputing PIOGA's argument regarding Peoples' 2016 and 2017 UFG reports, the Company contends nothing in the UFG reports changes the fact that pipelines should be classified based on the definitions and methods

²⁶ According to Peoples, Mr. Hillebrand, who admitted he was unaware that FERC uses an established "modified primary function test" to determine if pipelines are non-jurisdictional gathering facilities, among other things, never even knew of situations where Commission-regulated customers were served directly off of an interstate transmission line. Peoples further argues, Mr. Hillebrand does not know what main line tap customers, field line customers, or what dual purpose meters are. PNG R. Exc. at 15-16 (citing Tr. at 84-86).

employed by the Commission, PHMSA, and FERC. Therefore, Peoples requests that the Commission reject PIOGA's alternative definitions. PNG R. Exc. at 17-19.

The OSBA argues that even if PIOGA's alternative definitions were to be adopted, it still does not change the fact that conventional gas producers need to pay their fair share of the UFG costs through the retainage charge because they use and benefit from their connection to the Company's gathering system. OSBA R. Exc. at 5.

a. Disposition

Upon our review, we shall deny PIOGA's Exception No. 4. As discussed in more detail below, we believe the ALJ correctly rejected PIOGA's witness' definition of gathering and distribution pipelines. We also note that unlike the alternative definitions presented by PIOGA, Peoples' utilized the definitions set forth in PHMSA and the Commission's Regulations. Instead of using PIOGA's definitions, Peoples' complied with FERC's "modified primary function test" in the classification of its pipelines for safety and operational purposes. Tr. at 55; PNG M.B. at 18; PNG R.B. at 11.

As noted PIOGA excepts to the ALJ's rejection of its witness Mr. Hillebrand's definitions because it believes that they are more appropriate than those used by the Commission, PHMSA, and FERC because of its witness' experience as an engineer in the oil and gas industry. However, Mr. Hillebrand testified during the hearing that he could not identify the source of his definitions but that he had developed the definitions based on his extensive and long-standing experience in the industry. Mr. Hillebrand also testified he is not aware of the Uniform System of Accounts for gas utilities or FERC's "modified primary function test" that is used to classify pipelines. Tr. at 81-84. For these reasons, we find Mr. Hillebrand's display of lack of knowledge regarding the regulatory requirements in terms of pipeline classifications and definitions

to be disconcerting and we question the legitimacy of his proposed definitions on that basis. Nevertheless, as averred by the OSBA, even if we were to adopt PIOGA's alternative definitions, it still does not change the fact that the conventional gas producers benefit from their connection to Peoples' gathering system and should contribute their fair share to the Company's gathering system UFG costs. OSBA R. Exc. at 5. Therefore, we conclude that PIOGA's proposed alternative definitions do not prohibit them from contributing to the cost of the Company's gathering system UFG. As such, PIOGA's Exception No. 4, is hereby denied.

5. PIOGA's Exception No. 5, Replies and Disposition

In its Exception No. 5, PIOGA disagrees with the ALJ's rejection of its argument that the high gathering system UFG is a result of Peoples' decades-long failure to invest in the gathering system and so the producers should not be made to subsidize for the Company's neglect in investing on its gathering lines. Exc. at 17 (citing R.D. at 67-68, 83-84; Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). According to PIOGA, the ALJ erred in concluding that PIOGA's arguments are not persuasive to support a denial of the producer charge. PIOGA further faults the ALJ's reliance on the OSBA's argument that if PIOGA were correct that the conventional gas producers do not contribute to the gathering system UFG, then the same could be said of sales and transportation customers. Exc. at 17-18.

In Reply, Peoples avers that the ALJ properly concluded that because conventional gas producers are the primary beneficiaries of the gathering system, they are required to pay their fair share by contributing toward the cost of the UFG on the gathering system. PNG R. Exc. at 19-20 (citing R.D. at 83-84). The Company also dismisses PIOGA's argument that the high UFG is a result of their neglect of the gathering system. According to Peoples, it has spent \$17.1 million over the past four years to improve and upgrade the gathering system. While this amount is minimal when

compared to the amount it spent on distribution pipelines over the same period, Peoples reiterates its initial post-acquisition capital investments were focused on replacing at-risk distribution pipelines due to safety reasons. Peoples emphasizes its commitment to spend approximately \$21.1 million over the next four years to further address their gathering systems. PNG R. Exc. at 20 (citing R.D. at 84). Finally, Peoples disputes PIOGA's argument that sales and transportation customers should pay for UFG because they receive natural gas from the system, but conventional gas producers should not pay because they only supply natural gas to system. From Peoples' perspective, the fact that producers would be unable to transport their product to the market without the gathering pipelines makes them as much as responsible as the transportation and sales customers when it comes to gathering system UFG. PNG R. Exc. at 20-21.

The OSBA also agrees with the ALJ's rejection of PIOGA's argument that producers should not be held liable as they are not responsible for the gathering system losses. The OSBA reiterates its argument that going by PIOGA's logic, if producers are not responsible even though they benefit from the Company's gathering system, then the same should apply to Peoples' sales and transportation customers. Accordingly, the OSBA concludes the ALJ was correct in his determination that because producers clearly benefit from their connection to the gathering system, they should pay their fair share of the UFG costs and help to mitigate the Company's gathering system UFG through the retainage charge. OSBA R. Exc. at 5-6.

a. Disposition

Upon review, we shall deny PIOGA's Exception No. 5. We are not convinced by PIOGA's argument regarding this matter. While we acknowledge that Peoples' investments in its gathering system is not equivalent to the investments in its distribution system, we also recognize the Company's explanation that for safety reasons and due to the criteria utilized in risk rankings under the federally mandated DIMP,

Peoples initial post-acquisition capital investments were focused more on replacing at-risk distribution pipelines. Peoples has indicated that the distribution pipelines represent 71% of the targeted pipelines and serve 99% of the Companies' customers compared to the gathering pipelines which represent 29% of the targeted pipeline miles and directly serve only 1% of the Peoples Companies' customers. PNG St. 5-R at 7-9. We note that Peoples has spent \$17.1 million over the past four years to improve and upgrade its gathering pipeline infrastructure and has committed to spending another approximately \$21.1 million over the next four years to further address its gathering system UFG. PNG St. 1-R at 3. During this four-year period, Peoples plan on removing 115.2 miles of at-risk gathering pipeline, and in the process, save \$90 million that would be spent if the lines were replaced. Peoples Gas Exh. 2 at 17-19. More importantly, we reiterate that in line with the Companies' commitment to reduce gathering system UFG and the fact that the producers are also beneficiaries of the Companies' gathering system, we find it is appropriate for the producers to contribute toward the cost of the gathering system UFG. As such, we shall deny PIOGA's Exception No. 5.

6. PIOGA's Exception No. 6, Replies and Disposition

In its Exception No. 6, PIOGA asserts that the ALJ's approval of the proposed charge to deliveries of conventional gas wells into Peoples' distribution and transmission pipelines is contrary to well-known and long-established rules requiring evidence to support a utility's tariff proposals. Exc. at 18 (citing R.D. at 84-86; Conclusions of Law Nos. 11-15, 27; Ordering Paragraph Nos. 2, 5, 6). PIOGA questions the ALJ's approval of the Rate GS for all conventional production in spite of the several Findings of Fact in this proceeding supporting the fact that Peoples intended to apply the charge only to what it termed "gathering pipelines."²⁷ PIOGA references Peoples' testimony that "[t]here are two proposed changes, one for the Peoples Division tariff and

²⁷ PIOGA avers Finding of Fact Nos. 27, 28, 47, 48, 51, 53-56, 58, 59, 61-63, 69-72, 74, 79-81, all suggests that the Rate GS applies only to gathering lines.

one for the Equitable division tariff; ***both regarding gathering retainage.***” Exc. at 18-19 (citing PNG St. 1 at 13) (emphasis by PIOGA). PIOGA also points out the fact that the OCA’s alternative proposals are limited to “gathering system” deliveries and usage and excludes usage and deliveries on Peoples’ distribution and transmission pipelines. Exc. at 19.

Additionally, PIOGA disagrees with the ALJ’s acceptance of Peoples’ “administrative ease” argument as a basis for the approval. PIOGA argues that while it agrees that when a proponent of a request presents a *prima facie case* the burden shifts to the opposing party to present evidence to rebut the *prima facie case*, it also agrees that the “preponderance of evidence “standard is satisfied by presenting evidence that makes the ***existence of a contested*** fact more likely than its non-existence.” *Id.* (citing R.D. at 53-54; Conclusion of Law Nos. 13, 14) (emphasis by PIOGA).

PIOGA does not believe Peoples satisfied the “preponderance of evidence” standard to justify approval of the Rate GS for all conventional gas production including distribution, transmission and gathering lines deliveries into the Companies’ system. PIOGA argues it saw no need to present evidence to rebut Peoples’ claim regarding the administrative ease in applying the same rate to both divisions. PIOGA further argues that while Peoples’ calculation by volume of deliveries to just the gathering lines (2.0%) compared to deliveries to both gathering and distribution lines (2.17%) shows the difference is negligible, the fact that Peoples proposed the 2.0% charge rather than the 2.17% is a testament to the Company’s intent to apply the charge only to gathering system deliveries. *Id.* at 20-21. Finally, in addition to disputing the ALJ’s Finding of Fact No. 71,²⁸ PIOGA contends it is clear from the record that Peoples failed to present

²⁸ Finding of Fact No. 71 states “[a]s the system improves and UFG loss declines, the retainage collected from producers can also decline.” R.D. at 19 (citing PNG St. 1 at 13-14).

evidence to support the language in its proposed Rate GS tariff and that Peoples' reliance on an already existing Equitable Rate AGS tariff in this proceeding is misplaced. *Id.* at 21 (citing PIOGA St. 1 at 9-10; PIOGA St. 1-SR at 11-12; PIOGA Exh. MAH-4 (PNG), 1,2).

In Reply, Peoples contends it presented sufficient evidence to support the proposed charge. Peoples reiterates its administrative ease argument stating it helps the Company to avoid having to track the point of delivery of the volumes of gas delivered for every conventional gas producer connected to Peoples' gathering system and charge accordingly but not have to do so for Equitable. Peoples contends the proposed Rate GS tariff also avoids the possibility of differential treatment for producers based on their point of connection to Peoples' system. PNG R. Exc. at 21-22. Secondly, regarding the difference between the gathering system-only volumes compared to volumes on both the gathering and distribution system, Peoples argues that most of the conventional production volumes flow into the gathering system. According to Peoples, based on its calculations, the difference is minimal (2% compared to 2.17%). Therefore, Peoples asserts it makes sense to have a tariff that applies to both gathering and distribution system, so that the Company may not have to deal with the challenges that comes with applying one tariff to only gathering system for the Peoples' Division and then another tariff that applies to both gathering and distribution system for Equitable. PNG R. Exc. at 22 (citing R.D. at 86; PNG M.B. at 16; Tr. at 56). Finally, Peoples dismisses PIOGA's "preponderance of evidence standard" argument stating the Company presented three clear evidences in support of the proposed charge including: (1) the administrative ease of applying the charge as it is currently applied in Equitable; (2) the negligible difference between Peoples and PIOGA's proposed charges; and (3) the equal treatment of producers in both Peoples Division and Equitable. PNG R. Exc. at 22-23.

As a preliminary matter, we shall address PIOGA's Motion to Strike because it pertains to statements made by the Company in response to Exception No. 6.

In its Motion to Strike, PIOGA argues that the following statements of fact made for the first time in these proceedings by Peoples in its Replies to Exceptions to support Peoples' "administrative ease" argument, should be stricken, because, according to PIOGA, they are not in the record:

- i. Otherwise, the Company **would have to track the point of delivery of the volumes of gas delivered by every conventional gas producer who is connected to the Peoples Division's gathering system** and compute the charge accordingly, but not have to do so for Peoples-Equitable Division's gathering system. Further, **conventional gas producers would be treated differently** depending on whether they are connected to a Peoples Division or Peoples-Equitable Division gathering system. PNG Replies to Exceptions at 22 (emphasis added).
- ii. "and (3) **the equal treatment of producers in both the Peoples Division and Peoples-Equitable Division territories.**" PNG Replies to Exceptions at 23 (emphasis added).

Motion to Strike at 2, 4-5. According to PIOGA, Peoples could not reference where in the record the above purported facts are stated because they are obviously not in the record. *Id.* at 5. PIOGA argues the Commission should reject Peoples' last-minute attempt to introduce extra-record evidence to support its administrative ease argument. According to PIOGA, Peoples' attempt to introduce extra-record evidence by way of its Reply Exceptions, is a testament to the fact that Peoples could not present adequate evidence in this proceeding to justify approval of its proposal. *Id.* at 5-7.

In its Answer, Peoples requests that the Commission deny PIOGA's Motion to Strike because the statements of fact in the Motion are well-supported by the record evidence and from logistical inferences. Answer at 2, 4. Peoples aver the ALJ appropriately rejected PIOGA's unfounded arguments against the proposal and approved the Company's well-reasoned argument regarding the proposed charge. *Id.* at 2-3 (citing

R.D. at 84-86). Peoples argues, it is axiomatic that, under PIOGA's proposal to charge the fee to only some conventional producers, "the Company would have to track the point of delivery of the volumes of gas delivered by every conventional gas producer who is connected to the Peoples Division's gathering system and compute the charge accordingly, but not have to do so for Peoples-Equitable Division's gathering system." Answer at 4 (citing PNG R. Exc. at 22).

Peoples further notes that both Equitable Rate AGS and the proposed Rate GS producer retainage charge are volumetric rates and that the only way to compute the charges correctly is to track volumes delivered. Answer at 4-5 (citing PNG St. 1 at 13, 15; PNG Exh. 7 at 15; Gas – Pa. P.U.C. No. 46, Original Page No. 82).²⁹ Reiterating its arguments for the proposal, Peoples, among other things, asserts it has made it abundantly clear throughout this proceeding that it does not want to treat conventional gas producers in its Peoples Division differently from those in the Equitable Division. Therefore, for uniformity, it is only logical to apply the charge to production delivered to both gathering and distribution lines, similar to Equitable's Rate AGS tariff, Peoples argues. Answer at 5-6.

Upon review, we find that the passages emphasized by PIOGA are supported by the record and the logical inferences deduced from them. It seems clear in the record that both the Equitable Division's Rate AGS and the proposed producer retainage charge would apply to conventional gas production delivered into the distribution and gathering lines. PNG St. 1-R at 27; PIOGA St. 1 at 5. Indeed, PIOGA conceded that the Company clarified how its proposed producer retainage charge would

²⁹ PNG Exh. 7 contains the proposed tariff which states that "[a]ll volumes of gas received at any point under this service will be subject to a 2.0% retainage rate." Gas – Pa. P.U.C. No. 46, Original Page No. 82 states that "[a]ll volumes of gas received at any point under this service will be subject to a gathering rate (billed in dekatherms) and a retainage charge. All rates for this service shall be determined by negotiation."

apply to all conventional production delivered to Peoples Gas facilities. PIOGA St. 1 at 5. Here, the Company explained that its approach is intended to prevent “different rules depending on which company a well ties into.” PNG St. No. 1-R at 27. In this proceeding, PIOGA is attempting to limit the application of the Company’s charge to volumes delivered solely to the gathering lines. As such, it is appropriate to infer that PIOGA’s proposal would require Peoples to know which producers are only delivering conventional production into the Company’s gathering system and the amount of the production being delivered.

Additionally, the record appears to support a conclusion that PIOGA’s proposal would result in the Company’s proposed producer retainage charge only being applied to conventional gas production being delivered into the gathering system while the Equitable Division’s Rate AGS would continue to apply to production delivered into both distribution and gathering lines. Thus, it seems that the Company had a reasonable basis to state in its Replies to Exceptions that PIOGA’s proposal would result in conventional gas producers being treated “differently depending on whether they are connected to a Peoples Division or Peoples-Equitable Division gathering system.” Under the circumstances, we find no basis to strike the language set forth in the Company’s Replies to Exceptions because they are based on record evidence and logical inferences from the facts of record. *Kyu Son Yi v. State Bd. of Veterinary Med.*, 960 A.2d 864, 872 (Pa. Cmwlth. 2008).

Regarding the disposition of Exception, we agree with the ALJ’s finding and shall deny PIOGA’s Exception No. 6.

Peoples has given several reasons it believes applying the proposed charge to both distribution and gathering system is more efficient than having a different application for the Rate GS tariff for the Peoples Division and a different Rate AGS tariff for Equitable. For instance, Peoples has indicated that it modelled the proposed producer

charge after Equitable's Rate AGS tariff which applies both gathering fees and retainage to production entering both its distribution and gathering lines. PNG St. 1-R at 27. According to Peoples, this is to prevent the Company from having to introduce different rules depending on which company's system a well ties into. PNG St. 1-R at 27; Peoples Gas St. 1-R at 26; PNG R.B. at 15. Secondly, Peoples avers the difference between applying the charge to only a gathering system when compared to applying it to both distribution and gathering systems is so minimal that it is not worth the challenges the Company would face in proposing two different tariffs for the two divisions of the Company. PNG M.B. at 16. Peoples argue a recalculation based on the volumes from gathering system-only compared to both gathering and distribution system results in an increase from 2.0% to 2.17%, a less than 10% difference. Tr. at 56. Finally, Peoples contends the proposed Rate GS tariff also avoids the possibility of differential treatment for producers based on their point of connection to Peoples' system. PNG R. Exc. at 21-22. Here, we find the reasons given by Peoples to support its proposed retainage charge to be reasonable. We further note that PIOGA has not presented any evidence in this proceeding to demonstrate that the application of the proposed producer charge to both gathering and distribution system similar to Equitable's already-existing Rate AGS is unreasonable. As such, we shall deny Peoples' Exception No. 6.

7. PIOGA's Exception No. 7 and Replies

In its Exception No. 7, PIOGA avers the ALJ did not address its argument that Peoples failed to provide any evidence to support the approval to change Equitable Rate AGS to a minimum 2.0% retainage charge. Exc. at 21 (citing Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6; PIOGA M.B. at 15-17). According to PIOGA, pursuant to the arguments it presented in its Exception No. 6 and the legal principles propounded by the ALJ, Peoples' proposal to change Equitable Rate AGS should be rejected. Exc. at 21.

In Reply, Peoples avers PIOGA's argument that the Company needed to file a separate tariff supplement to support the proposed 2.0% minimum retainage charge for Equitable is without merit. Peoples argues that under Equitable Rate AGS, the gathering rate and gas-in kind retainage rate (for the recovery of gathering system UFG) are determined through negotiations. According to Peoples, the instant proposed 2.0% minimum for production from all new wells connected to the Equitable system can be implemented without the need to revise the language in the tariff. PNG R. Exc. at 23-24 (citing PNG R.B. at 14; Gas – Pa. P.U.C. No. 46, Original Page No. 82). Nevertheless, Peoples contends, to the extent that the Commission determines that tariff revision is required, the Commission should direct the Company to file a tariff supplement reflecting the 2.0% minimum retainage charge in the Final Order approving the proposed charge. Peoples also indicates it is willing and ready to file any compliance tariff filings required by the Commission in this proceeding. PNG R. Exc. at 24.

Upon review, we agree with the ALJ's approval of the proposed minimum tariff for Equitable in the instant proceeding. We acknowledge that under Equitable Rate AGS, the gathering rate and gas-in kind retainage rate (for the recovery of gathering system UFG) are determined through negotiations. Nevertheless, while we acknowledge that the Equitable Rate AGS is a negotiated rate agreed to by the Parties in a prior PGC proceeding, we also recognize Peoples' argument that for consistency between both the Peoples and Equitable Divisions, it is proposing to change Equitable Rate AGS to provide for a minimum of 2.0% retainage from production from all new wells connected to Equitable's system. PNG St. 1 at 15. We find Peoples' explanation for its proposed change to Equitable Rate AGS tariff to be reasonable. We note that PIOGA has not presented any evidence to demonstrate that the proposal is unreasonable. Therefore, to the extent that PIOGA is requesting that Peoples file a tariff supplement reflecting the 2.0% minimum retainage charge for gas delivered into Peoples' system, we shall grant PIOGA's Exception No. 7. Accordingly, we shall direct Peoples to file a tariff

supplement reflecting the 2.0% minimum retainage charge for its Equitable Rate AGS tariff.

8. PIOGA's Exception No. 8, Replies and Disposition

In its Exception No. 8, PIOGA avers the ALJ erred in concluding that the proposed charge in this proceeding is an appropriate policy to address the Company's gathering system UFG. Exc. at 22 (citing R.D. at 86-87; Conclusion of Law No. 27; Ordering Paragraph Nos. 2, 5, 6). PIOGA reiterates its argument that approval of the proposed charges is bad policy and that the ALJ's dismissal of its argument based primarily on PIOGA's stipulation that the proposed charges, by themselves, will not materially affect existing production from wells or the drilling of new wells, is misplaced. Exc. at 22. PIOGA believes approval of the proposed charges will lead to a slippery slope toward assigning additional "so-called gathering system costs" to conventional producers when they can least afford it. *Id.*

In Reply, Peoples avers PIOGA's "slippery slope" argument is a red herring. According to Peoples, PIOGA's stipulation of potential future charges is immaterial in this case as the proposed charges are meant to reduce gathering system UFG in the Company's system. PNG R. Exc. at 24 (citing PNG R.B. at 16). Therefore, Peoples commends the ALJ's rejection of PIOGA's ill-timed argument and his approval of the proposed retainage charge for conventional gas producers. PNG R. Exc. at 24-25.

Upon review, we shall deny PIOGA's Exception No. 8. We have established in the instant proceeding that pursuant Section 1307(f), 66 Pa. C.S. § 1307(f), PGC proceedings offer the Parties an opportunity to review the justness and reasonableness of Peoples' rates on an annual basis. We find no merit in PIOGA's characterization that the approval of the proposed producer charge will lead to a slippery slope. We note that any future proposed charge by Peoples will be adequately vetted by

the Parties and the Commission prior to approval. We agree that there is no evidence in this proceeding to indicate that approval of the proposed producer charge will jeopardize the provision of safe and reliable service to customers or that the proposed charge will exacerbate the decline of conventional gas production. R.D. at 89. As such, we shall deny PIOGA's Exception No. 8.

VI. Conclusion

Based upon our review, evaluation and analysis of the record evidence in this proceeding, we shall deny the Motion to Strike and deny the Exceptions, in part, and grant them, in part, consistent with the discussion contained in the body of this Opinion and Order. To the extent that PIOGA is requesting that Peoples file a tariff supplement for its Equitable Division reflecting the 2.0% minimum retainage charge for gas delivered into Peoples' system, we shall grant PIOGA's Exception No. 7. Further, we shall adopt the ALJs' Recommended Decision to approve the Partial Settlement without modification and we shall modify the ALJ's Recommended Decision pursuant to our approval of PIOGA's Exception No. 7. We find that Peoples has met its burden of proof for approval of its proposed conventional gas producer charge as well as its PGC filing;

THEREFORE,

IT IS ORDERED:

1. That the Exceptions filed by the Pennsylvania Independent Oil & Gas Association on August 2, 2018, are denied, in part, and granted, in part.

2. That, to the extent that the Pennsylvania Independent Oil & Gas Association, in its Exception No. 7, is requesting that Peoples Natural Gas Company, LLC file a tariff supplement for its Equitable Division reflecting the proposed 2.0%

minimum retainage charge for gas delivered into Peoples Natural Gas Company, LLC's system, we shall grant the Exception.

3. That the Motion to Strike filed by The Pennsylvania Independent Oil & Gas Association on August 17, 2018, is denied, consistent with this Opinion and Order.

4. That the Recommended Decision of Administrative Law Judge Jeffrey A. Watson issued on July 25, 2018, is modified, consistent with this Opinion and Order.

5. That the Partial Settlement at Docket Nos. R-2018-2645278 and R-2018-3000236 among Peoples Natural Gas Company LLC, acting on behalf of its Peoples Division and Peoples-Equitable Division, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate in the above-captioned case, is hereby, approved and adopted.

6. That Peoples Natural Gas Company LLC file tariff supplements, on behalf of both the Peoples and Equitable Divisions, on at least one day's notice to the Commission, containing changes in rates to provide for the recovery of its costs of purchased gas, consistent with the terms and conditions of the Partial Settlement and the 2.0% conventional gas producers retainage charge.

7. That Peoples Natural Gas Company LLC, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate shall comply with the terms and conditions of the Partial Settlement submitted in this proceeding as though each term and condition stated therein had been subject of an individual ordering paragraph.

8. That upon Peoples Natural Gas Company LLC's filing of tariff supplements acceptable to the Commission as conforming with this Opinion and Order and the Partial Settlement, the purchased gas rates established therein shall become effective for service rendered on and after October 1, 2018.

9. That Peoples Natural Gas Company LLC – Peoples Division's proposal to charge conventional gas producers a retainage rate of 2.0% for gas delivered into the Company's system is hereby approved.

10. That Peoples Natural Gas Company LLC shall file tariff supplements to be effective October 1, 2018, which set forth the producer retainage charge of 2.0% as approved herein.

11. That Peoples Natural Gas Company LLC shall file tariff supplements to be effective October 1, 2018, which set forth a 2.0% minimum retainage charge for the Companies' Equitable Division, as approved herein.

12. That the Complaints filed by the Office of Consumer Advocate in these proceedings at Docket Nos. C-2018-3000494 and C-2018-3000496, be deemed satisfied and marked closed.

13. That the Complaints filed by the Office of Small Business Advocate in these proceedings at Docket Nos. C-2018-3000567 and C-2018-3000573, be deemed satisfied and marked closed.

14. That, concurrent with the submission of the information required by 52 Pa. Code § 53.64 (c) to be filed in advance of Peoples Natural Gas Company LLC's next annual tariff filed pursuant to 66 Pa. C.S. § 1307(f), Peoples Natural Gas Company

LLC, shall submit a cost allocation study, supported by either empirical evidence or compelling logic, to determine more accurately what portion of UFG costs should be recovered from conventional gas producers.

15. That the investigations at Docket Nos. R-2018-2645278 and R-2018-3000236 be marked closed.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: September 20, 2018

ORDER ENTERED: September 20, 2018

MIMA # _____

MASTER INTERCONNECT AND MEASUREMENT AGREEMENT

THIS MASTER INTERCONNECT AND MEASUREMENT AGREEMENT is entered into this ___ day of _____ 201__, by and between Peoples Natural Gas Company LLC, a Pennsylvania limited liability company, with an office located at 375 North Shore Drive, Pittsburgh, PA 15212 (hereinafter referred to as "Peoples"), and **PRODUCER**, a **STATE TYPE OF COMPANY**, with an office at **ADDRESS** (hereinafter referred to as "Customer"). As used in this Agreement, Peoples and Customer are also referred to individually as a "Party" and collectively as the "Parties."

WHEREAS, Peoples owns and operates certain natural gas facilities and pipelines located in the Commonwealth of Pennsylvania and the State of West Virginia (the "Peoples' System");

WHEREAS, Customer has available certain supplies of natural gas which it desires to have delivered onto Peoples' System.

NOW THEREFORE, in consideration of the premises and covenants contained herein, Peoples and Customer hereby agree as follows:

ARTICLE I
PURPOSE AND PROCEDURES

1.01 **Master Agreement.** This Master Agreement establishes the general terms and conditions under which Customer will deliver Gas onto Peoples' System through Interconnection Facilities constructed at a specified Receipt Point, thereafter the natural gas shall either be transported through Peoples' System or sold directly to Peoples for whatever use deemed necessary and appropriate by Peoples. The term "Master Agreement" shall include the incorporation of the Appendices.

1.02 **Exhibits and Appendices.** The terms and conditions of each particular transaction whereby Customer will deliver Gas onto Peoples' System at a specified Receipt Point shall be included in individual Exhibits (hereinafter "Exhibit" or "Exhibits"). Information contained in the Exhibits shall include, but not be limited to:

- (a) The designation for the transportation or sale of Gas for a specific Receipt Point;
- (b) The meter number and location at the Receipt Point;
- (c) The time period (hereinafter "Service Term") during which the Gas is to be sold to Peoples or delivered onto Peoples' System;
- (d) Applicable prices, rates and associated fees' however, the Parties agree that the Construction and Installation Fees, and any other operation, installation, or maintenance types fees addressed in the Master Agreement, shall not be included on the Exhibit and shall instead be identified in separate written format(s), such as an invoice;
- (e) An estimate of the annual quantity of Gas to be sold or delivered onto Peoples' System.

1.03 **Exhibits and Appendices as Part of Agreement.** The entire agreement between the Parties shall include those provisions contained in the Master Agreement, the Appendices, and any effective Exhibits. Each duly executed Exhibit is hereby incorporated into and made a part of this Master Agreement. The provisions of each respective Exhibit shall apply only to the quantity of Gas set forth in such Exhibit; however, the provisions of this Master Agreement shall apply to all volumes in all Exhibits.

MIMA # _____

In the event of a conflict between the terms of any Exhibit and the terms of this Master Agreement, the terms of the Exhibit shall govern.

ARTICLE II DEFINITIONS

2.01 **Definitions.** For the purposes of this Master Agreement, the following terms, when capitalized herein, shall have the meanings set forth below:

- (a) "**Authorizations**" means any and all approvals, permits, licenses, franchises, or other authorizations required by any federal or state governmental authority which are necessary for the performance of a Party's obligations hereunder.
- (b) "**Btu**" means a British thermal unit.
- (c) "**Commission**" shall mean the Pennsylvania Public Utility Commission or the West Virginia Public Service Commission, as appropriate, that regulates the intrastate sales and transportation of natural gas.
- (d) "**Construction and Installation Fee**" means the fees charged to Customer for the actual time, labor, tools, materials, equipment and overhead expenses for the development, design and construction activities relative to completing the facilities contemplated by the Exhibits to this Master Agreement.
- (e) "**Contract Price**" shall mean, in the instance in which Gas is sold to Peoples by Customer, the price paid for Gas delivered and taken as set forth in any then-effective Exhibit.
- (f) "**Day**" shall mean a period of twenty-four (24) consecutive hours, coextensive with a "day" as defined by the North American Energy Standards Board ("NAESB").
- (g) "**Dekatherm**" shall mean one million (1,000,000) Btus or one MMBtu.
- (h) "**FERC**" means the Federal Energy Regulatory Commission or any successor federal agency that regulates, or has the authority to regulate, the transportation of Gas in interstate commerce by pipeline.
- (i) "**Gas**" means a mixture of hydrocarbon and non-hydrocarbon gases that satisfies the requirements of Article IX of this Master Agreement.
- (j) "**Gathering Rate**" means for any natural gas delivered by Customer onto Peoples' System at a Receipt Point which is subject to this Master Agreement, Customer shall pay to Peoples a gathering fee as set forth in Exhibit A.
- (k) "**Interconnect**" means the point of interconnection between the Customer and Peoples as set forth in the Exhibits attached hereto as amended from time-to-time.
- (l) "**Interruptible Service Option**" shall mean that Peoples' only obligation under this agreement shall be to receive Gas from the Receipt Point and to permit that Gas to flow against the existing pressure in Peoples' facilities. Peoples shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from the point

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of interconnection. However, it is expressly understood and agreed that the Peoples may restrict the flow or discontinue the taking of Gas temporarily. Peoples shall not be obligated to add any facilities or expand the capacity of its pipeline system in any manner in order to provide the services hereunder. Nothing in this Master Agreement or any applicable Exhibit shall limit Peoples' right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

- (m) "**Mcf**" shall mean one thousand (1,000) cubic feet of gas.
- (n) "**MMBtu**" shall mean one million (1,000,000) Btu's or one Dekatherm.
- (o) "**Production Period**" means a span of approximately thirty (30) days, which may or may not conform to the calendar month, during which time Customer's Gas will be measured for delivery and purchase payment purposes. Production Periods shall be identified by the name of the month in which the period ends.
- (p) "**Receipt Point(s)**" means the point(s) of receipt of Customer's supplied Gas as set forth in the Exhibits attached hereto as amended from time to time.
- (q) "**Retainage Percentage**" shall mean, for any natural gas delivered by Customer onto Peoples' System at a Receipt Point which is subject to this Master Agreement, Peoples shall withhold a retainage percentage as set forth in the Exhibits hereto.

ARTICLE III **APPROVAL, INSTALLATION AND ACTIVATION OF FACILITIES**

3.01 **Application.** Customer shall provide accurate information to Peoples in conjunction with any request for a proposed Interconnect which shall include: (i) the location of the proposed Interconnect; (ii) well plats, if applicable; (iii) the proposed maximum allowable operating pressure of the Customer's gathering line that will feed into the Receipt Point; (iv) the desired date for completion of the Interconnect; (v) the Customer's estimated maximum, minimum and average amount of gas to be delivered through the Interconnect on a daily basis; (vi) the source of Gas; (vii) the Customer's estimated maximum, minimum and average receipt pressure through the Interconnect; and (viii) any other information required by Peoples for the specific Interconnection, including, but not limited to, gas quality and odor intensity tests results.

3.02 **Design Specifications.** Customer shall submit to Peoples complete design specifications for the proposed Interconnect prior to construction of any facilities. Customer agrees to make those changes to such design and construction plans as Peoples, in its reasonable discretion, believes are necessary for the safe and reliable delivery of Gas into Peoples' facilities. If the proposed Interconnect is approved, Peoples shall respond in writing as to the acceptability of the detailed design. If the proposed Interconnect request is initially denied but could be approved with modifications to the design of the Interconnect Facilities, Peoples shall provide recommendations to Customer.

3.03 **Installation.** Scheduling of installation of the Interconnect must be coordinated with Peoples. No construction shall commence until Customer has satisfied all of its prerequisite obligations under this Master Agreement and Peoples has notified Customer in writing that construction may commence.

3.04 **Activation of Facilities.** Activation of the Interconnect shall be contingent upon readiness of Peoples, Peoples' acceptance of gas analysis results as submitted by Customer, and

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completion of installation as specified and agreed upon by and between Peoples and Custom. Peoples shall have the right to conduct a separate gas analysis for verification purposes.

ARTICLE IV **INTERCONNECT FACILITIES**

4.01 **Interconnect Facilities.** The Interconnect shall be comprised of equipment which includes: (i) gas measurement equipment; (ii) two forms of overpressure protection; (iii) certain interconnect piping facilities including a check valve and an insulated/welded tie-in connection; and (iv) such other facilities as may be required by Peoples (collectively "Interconnect Facilities") at the interconnection between Customer's and Peoples' facilities. Peoples shall specify the type of equipment to be provided by Customer and Customer shall not install any non-Peoples approved equipment at the Interconnect Facility. The minimum engineering and technical specifications for the Interconnect Facilities are further detailed in Appendix A. All costs associated with the Interconnect Facilities shall be the Customer's responsibility, unless waived by Peoples, and any such costs paid by Peoples shall be reimbursed by Customer through the Construction and Installation Fee. If Customer does not remit payment for the Construction and Installation Fee within ten (10) days after receiving Peoples' invoice for same, then Peoples may, at its sole option, shut-in the Interconnection Facilities until payment is made and may require all future payments for other operation, installation, or maintenance related work to be made in advance.

4.02 **Debris and Obstructions.** Customer's facilities shall be cleared of all debris and obstructions before they are connected to Peoples' facilities.

4.03 **Maintenance and Identification.** Customer is responsible and shall assume the initial costs, for landscaping, sign posting, painting, and final, post-construction cleanup at and around the Interconnect Facilities. A meter set identification sign shall be posted at each location. The sign shall, at a minimum, list the name of the Customer, the telephone number (including area code) where the Interconnect operator can be reached at all times (i.e. emergency contact number), and the Customer's address.

4.04 **As-built Drawings.** If requested by Peoples, Customer shall develop an "as-built" location drawing of the Interconnect Facilities. The "as-built" drawing shall include all facilities from the inlet side of the gas measurement facilities to the tie-in with Peoples' pipeline facilities. This detailed drawing shall include centerline measurements, valve, regulator, meter identification, pipe size(s) and type(s), and telemetering details. Customer shall provide a copy of this drawing (AutoCAD format) to Peoples, upon request, for review and approval prior to activation of Interconnect Facilities.

4.05 **Telemetry.** The electronic gas measurement and communications equipment installed as part of the Interconnect Facilities shall include equipment for monitoring, recording, and transferring data deemed essential by Peoples. Customer shall acquire, install and pay the on-going operating expenses for the electronic gas measurement and communications equipment to provide Peoples, at a minimum, real-time information related to pressure, temperature, gas flow and gas quality (i.e., chromatograph).

ARTICLE V **PEOPLES' FACILITIES**

5.01 **Peoples' Facilities.** Peoples shall own, and Peoples or its designee shall design, install, operate, and maintain, a tap and side valve connecting Peoples' facilities to the Interconnect Facilities as more specifically described in the Appendices. The location and positioning of the Interconnect Facilities shall be in accord with Peoples' standard design specifications, and any specific design drawings or specifications provided by Peoples to Customer in the context of this Master Agreement.

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ARTICLE VI
INTERCONNECTION OPERATIONS

6.01 **Commencement of Operation.** Customer shall notify Peoples, in writing, when the Interconnect is complete, tested, and ready for activation. Unless otherwise indicated, deliveries of Gas at the Interconnect may commence as soon as all Authorizations have been granted, the necessary facilities have been constructed, the requisite documents have been submitted and Customer has satisfied the terms and conditions of this Master Agreement. Peoples shall be responsible for the coordination, installation, testing, and physical final tie-in to Peoples' System. Peoples shall develop, coordinate, and oversee all operations associated with purging the meter set and piping into service. All such tie-in activities shall be Peoples' responsibility, unless waived by Peoples, and any such costs paid by Peoples shall be reimbursed by Customer through the Construction and Installation Fee.

6.02 **Gathering Obligations.** Peoples will receive Gas from Customer at the Receipt Point, provided that all parties utilizing the Interconnect, including Customer, if applicable, have entered into valid agreements with Peoples.

6.03 **Environmental Responsibility.** Each Party represents that no hazardous substance as that term is defined in the Federal Comprehensive Environmental Response Compensation Liability Act (CERCLA), petroleum or petroleum products, "asbestos material" as that term is defined in 40 CFR 61.41 (1987), polychlorinated biphenyls (PCBs), or "solid waste" as that term is defined in the Federal Resource Conservation Recovery Act (RCRA), will be leaked, spilled, deposited or otherwise released by either Party on the other Party's property. In the event that any of said above referenced materials are discovered on said property, each Party shall immediately notify the other Party of the discovery and existence of said materials. In the event of either Party's breach of the representations contained in this section, the full responsibility for the handling, remediation, treatment, storage or disposal of any such hazardous substance, petroleum or petroleum product, asbestos material, PCBs or solid waste discovered on said property, including the handling of such materials in compliance with all environmental laws including federal, state and local laws, rules and regulations, shall remain with such Party and such Party shall indemnify the other Party for any loss, injury, theft, damage to persons or property, or fines, penalties or compliance order issued by any governmental agency relating to pollution or protection of the environment including without limitation, laws and regulations relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, waste petroleum, toxic substances and hazardous substances occurring on said property. This section shall survive the termination of this Master Agreement.

6.04 **Facility Improvements.** Peoples retains the unilateral right to change the operations of its facilities and/or upgrade its system. Such operational changes may require the adjustment and/or addition of equipment and facilities by the Customer in order to maintain delivery of gas volumes. The cost of any such adjustment and/or addition of equipment and facilities requirements will be borne entirely by the Customer.

6.05 **Shut-in.** Peoples retains the unilateral right to immediately shut-in or cause Customer to shut-in any Interconnect which, in Peoples' sole judgment, threatens the integrity and safe operation of Peoples' System. Additionally, if Peoples is purchasing the Gas from a particular Interconnect, upon thirty (30) days advance written notice, Peoples may shut-in or cause Customer to shut-in that Interconnect for economic reasons. Customer shall not shut-in or discontinue delivery of Gas at any Receipt Point covered by this Master Agreement without first obtaining Peoples' consent. If a shut-in occurs, Peoples shall have the right to remove its facilities at the Interconnect Point and terminate the Exhibit governing that Receipt Point.

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6.06 **Notice of Interruption of Gas Delivery at Receipt Point.** Peoples shall be notified of any and all repairs, changes, or other actions which result in any interruption or discontinuance of Gas delivery at the Receipt Point. Customer shall advise Peoples in writing at least fifteen calendar (15) days before taking the Interconnect Facilities out of service for repairs or for any other reason which is anticipated to last more than seven calendar (7) days. After Customer has completed all repairs or is otherwise prepared to resume delivery of gas at the Receipt Point, Customer shall immediately reconnect the Interconnect Facilities to Peoples' System and resume service, subject to ten (10) days' advance notification to Peoples.

6.07 **Facilities Abandonment.** In the event Peoples should ever abandon, retire or cease to operate, in whole or in part, facilities used to purchase and/or transport Gas, Peoples may, in its sole discretion, and without further obligation, terminate this Master Agreement upon at least sixty (60) days' written notice to Customer.

ARTICLE VII OPERATIONAL COSTS TO BE BORNE BY CUSTOMER

7.01 **Gas Quality and Monitoring Costs.** Customer agrees to install, own, operate and keep in efficient operating condition, at Customer's own expense, drips, separators, dehydrators, alcohol bottles, gas cleaners, and any other equipment necessary to insure that the gas delivered from each well hereunder shall be clean and commercially free from dust, objectionable odors or other solid or liquid matter which might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters or other equipment through which it flows. Customer also agrees to install, own, operate and keep in efficient operating condition, regulators, relief valves, Type OSE Slam-Shut Valve (if required by Peoples) and any other equipment necessary to avoid excessive pressure in Peoples' and/or Customer's line. Customer shall be solely responsible for all costs and charges associated with monitoring, ensuring and maintaining the quality of Gas delivered into Peoples' System and all costs associated with quality remediation. Peoples shall have access to facilities and all devices and shall have the right, but not the obligation, to operate such facilities and devices.

7.02 **Customer Facilities Costs.** Customer shall be solely responsible for all costs and charges associated with monitoring, ensuring and maintaining the safe and reliable operation of pipeline, measurement, compression, regulation, dehydration, and any other appurtenant facilities, which are upstream of the Interconnect Facilities. Peoples reserves the right to refuse receipts and/or deliveries through the Interconnect if Peoples, in its sole judgment, deems the operation of these facilities to be unacceptable.

7.03 **Royalty Payments.** Customer shall be solely responsible for all royalty, overriding royalty, and working interest payments attributable to Gas delivered to Peoples under this Master Agreement. In no event shall Peoples be obligated to make any royalty, overriding royalty, or working interest payments for Gas purchased under this Master Agreement.

ARTICLE VIII ADDITIONAL WELLS

8.01 **Completion of Wells.** No well shall be added to any existing Receipt Point(s) without first obtaining the prior written consent of Peoples. All requests for new well additions shall be accompanied by a well plat, completion report, estimated flow rate and gas quality sample, at the meter, and/or at the new well location, to evaluate the feasibility if adding the new well to the existing Receipt Point(s). Peoples reserves the right, at its sole discretion, to request other information concerning the new well.

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8.02 **Introduction of Well Gas.** At the time of introduction of Customer's well Gas into Peoples' System, a Peoples' representative shall operate the valves at the meter. During this operation, Customer shall provide experienced personnel at the well site.

8.03 **Customer's Facilities.** Customer shall promptly furnish the pipe, and shall construct and place in operation a suitable gathering pipeline to connect those wells currently or subsequently dedicated under this Master Agreement to Peoples' System, or any other system designated by Peoples, at the Receipt Point(s). Customer's gathering pipeline shall be cleared of all debris and obstructions before it is connected at the Receipt Point(s). Customer shall install all drips complete with automatic shut off and other devices necessary to separate fluids from the Gas in Customer's gathering pipelines. Customer shall operate such drips and other devices so that all Gas delivered under this Master Agreement will meet at all times Peoples' gas quality specifications set forth in Article IX or Peoples' transporter's gas quality specifications. Peoples shall have access to such drips and other devices and shall have the right, but not the obligation, to operate such drips and other devices.

8.04 **New Well Costs.** Customer shall be solely responsible for all costs associated with drilling, operating, and connecting new wells including, but not be limited to, hook-up fees; usage fees; all costs associated with the construction of gathering lines, tie-in lines, drip lines, measurement, compression, regulation and connection facilities; and all costs attributable to rentals, except as otherwise provided in this Master Agreement.

8.05 **General.** Customer shall equip each well, located upstream of Receipt Point(s), with a valve suitable for gauging the pressure of Gas in the well. Peoples may gauge such pressure at all reasonable times during the term of this Master Agreement. The wells located upstream of Receipt Point(s) shall remain continuously connected to Customer's gathering lines for production deliveries, except to the extent that disconnection is required for well repairs. Customer's Gas which is governed by an Exhibit A for the purchase of Gas cannot be diverted to other buyers without the express written consent of the Peoples. Customer shall operate such wells in a reasonable and prudent manner at all times and shall keep such wells in good condition by bailing, swabbing, etc., to maximize the production of Gas.

8.06 **Timing of Well Repairs.** To the extent possible, Customer shall make all necessary well repairs between May 1 and October 31 of the calendar year.

8.07 **Notice of Well Repairs.** Customer shall advise Peoples in writing at least fifteen calendar (15) days before taking any well located upstream of Receipt Point(s) out of production for repairs which are anticipated to last for more than seven calendar (7) days. After Customer has completed all repairs, Customer shall immediately reconnect the well to Peoples' pipeline system and resume production, subject to authorization for turn-in by Peoples' field personnel.

ARTICLE IX **PRESSURE, GAS QUALITY AND HEATING VALUE**

9.01 **Regulation.** Peoples may require regulation and shall require over-pressure protection at the Receipt Point(s) under this Master Agreement. Such regulation shall maintain delivery pressures suitable to pressures in Peoples' System. Peoples shall specify and/or approve the type of regulators to be used and shall specify pressure ranges, and operating settings. All costs associated with such equipment, including installation costs, shall be the Customer's responsibility and any such costs paid by Peoples shall be reimbursed by Customer through the Construction and Installation Fee.

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9.02 **Compression.** Customer shall not use any mechanical means or accessory equipment to pump or compress Gas to aid its delivery into Peoples' System without first obtaining and executing the Peoples' standard Compression Agreement.

9.03 **Pressure in Peoples' System.** Peoples makes no representations concerning the pressure, which will be maintained in its pipeline system from time-to-time or any other factors, which may affect the quantity of Gas, which Customer may be able to deliver to Peoples. Peoples has the right to upgrade, when necessary, pipeline operating pressures with no obligation to Customer other than providing notification of such matters.

9.04 **Gas Quality.** All gas delivered through an Interconnect into Peoples' System shall at all times meet or exceed the gas quality specifications set forth in Appendix B hereto, as well as any quality and heat content requirements established by the operator of the downstream pipeline system on which the gas is ultimately transported. Before Peoples permits any flow of any amount of gas into its system, Customer shall provide Peoples with a certified gas analysis from a Peoples-approved agency denoting that the gas proposed to be delivered into Peoples' System meets and/or exceeds those requirements. Peoples shall have the right to conduct a separate gas analysis for verification purposes.

9.05 **Siloxane.** All Gas delivered through an Interconnect into Peoples' System shall at all times meet, or exceed, the gas quality siloxane specifications set forth in Appendix B hereto, as well as any siloxane specifications established by any operator of the downstream pipeline system(s) on which the Gas is ultimately transported. Before Peoples permits any flow of any amount of Gas into the Peoples' system, Customer shall provide Peoples with a certified siloxane analysis from a Peoples-approved agency denoting that the Gas proposed to be delivered into Peoples' System meets and/or exceeds those requirements. Peoples shall require monthly siloxane analysis tests performed by the Customer and timely submitted to Peoples. Peoples shall have the right to witness siloxane sampling and witness custody of that sample from source to destination. In the event Customer does not provide siloxane analysis, Peoples reserves the right to shut-in the Interconnect until said analysis is provided.

In the event Customer Gas quality, including, but limited to, siloxane causes damage to Peoples System, equipment, downstream pipeline, downstream equipment, downstream customer pipeline and/or downstream customer equipment, the Customer will be responsible for all costs to remedy the damage.

9.06 **Temperature.** Gas delivered through an Interconnect into Peoples' System shall not exceed 100° F. Gas having a temperature greater than 100° F may be delivered into Peoples' System only upon prior written approval by Peoples.

9.07 **Monitoring.** After initial deliveries are received, Peoples reserves the right to periodically sample gas, or require Customer to acquire and install continuous, on-line monitoring equipment, at the facility in order to validate the gas quality. If the analysis indicates that Peoples gas quality specifications are not met, Peoples has the right to shut off the deliveries indefinitely until the Customer makes the necessary provisions to fully comply with the gas quality requirements and/or penalize Customer for non-conformance of this requirement.

9.08 **Gas Taken and Co-mingled.** Peoples shall accept Gas taken and measured at the Receipt Point(s) in accordance with this Master Agreement. Such Gas shall be taken in its natural state, except as otherwise provided in this Master Agreement, subject to any modification thereof required by this Master Agreement, at the pressure of the Gas flowing from Customer's facilities and discharging into Peoples' System, against the varying pressures from time to time maintained therein.

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ARTICLE X
MEASUREMENT FACILITIES

10.01 **Measurement Facilities.** Gas delivered to or received from Peoples' System through the Interconnect shall be measured at a site satisfactory to Peoples using measurement equipment designated by Peoples. The Parties acknowledge that all or some of the measurement and other appurtenant facilities required by this Master Agreement may not be in existence as of the date of execution of this Master Agreement. If the facilities required by this Master Agreement are not in existence as of the date of execution of this Master Agreement, the Parties shall work in good faith to install such facilities within ninety (90) days, or such other period as may be agreed to by the Parties in writing. The measurement facilities will be required to use electronic gas measurement (EGM), and the Customer is required to forward monthly EGM item trail(s) and audit trail(s) to one of Peoples' approved integration companies (which list of approved companies shall be maintained on the Peoples website) by the 28th of the month. The integration company will forward corrected volume(s) to Peoples once a month for processing of credit/payment. Customer is required to use the same integration company for both volume collection and meter testing. The measurement facilities shall be designed, installed, operated, maintained and owned by: (i.) Customer; or (ii.) Customer's designee as set forth in the Appendices. At any time after the termination of an Exhibit, Peoples shall have the right to remove its facilities associated with the Receipt Point(s) identified in the terminated Exhibit. Customer shall be solely responsible for and shall bear the full costs of delivering Gas to the Receipt Point(s). Customer shall not modify the measurement facilities without the prior written consent of Peoples.

10.02 **Pipeline Safety.** Customer agrees to operate, maintain, test, and repair the meter set as a prudent operator in accordance with 49CFR DOT Part 192, PAPUC Chapter 59, and all other applicable state regulations and requirements, applicable industry codes and standards at Customer's expense.

10.03 **Check Measurement.** Customer may install, maintain and operate, at its sole cost and expense, check measuring equipment; provided, however, that such equipment shall be installed in a manner that will not interfere with the operation of the measuring equipment required by this Master Agreement.

10.04 **Orifice Meters.** Orifice meters installed in such measuring stations shall be constructed and operated in accordance with American National Standard Institute ("ANSI") standards, American Petroleum Institute ("API") 2530, American Gas Association ("AGA") AGA Report No. 3, Orifice Metering of Natural Gas and Other Related Hydrocarbon Fluids, Second Edition, dated September 1985, and any subsequent modifications and amendments thereto.

10.05 **Positive Displacement Meters.** Positive Displacement Meters installed at the measurement site shall be constructed and operated in accordance with provisions of AGA Measurement Committee Report No. 6 (AGA Report No. 6) dated January 1971 and any subsequent amendment or revisions thereto.

10.06 **Turbine Meters.** Turbine Meters installed at the measurement site shall be constructed and operated in accordance with the provisions of AGA Measurement Committee Report No. 7 (AGA Report No. 7), First Revision, dated November 1984, and any subsequent modifications and amendments thereto.

10.07 **Ultrasonic Meters.** Ultrasonic Meters installed at the measurement site shall be constructed and operated in accordance with the provisions of AGA Measurement Committee Report No. 9 (AGA Report No. 9), dated June 1998 and any subsequent modifications and amendments thereto.

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10.08 **Electronics.** When and where electronic equipment and flow computers are installed at the measurement site, the Gas may have its volume, mass and/or energy content determined and computed in accordance with the applicable industry standards including, but not limited to, API 21.1, AGA Report Nos. 3, 5, 6, and 7 and any subsequent modifications and amendments thereto.

10.09 **Notice.** Peoples shall give reasonable notice to Customer in order that Customer may have representatives present to observe any installing, reading, cleaning, changing, repairing, inspecting, testing, calibrating, or adjusting of Peoples' measuring equipment used in measuring or checking the measurement of receipts or deliveries of Gas under this Master Agreement. The official charts (recordings) or electronic data from such measuring equipment shall remain the property of Peoples, but upon request Peoples will make the records and charts, together with calculations therefrom, available to Customer for inspection and verification.

10.10 **Testing and Calibration:**

- (a) Peoples shall have the right, at any time, to verify the accuracy of, and to adjust and calibrate all recording devices used in the measurement of Gas hereunder. Customer may request a special test be performed as described in Paragraph 10.11 below.
- (b) If during any test of the measuring equipment, an adjustment or calibration error is found which results in an incremental adjustment to the calculated hourly flow rate through each meter run in excess of two percent (2%) of the correct flow rate (whether positive or negative and using the correct flow rate as the percent error equation denominator), then any previous recording of such equipment shall be corrected to zero error in computing deliveries for any period during which the error existed (and which is either known definitely or agreed to by both parties) and the total flow for the period predetermined in accordance with the provisions of Paragraph 10.12 below. If the period of error cannot be determined or agreed upon between the parties, such correction shall be made over a period extending over the last one-half (1/2) of the time elapsed since the date of the latest test, not exceeding a correction period of six (6) months.
- (c) If, during any test of the measuring equipment, an adjustment or calibration error is found which results in an incremental adjustment to the calculated hourly flow rate which does not exceed two percent (2%) of the adjusted flow rate (as described in part (b) of this Paragraph), all prior recording shall be considered to be accurate for quantity determination purposes.
- (d) All equipment shall, in any case, be adjusted at the time of the test to record correctly.

10.11 **Special Test.** In the event Customer desires a special test (a test not scheduled by Peoples under the provisions of Paragraph 10.10(a) above) of any measuring equipment, seventy-two (72) hours advance notice, in writing, shall be given to Peoples and both parties shall cooperate to secure a prompt test of the accuracy of such equipment. If the measuring equipment tested is found to fall under the provisions of Paragraph 10.10(b) above or if an inspection of the primary measurement equipment indicates no problems, Peoples shall have the right to bill Customer for the cost of such special test including any labor, and other costs pertaining to such special test and Customer shall pay such costs.

10.12 **Measuring Adjustment.** If, for any reason, any measurement equipment is: (i) out of adjustment; (ii) out of service; or (iii) out of repair, and the total calculated hourly flow rate through each meter run is found to be in error by an amount of the magnitude described in Paragraph 10.10(b) above, the

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total quantity of Gas delivered shall be determined by Peoples in accordance with the first of the following methods which is, in Peoples' sole opinion, feasible:

- (a) by using the registration of any mutually agreeable check metering facility, if installed and accurately registering (subject to testing as described in Paragraph 10.10(a) above;
- (b) where parallel multiple meter runs exist, by calculation using the registration of such parallel meter runs; provided that they are measuring Gas from upstream and downstream headers in common with the faulty metering equipment, are not controlled by separate regulators, and are accurately registering;
- (c) by correcting the error by re-reading of the official charts, or by straightforward application of a correction factor to the quantities recorded for the period (if the net percentage of error is ascertainable by calibration, tests or mathematical calculation); or
- (d) by estimating the quantity, based upon deliveries made during periods of similar conditions when the meter was registering accurately.

The estimated readings or deliveries so determined shall be used in determining the quantities of Gas delivered for any known or agreed upon applicable period. In case the period is not known or agreed upon, such estimated deliveries shall be used in determining the quantities of Gas delivered hereunder during the latter half of the period from the date of the immediately preceding test to the date the measuring equipment has been adjusted to record accurately. The recordings of the measuring equipment during the first half of said period shall be considered accurate in computing deliveries.

10.13 **Measurement Corrections.** If an error is discovered in the measured quantities, such error shall be adjusted within thirty (30) days of the determination thereof; provided, however, that any claim for adjustment shall be made within twenty-four (24) months of the production month in which the claimed error occurred. Such time limits shall not apply in the case of a deliberate act of omission or misrepresentation, or mutual mistake of fact.

10.14 **Termination.** If in Peoples' reasonable judgment, the Customer has tampered with the measurement equipment so as to misrepresent the actual volume of gas delivered through the Interconnect, Peoples has the right to immediately shut-in the Interconnect for an indefinite period of time. The Interconnect will remain shut-in until Peoples and Customer reach an agreement as to the most accurate volume of gas delivered during the period in question and the Customer provides restitution to the satisfaction of Peoples. If Peoples determines that measurement equipment has been tampered with, Peoples reserves the right to remove its facilities at the Interconnect and terminate this Master Agreement and any other agreement(s) between Customer and Peoples, or Peoples' affiliates.

10.15 **Data and Records Retention.** Peoples and Customer shall retain and preserve for a period of at least two (2) years all measurement data, original test data, charts, and other similar records, in such party's possession and shall provide requested documentation to the other Party upon thirty (30) days' written notice.

10.16 **Volume and Quality Determination.** The measurement of the quantity and quality of all Gas received and delivered hereunder shall be conducted in accordance with the following:

- (a) **Unit of Volume.** The unit of volumetric measurement shall be a standard cubic foot of gas at a pressure base of fourteen and seventy-three hundredths (14.73) pounds per square inch absolute, a temperature base of sixty degrees (60°) Fahrenheit (five hundred twenty

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degrees (520°) absolute) and without adjustments for water vapor. The unit of volume for measurement shall be one (1) cubic foot of gas. Such measured volumes, converted to Mcf, shall be multiplied by their Gross Heating Value per cubic foot and divided by 1,000 to determine MMBtus received and delivered hereunder.

- (b) Orifice Meter Volume Computations. Computations of Gas Volumes from measurement data shall be made in accordance with ANSI/API2530 (AGA Report No. 3), Orifice Metering of Natural Gas and Other Related Hydrocarbon Fluids, Second Edition, dated September 1985, and any subsequent amendments or revisions.
- (c) Positive Displacement Meter Volume Computation. Computation of Gas Volumes from data shall be in accordance with the AGA Measurement Committee Report No. 6 (AGA Report 6), dated January 1971, and any subsequent amendments or revisions.
- (d) Turbine Meter Volume Computations. Computations of Gas Volumes from data shall be in accordance with AGA Measurement Committee Report No. 7 (AGA Report 7), First Revisions, dated November 1984, and any subsequent amendments or revisions.
- (e) Ultrasonic Meter Volume Computations. Computations of Gas Volumes from data shall be in accordance with AGA Measurement Committee Report No. 9 (AGA Report 9), dated June 1998, and any subsequent amendments or revisions.
- (f) Electronic Devices and Flow Computers Volume Computations. Computation of Gas Volumes from data or devices shall be in accordance with API 21.1, AGA Measurement Committee Report Nos. 3, 5, 6, and 7 and any subsequent amendments or revisions.
- (g) Assumed Atmospheric Pressure. In connection with the use of any type of measuring device, an atmospheric pressure of fourteen and four tenths (14.4) pounds per square inch shall be assumed, with no allowance for variation in atmospheric pressure. The flowing gas temperature may be recorded at Peoples' discretion. In the absence of a flowing gas temperature recorder, a temperature of sixty degrees (60°) Fahrenheit will be assumed.
- (h) Gross Heating Value. At least yearly, the Gross Heating Value of the gas stream at each of the Interconnects hereunder shall be determined by calculating the Gross Heating Value from an in-line chromatograph or a gas analysis of a spot or continuous gas sample. The spot or continuous sample shall be taken at a suitable point on the facilities to be representative of the Gas being analyzed.
- (i) Other Tests. Other tests to determine water content, sulfur, and other impurities in the Gas shall be conducted by Peoples as necessary and shall be conducted in accordance with standard industry testing procedures.
- (j) New Test Methods. If at any time during the term hereof, a new method or technique is developed with respect to gas measurement, such new method or technique may be substituted for the method set forth in this Article when such methods or techniques are in accordance with the currently accepted standards of the American Gas Association, if mutually agreed upon by the parties.

10.17 Right of Inspections. Peoples or Customer shall have the right to inspect equipment installed or furnished by the other or third party operators and the charts and other measurement or testing data of all such parties at all times during business hours; but the reading, calibration and adjustment of such

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equipment and changing of charts shall be done by Peoples, or its designee, unless agreed to otherwise by the parties.

10.18 Low Volumes for Receipt Points.

- (a) In the event that Customer does not deliver to Peoples an average of ten (10) Dekatherms of Gas per Day at each Receipt Point, during any ninety (90) consecutive day period, then Peoples may, at its sole discretion, terminate the Master Agreement, and remove its facilities, as it relates to such Receipt Point(s) by giving Customer notice in writing thirty (30) days prior to the effective date of termination.
- (b) In the event that the amount of Gas, or the quality of Gas, passing through any Receipt Point(s) is less than the facility minimum design requirements for accurate measurement, Peoples shall have the right to shut-in service from Customer until: (i) Customer has provided adequate supply to meet such design requirements and has proven to Peoples that such volumes exist; and/or (ii) the metering and related facilities have been redesigned and installed for the effective and efficient measurement of the revised volumes within the accuracy allowed and required by Peoples.

**ARTICLE XI
TERM**

11.01 **Term.** This Term of this Master Agreement shall become effective upon its execution by both Parties and shall continue in full force and effect for a period of ten (10) years thereafter (“Master Agreement Term”), unless earlier terminated as provided herein. At the end of the Master Agreement Term, the Master Agreement shall automatically renew on a month-to-month basis until terminated by either party upon thirty (30) days’ prior written notice to the other party.

The term of service for each specific Receipt Point shall be as set forth in Exhibit A (the “Service Term”). To the extent that the Service Term for any specific Interconnection extends beyond the Master Agreement Term, then the Master Agreement shall remain in full force and effect for the specific Interconnection until the expiration or termination of the applicable Service Term.

The obligations of Customer to indemnify Peoples pursuant hereto shall survive the termination or cancellation of this Master Agreement and the Exhibits. Termination of this Master Agreement will result in the termination of all Exhibits and the disconnection of all Receipt Points governed by Exhibit A’s. Costs associated with disconnection will be the responsibility of the Customer.

Upon termination of this Master Agreement, Peoples shall have the right to remove all of its facilities from the Receipt Point(s) identified in the Exhibit A’s hereto.

**ARTICLE XII
BILLING AND PAYMENT**

12.01 **Quantities Deemed Conclusive.** Peoples’ statement of the total quantity of Gas received from the Customer during any month shall be deemed conclusive unless Customer forwards an objection to Peoples in writing within sixty (60) days after the receipt of Peoples’ statement.

12.02 **Withholding Payments.** In the event of any adverse claim to or against the proceeds of this Master Agreement or any Gas delivered under this Master Agreement, or any part thereof, or against the proceeds of any other contract that Peoples, or its affiliate(s) has with Customer, is made by any

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person, Peoples may refuse to receive Gas under this Master Agreement, as the case may be, until the dispute is settled by agreement between Customer and such adverse claimant or by a final decree of a court of competent jurisdiction. If Customer fails to comply with any of the covenants or terms herein contained, Peoples may immediately withhold, without liability for interest, all payments due to Customer under the terms of this Master Agreement.

12.03 **Adjustments.** In the event that Peoples mistakenly overpays or underpays Customer for Gas purchased under this Master Agreement, and such overpayment or underpayment is the result of a mistake of law or fact, miscalculation, coercion, duress, fraud, governmental or regulatory constraint, then Customer or Peoples, as the case may be, shall promptly, upon demand by the other Party, make appropriate refund or adjustment in such overpayments or underpayments, without liability for the payment of any interest by either Party; provided, however, that the obligation of either Party to make restitution under this Master Agreement shall be limited to mistaken payments made within the period commencing four (4) years prior to the date on which demand for refund or adjustment is made. In the event of Customer's refusal or inability to refund any overpayments, Peoples may withhold payment for Gas purchased under this Master Agreement or any other contract between Peoples, or its affiliates, and Customer in an amount equivalent to the overpayment, without liability for the payment of any interest on the amount withheld. Nothing in this Master Agreement shall be construed as a waiver or relinquishment by Peoples or Customer of its rights to recover any such overpayments or underpayments.

ARTICLE XIII FAILURE TO PERFORM

13.01 **Suspension.** If Customer fails to comply with any of the covenants contained in this Master Agreement, or any other agreement between Customer and Peoples, or Peoples' affiliate(s), Peoples may refuse to allow Gas to flow through the Interconnect until, in Peoples' sole opinion, Customer is fully complying with all of the terms and conditions of this Master Agreement. Peoples, in its sole judgment, shall have the right to shut-in the Interconnect immediately if equipment is not operating properly, an overpressure condition exists, design limitations are exceeded, or safe operating conditions are compromised. Furthermore, Peoples has the right to keep the Interconnect shut-in until the Customer makes the necessary provisions to rectify the situation. If the abnormal conditions repeatedly arise, Peoples has the right to shut-in the Interconnect indefinitely and/or to terminate this Master Agreement.

Customer shall reimburse Peoples for any damages caused by Customer failing to comply with any of the covenants contained in this Master Agreement, including payments made by Peoples to other affected customers in settlement of claims arising out of such service. To the extent any damages required to be paid hereunder are liquidated, the parties acknowledge that the damages are difficult or impossible to determine, otherwise obtaining an adequate remedy is inconvenient and the liquidated damages constitute a reasonable approximation of the harm or loss.

If litigation results from any dispute between Customer and Peoples, Peoples may pay any money withheld under this Master Agreement to a court of competent jurisdiction without any further liability, or may interplead all claimants, including Customer. Customer shall reimburse Peoples for all costs incurred associated with such litigation, including, but not limited to, attorneys' fees.

13.02 **Damages.** IN NO EVENT WILL EITHER PARTY BE LIABLE OR RESPONSIBLE FOR, EITHER UNDER THIS ARTICLE XIII, UNDER ANY THEORY OF LIABILITY OR UNDER ANY OTHER TERM OR PROVISION OF THIS MASTER AGREEMENT, FOR ANY LOSS OF PROFITS, LOSS OF BUSINESS, INTERRUPTION OF BUSINESS OR FOR INDIRECT,

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INCIDENTAL, SPECIAL, PUNITIVE OR CONSEQUENTIAL DAMAGES OF ANY KIND, EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

13.03 **Indemnity.** Customer agrees to indemnify, hold harmless and provide a defense for Peoples, its officers, directors, affiliates, agents, employees and contractors against any liability, loss or damage whatsoever (including, without limitation, claims for royalties, taxes, fees or other charges) occurring in connection with or relating in any way to: (i) breach of this Master Agreement by Customer; (ii) the negligence, willful misconduct or other tortious act(s) or omission(s) by Customer, its officers, directors, affiliates, agents, employees or contractors; (iii) the Gas prior to its delivery to Peoples at the Interconnect; and/or (iv) the Gas to the extent the claim, liability, or damage arises as a result of the quality of the Gas delivered by Customer or other condition of the Gas. Such indemnification shall include, but not be limited to, all costs and attorneys' fees, whether or not such liability, loss or damage results from any demand, claim, action, cause of action, or suit brought by Customer or by any person, association or entity, public or private, that is not a party to this Master Agreement.

13.04 **Shut-In Remedy.** In any instance set forth in the Master Agreement in which Peoples has the right to shut-in a Receipt Point(s), Peoples shall further have the right to remove its facilities associated with the Receipt Point(s) and terminate this Agreement if whatever action resulted in the shut-in has not been remedied in the amount of time set forth in this Master Agreement, or if no exact time is set, within a reasonable timeframe as determined by Peoples.

ARTICLE XIV REGULATORY APPROVALS

14.01 **Initial Regulatory Filing Requirements.** Both Peoples and Customer are responsible for identifying and obtaining any governmental and/or regulatory approvals that may be required for construction and operation of the facilities contemplated by this Master Agreement.

14.02 **Changes in Regulation Results in Material Adverse Effect.** If any other governmental agency, whether state or federal, takes any action or issues any determination that directly or indirectly results in a material adverse change to any provision of this Master Agreement, then the materially adversely affected Party (hereinafter "Affected Party") may either:

- (a) continue to fulfill its obligations under this Master Agreement as altered by the change in regulation; or
- (b) seek to renegotiate the affected terms of this Master Agreement by giving notice to the other Party within thirty (30) days of the material adverse change. If the Affected Party elects to renegotiate the terms of this Master Agreement, both Parties shall be obligated to renegotiate in good faith.

ARTICLE XV GENERAL REPRESENTATIONS AND WARRANTIES

15.01 **Customer's General Representations and Warranties.** Customer makes the following general representations and warranties:

- (a) Customer is duly organized, validly existing, and in good standing under the laws of the state in which it is organized and/or has full power and authority to execute and deliver this Master Agreement and to perform its obligations hereunder;

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- (b) Customer holds all necessary corporate authorizations and by the execution and delivery of this Master Agreement will not violate its Articles of Incorporation, Limited Liability Company Agreement or other applicable governing agreement or any applicable laws or regulations;
- (c) There is no litigation, investigation, administrative proceeding or other action existing, pending, or threatened that would materially adversely affect the ability of Customer to fulfill its obligations under this Master Agreement;
- (d) Customer's signatories possess authority to execute this Master Agreement such that a legal, valid, and binding obligation enforceable against Customer is created; and
- (e) Customer shall be deemed to be in control and possession of the gas hereunder until it shall have been delivered to Peoples at the Receipt Point. Customer assumes the full cost and expense, as well as full and complete liability and responsibility, for collecting, gathering, and transporting the gas to the Receipt Point hereunder at the quality hereinafter specified.

15.02 **Peoples' General Representations and Warranties.** Peoples makes the following general representations and warranties:

- (a) Peoples is duly organized, validly existing, and in good standing under the laws of the state in which it is organized and/or has full power and authority to execute and deliver this Master and to perform its obligations hereunder;
- (b) Peoples holds all necessary corporate authorizations and by the execution and delivery of this Master Agreement will not violate its Articles of Incorporation, Limited Liability Company Agreement or other applicable governing agreement or any applicable laws or regulations;
- (c) There is no litigation, investigation, administrative proceeding or other action existing, pending, or threatened that would materially adversely affect the ability of Peoples to fulfill its obligations under this Master Agreement; and
- (d) Peoples' signatories possess authority to execute this Master Agreement such that a legal, valid, and binding obligation enforceable against Customer is created.

ARTICLE XVI **ASSIGNMENT**

16.01 **Assignment of this Master Agreement.** This Master Agreement shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, and heirs of the respective parties hereto, and the covenants, conditions, rights and obligations of this Master Agreement shall run for the full term of this Master Agreement. No assignment of this Master Agreement, in whole or in part, will be made without the prior written consent of the non-assigning party, which consent will not be unreasonably withheld or delayed; provided, either party may transfer its interest to any parent or affiliate by assignment, merger or otherwise without the prior approval of the other party. Upon any transfer and assumption, the transferor shall not be relieved of or discharged from any obligations hereunder.

Customer shall give prompt notice in writing to Peoples of any sale or assignment or other disposition of all or any part of its interest in the wells hereinbefore described and covered by this Master Agreement and

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Exhibit(s). Customer shall furnish to Peoples copies of any relevant documents evidencing the transfer or assignment of said Customer's interest. Until said notice and relevant documents have been given and furnished to Peoples, Peoples may shut-in the Interconnection Site hereunder, and/or escrow any payments required hereunder, without liability. In the event that Customer fails to promptly provide said notice and relevant documents, Peoples shall have the right to terminate this Master Agreement, and/or any Exhibits, upon fifteen (15) days' notice.

ARTICLE XVII
NOTICE

17.01 **Notices.** Following execution and activation of this Master Agreement, all communications, invoices and payments ("Notices") required hereunder may be sent by facsimile, a nationally recognized overnight courier service, hand delivered or first class U.S. mail.

Peoples
375 North Shore Drive
Pittsburgh, PA 15212
Attention: Director of Gas Supply
Phone: 412-258-4503
Facsimile: 412-258-2905

**PRODUCER
ADDRESS**

Attention:
Phone:
Facsimile:
Email:

With a copy to:
Peoples
375 North Shore Drive
Pittsburgh, PA 15212
Attention: Senior Counsel

17.02 **Receipt of Communications.** Any notice required or permitted under this Master Agreement shall be in writing. Notice shall be deemed to have been received: (i) when transmitted by facsimile ("FAX") transmission, upon the sending Party's receipt of its facsimile's confirmation thereof; (ii) when sent by overnight mail or courier, on the next business day after it was sent or such earlier time as is confirmed by the receiving Party; (iii) when delivered by hand, at the time it is delivered to an officer or to a responsible employee of the receiving Party; and (iv) when delivered via First Class Mail, two (2) business days after mailing. Any FAX communication shall be promptly confirmed by mail. Either Party may change its address, telephone number, or FAX number at any time by promptly giving notice of such change to the other Party. Either Party may modify any notice information specified above by written notice to the other Party.

ARTICLE XVIII
MISCELLANEOUS

18.01 **Choice of Law.** This Master Agreement shall be governed by and interpreted in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the State's conflict of laws principles. This Master Agreement shall be deemed to have been executed in Pennsylvania.

18.02 **Construction of this Master Agreement.** No presumption shall operate in favor of or against either Party as a result of any responsibility either Party may have had for drafting this Master Agreement.

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18.03 **Execution.** This Master Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. As used herein, the singular of any term shall include the plural.

18.04 **Captions.** The article and section captions of this Master Agreement are for purposes of reference only and shall not affect the meaning of any provision of this Master Agreement.

18.05 **Amendments.** This Master Agreement may only be amended or modified by written instrument signed by the duly authorized representatives of Customer and Peoples.

18.06 **Severability.** If any provision of this Master Agreement is held by any court of competent jurisdiction to be illegal, invalid, unenforceable, or in conflict with any law of the Commonwealth of Pennsylvania, the validity of the remaining provisions of this Master Agreement shall not be affected, and the rights and obligations of the Parties shall continue in full force and effect to the full extent permitted by law. If any provision of this Master Agreement is held invalid, illegal, unenforceable or in conflict with any Pennsylvania law, the Parties shall meet promptly and negotiate in good faith a replacement provision to effectuate the intent of the Parties.

18.07 **Confidentiality.** This Master Agreement and all notices, statements, correspondence, and other communications or documents relating to the negotiation and administration of this Master Agreement are non-public, confidential, and proprietary ("Proprietary Information"). Each Party shall keep such Proprietary Information strictly confidential for a period ending two (2) years after the expiration or termination of this Master Agreement, except as may be required to comply with any statute or order of a court or government agency having subject matter jurisdiction, the Parties shall not disclose, reveal or divulge any Proprietary Information to any person or entity without the prior written consent of the other Party.

18.08 **Audits.**

- (a) **Accounting Audits:** Peoples shall have the right to audit Customer's accounting records and other documents relating to materials delivered by or on behalf of Customer for Peoples' account for any calendar year within the twenty-four (24) month period following the end of such calendar year. This provision shall continue in full force and effect for a period of twenty-four (24) months from the effective date of termination of this Master Agreement.
- (b) **Field Audits:** Customer gives Peoples permission to periodically come onto Customer's property in order to audit the facility to determine if it is in compliance under the terms of this Master Agreement. Permission for ingress/egress includes personnel, vehicles, and other equipment deemed necessary by Peoples. Peoples shall have permission to perform all operating and maintenance functions associated with verifying the integrity and functionality of equipment, piping, and appurtenances. If, in Peoples' judgment, modifications are necessary in order to assure proper operation of the equipment, Peoples has permission to remove and/or replace pipe, fittings, and equipment at Peoples' discretion and at the expense of the Customer.

18.09 **Waiver.** Any waiver by either Party of performance due by the other Party under the terms of this Master Agreement shall not operate as a waiver of any or all of such Party's rights with respect to all prior or subsequent obligations of the other Party.

18.10 **Incorporation of Appendices.** Each Appendix hereto is made subject to the terms and conditions hereof, and is fully incorporated into this Master Agreement by reference.

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18.11 **Entire Agreement.** The entire agreement between the Parties shall include those provisions contained in this Master Agreement and any effective Appendices (collectively "Agreement"). In the event of a conflict between the terms of any Appendix and the terms of this Master Agreement, the terms of the Appendix shall govern.

18.12 **Force Majeure** In the event either party is rendered unable, wholly or in part, by Force Majeure to carry out its obligations under this Master Agreement, other than demand payments of amounts due hereunder, then the obligations of such party, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused. However, the party claiming the existence of force majeure shall use all reasonable efforts to remedy any situation, which may interfere with the performance of its obligations hereunder. The term "Force Majeure" as used herein, and as applied to either party hereto, shall mean acts of the law, acts of God, strikes, lockouts, or other labor disturbances, acts of the public enemy, war, blockades, insurrections, riots, epidemics, fires, floods, washouts, arrests, and restraint of rulers and people, civil disturbances, explosions, breakage or accidents to machinery or lines of pipe, freezing of wells or pipelines, partial or entire failure of such wells, or any other cause, whether of the kind herein enumerated, or otherwise, not reasonably within the control of the party claiming suspension. It is understood that settlement of strikes, lockouts, or labor disturbances shall be entirely within the discretion of the party having the difficulty and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or labor disturbances by acceding to the demands of the opposing party when such course is inadvisable in the discretion or judgment of the party having the difficulty.

This Master Agreement, as amended from time to time, constitutes the entire agreement between the Parties and supersedes all previous offers, negotiations, understandings and agreements between the Parties with respect to the subject matter hereof. There are no agreements, modifications, conditions or understandings, written or oral, expressed or implied, pertaining to the subject matter of this Master Agreement which are not contained in this Master Agreement.

IN WITNESS WHEREOF, Peoples and Customer have duly executed this Master Agreement to be effective as of the day and year first written above.

PEOPLES NATURAL GAS COMPANY LLC

PRODUCER

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

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**APPENDIX A TO MASTER INTERCONNECT AGREEMENT
MINIMUM ENGINEERING & TECHNICAL SPECIFICATIONS**

**SECTION I
DESIGN OF INTERCONNECT FACILITIES**

1.01 **General.** Customer shall be responsible for all aspects of the design and construction of the Interconnect, subject to the terms and conditions of the Master Agreement, unless specifically noted otherwise by Peoples. Customer shall be responsible for maintaining the Interconnect equipment to the specifications set forth in the Master Agreement, including all Appendices and Exhibits. Peoples reserves the right to inspect the Interconnect Facilities to ensure they comply with the specifications and are operable. In the event the Interconnection Facilities do not meet with the specifications or are inoperable, the Interconnect may be shut-in until the Customer remedies the deficiency(ies).

1.02 **Materials.** All material and equipment furnished for the Interconnect Facilities shall be new and shall satisfy: (i) the generally accepted industry standards; and (ii) the specifications set forth in this Appendix.

1.03 **Site/Land Acquisition**

- (a) Customer shall provide Peoples with the necessary rights-of-way, permits, and related surface rights including the rights of ingress, egress and regress necessary for Peoples to access the Interconnect Facilities. Customer shall also provide, if required, a right of way necessary for the tie-in of proposed Interconnect facilities to existing Peoples-owned facilities that is free of all costs and from all claims and liabilities for damages arising out of installation or the construction of the facility.
- (b) Customer and Peoples must agree beforehand to the location of the Interconnection as well as the final tie-in location.
- (c) Customer shall satisfy itself as to the character and types of surface and subsurface materials to be encountered in construction of the Interconnect.
- (d) Customer's right-of-way shall be cleared of all debris and obstructions before the Interconnect Facilities are tied into the Peoples' facilities.
- (e) The Interconnect Facilities shall be readily accessible, located in an area that is not susceptible to vehicular or other damage but as near as practical to the final tie-in point. Peoples reserves the right to require that the Interconnect be enclosed within a locked fence or building.
- (f) The meter set shall be readily accessible, located in an area that is not susceptible to vehicular or other damage but as near as practical to the final tie-in point, and be enclosed within a locked fence or building.
- (g) All costs associated with Customer's obligations under this section shall be the Customer's responsibility and any such costs paid by Peoples shall be reimbursed by Customer through the Construction and Installation Fee.
- (h) To the extent that Peoples is at any time required to pay for such rights-of-way or such costs or claims or liabilities, then such amounts and related expenses shall be incorporated within the Initial Construction and Installation payment made under this Master Agreement.

1.04 **Responsibility for Interconnect Facility Equipment.** The following table establishes the design, construction, operation, maintenance and cost responsibility for certain aspects of the Facilities. All of

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the following design specifications designated as the Customer's responsibility shall be incorporated into the design and construction of the Receipt Point at Customer's sole cost unless waived by Peoples. The Parties specifically agree that the design specifications identified in this Section 1.04 shall not apply to any Receipt Point(s) already constructed and operating as of the date this Agreement is executed, unless Peoples provides at least sixty (60) days advance notice to Customer detailing required modifications to the existing Receipt Points(s).

RECEIPT POINT SPECIFICATIONS							
STATION EQUIPMENT	REQ-UIRED	DESIGN	INSTALL	OWNER-SHIP	OPERATE	MAINTAIN	SPECIAL PROVISIONS/EQUIPMENT SPECS.
PIPING							
Pipeline-Tap & Valve	Yes	P	P	P	P	P	
Inlet & Station Piping	Yes	P	P	P	P	P	Pipeline prior to the Slam Shut Valves
Outlet & Station Piping	Yes	C	C	C	C	C	Pipeline after the Slam Shut Valves
GAS CONDITIONING							
Filter Separator	TBD	C	C	C	C	C	
Liquid Level Shutoff	Yes	C	C	C	C	C	
MEASUREMENT							
Meter & Meter Runs	Yes	C	C	C	C	C	
Meter & Flow Control Risers, Valves, etc.	Yes	C	C	C	C	C	
Electronic Measurement	Yes	C	C	C	C	C	
GAS QUALITY							
Chromatograph	TBD	TBD	TBD	TBD	TBD	TBD	
Continuous Sampler	TBD	TBD	TBD	TBD	TBD	TBD	
H2O Dew Point Analyzer	TBD	C	C	C	C	C	
PRESSURE / FLOW CONTROL							
Primary Pressure Control	Yes	C	C	C	C	C	Regulators
Overpressure Device	Yes	C	C	C	C	C	Regulators
Slam Shut Valve	TBD	P	P	P	P	P	
Emergency Valve	TBD	P	P	P	P	P	
Flow Control Valve	TBD	TBD	TBD	TBD	TBD	TBD	
Heat	TBD	TBD	TBD	TBD	TBD	TBD	
Check Valve	Yes	C	C	C	C	C	
ODORIZATION							
Odorizer & Controls	TBD	C	C	C	P	C	
MISCELLANEOUS							
Communication service	TBD	P & C	P & C	P & C	P & C	P & C	Each maintain own communication service
Electrical Service	TBD	C	C	C	C	C	

P = Peoples; C = Customer

TBD = To be determined at the Design Specification Stage per Section 4.01 of the Agreement.

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1.05 **Inlet Filter.** Filter/filter-separator facilities installed upstream of the Interconnect Facilities at receipt interconnects must be considered and based upon specific gas analysis.

1.06 **Freeze Prevention.** In circumstances where heavier hydrocarbons and/or water vapor may be present within the gas stream, Customer shall incorporate freeze protection measures into the design of the Interconnect Facilities. The method and design of the freeze protection measures shall be submitted to the Peoples for approval and no construction shall commence until such time as Customer receives written approval from Peoples. If Customer's freeze protection measures involve the use of natural gas for fuel, then the tap for such fuel supply line shall be made upstream of the Interconnect, such that Customer bears the costs of the fuel. Freeze protection measures which may be acceptable to Peoples include the following:

- (a) Methanol Injection – should be installed downstream of meters
- (b) Catalytic heaters / heat trace - for regulator bodies
- (c) Indirect water bath heaters – for large pressure cuts and large flow volumes
- (d) All gas provided and delivered to Peoples shall have a temperature of no less than 45° F.

1.07 **Regulating and Overpressure Protection.** Peoples may require regulation and shall require over-pressure protection for Receipt Point(s) under this Master Agreement. Such regulation shall deliver pressures suitable to pressures in Peoples' System. Peoples shall specify and/or approve the type of regulators to be used and shall specify pressure ranges, and operating settings. Customer will contract with one of the approved vendors to perform annual inspection and lock up test of each regulating and overpressure device, and provide inspection reports to Peoples.

- (a) A primary pressure-limiting device shall be required whenever the Peoples' System has the possibility of realizing pressures exceeding the Peoples facility MAOP.
- (b) Overpressure protection devices shall be set such that pressures may not exceed the maximum allowable operating pressure for the facility into which Customer is delivering Gas.
- (c) Overpressure protection devices must be designed to prevent a single incident from affecting the operation of the Interconnect.
- (d) Security valves, monitor regulators, or control valves should be used for overpressure protection.
- (e) Overpressure protection devices shall consist of a stand-alone valve operating on a pneumatic signal taken directly from the pipeline.
- (f) If pilot loaded valves are used, the pilots shall not bleed when they are not operating. Pilot bleeds should be routed to downstream piping.

1.08 **Control Valves**

- (a) Control valves shall be sized using the highest flow rate compounded with the lowest delivery pressure.
- (b) All flow control valves should be installed to fail in the open position or in the last set positions, as applicable.
- (c) Peoples shall approve the type and brand of control valve.

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- (d) Downstream taps for pressure control valves shall be noted on detail drawings, and shall also possess a pressure transducer for stations designed with telemetry.

1.09 **Miscellaneous Valves and Piping**

- (a) Blow-down valves shall be installed to provide for venting of all sections.
- (b) Meter header piping shall be sized for 1.5 times the total combined area of the total meter runs.
- (c) Isolation valves will be installed on either side of regulators, meters, and control valves.
- (d) Piping shall be Standard Weight unless approved otherwise by Peoples.

1.10 **Emergency Valve.** The design and installation shall include an emergency valve (ball valve preferred) located at least twenty-five (25) lineal feet (point to point) but not to exceed fifty (50) lineal feet from the tie-in with Peoples' pipeline facilities. The emergency valve shall be readily accessible, easily operated, and sufficiently marked for quick identification.

1.11 **Peoples Tie-in and Tap Sizing.** Peoples shall provide for the sizing and actual installation of tap for tie-in of Interconnect to Peoples facilities. Customer shall provide data necessary for the sizing of the tap.

1.12 **Gas Chromatograph.** Auxiliary equipment may be required for measurement of Btu variations. Peoples shall have the final decision as to the type of gas analysis required.

1.13 **Dehydration.** Gas received by Peoples at interconnects shall contain no free liquids. Peoples has the right to discontinue and/or terminate any Interconnect where gas delivered contains free liquids.

1.14 **Dew Point Tester.** When deemed necessary by Peoples, Customer shall incorporate an on-line dew point tester as part of the Interconnect Facilities. The unit shall be set such that any gas volumes detecting water content levels in excess of contractual specifications shall result in the automatic closure of an in-line valve thereby preventing further delivery of gas into system. Valve shall remain closed until an acceptable water moisture content of the gas can be provided.

1.15 **Corrosion Coupon Tap.** When specified by Peoples, Customer shall provide for an in-line valve tap for installing corrosion coupons.

1.16 **Check Valve.** All interconnects shall be installed with a check valve of some type so as to assure gas flows in the direction proposed by this Master Agreement. Customer will contract with one of the approved vendors to perform annual inspection of each check valve, and provide inspection report to Peoples.

1.17 **Building, fences, and site security**

- (a) Buildings, or shelters, shall be provided to protect electronic gas measurement and control equipment, as well as to act as noise barriers, protection from damage, and for meeting compliance with local ordinances. All buildings, shelters, fences, or the like, shall be designed to permit safe access around all facility piping and equipment. Designs for buildings, shelters, fences, or the like shall be submitted to Peoples' approval prior to installation or modification.
- (b) Unless waived by Peoples, all interconnect sites shall be fenced, consisting of chain link fencing eight feet (8') in height complete with three (3) strands of barbed wire, and at a minimum; one pedestrian gate and one truck gate installed at opposing ends of the site.

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- (c) The site selected must be large enough to hold all equipment and accommodate all activities required for normal and maintenance operations.
 - (d) Proper signage shall be provided and maintained by the customer.
- 1.18 **Power and telephone.** If required, Customer shall provide electric power and telephone at site.

SECTION II
INSTALLATION, TESTING, and INSPECTION

2.01 **Testing**

- (a) All facilities shall be tested in accordance with specifications provided by Peoples. Peoples shall specify minimum test pressure and test duration. Tests shall be conducted using a recording chart of which Peoples shall receive the original or a clear copy of the original test chart.
- (b) Peoples shall not activate the Interconnect until a copy (or original) of the test chart has been received and approved.

2.02 **Inspection**

- (a) Peoples reserves the right to inspect all facilities during installation.
- (b) Prior to startup of construction, three days' notice shall be provided to Peoples.
- (c) All girth welds must be 100% radiographically inspected and approved.
- (d) Customer shall be responsible for all expenses, including inspection by Peoples, relative to construction inspections of facility.

MIMA # _____

**APPENDIX B TO MASTER INTERCONNECT AGREEMENT
INSPECTIONS AND GAS QUALITY**

**SECTION I
ROUTINE INSPECTIONS OF INTERCONNECT FACILITIES**

1.01 **Interconnect Maintenance.** Peoples shall have the right to periodically inspect Customer's records and the Interconnect Facilities to verify that all operating and maintenance functions are being performed effectively. If Customer cannot provide adequate documentation, or if Customer's operating and maintenance procedures are inadequate as determined by Peoples, Customer will have seventy-two (72) hours to produce proper documentation and/or revise inadequate procedures. If, after the seventy-two hour period, documentation is not provided and/or procedures are not modified, Peoples retains the right to take further action as it deems necessary including the right to shut-in the facility until adequate documentation/procedures have been verified and secured.

1.02 **Changes to Interconnect.** The Customer has an obligation to notify Peoples in writing 24 hours prior to changes to Customer Facilities that would impact the Interconnect Facility, Peoples Facility, or gas composition and Peoples shall have the right to reject changes to the facility. Peoples retains the right to take action as it deems necessary including the right to shut-in the facility in the event notification does not occur. The cost of any damages as a result of changes to Customer Facilities will be borne entirely by the Customer.

1.03 **Interconnect Operations.** Peoples shall have the right to shut-in the meter set immediately if equipment is not operating properly, an overpressure condition exists, design limitations are exceeded, or safe operating conditions are compromised. Furthermore, Peoples has the right to keep the meter shut-in until the Customer makes the necessary provisions to rectify the situation. If the abnormal conditions repeatedly arise, Peoples has the right to shut-in the meter set indefinitely.

1.04 **Interconnect Inspections.** Peoples shall have the right to inspect the Interconnect Facility including, but not limited to, the following: calibrate the meter; inspect regulators; inspect valves; and inspect and calibrate gas quality facilities. If during the course of these inspections, Peoples determines that installation procedures were not followed, equipment was not maintained, or equipment was modified to not comply with specifications established in this Master Agreement, Peoples has the right to shut-in the meter set until corrective actions by the Customer occur and additional inspections performed. If continued inspection violations occur, Peoples has the right to shut-in the meter set indefinitely.

1.05 **Meter Tampering.** If the Customer tampers with the measurement equipment so as to misrepresent the true volume of gas delivered or received at this meter set, Peoples has the right to immediately shut-in the meter set. It will remain shut-in until Peoples and Customer reach an amicable agreement as to the most accurate volume of gas delivered during the period in question. If Peoples determines that measurement equipment has been tampered with on a repeated basis, Peoples has the right to shut-in the production meter set indefinitely.

1.06 **Telemetry.** The electronic gas measurement and communications equipment installed as part of the Interconnect Facilities shall include equipment for monitoring, recording, and transferring data deemed essential by Peoples. Customer shall arrange for the electronic gas measurement and communications equipment to provide Peoples, at minimum, real-time information related to pressure, temperature, gas flow and gas quality (i.e., chromatograph). The Customer is required to maintain telemetry equipment (including replacing batteries; removing communication obstacles; and repairing equipment) to provide reliable communication to the Customer. If Peoples determines that telemetry equipment has not been maintained on a continuous basis, Peoples has the right to shut-in the production meter set indefinitely.

MIMA # _____

1.07 **Annual Interconnect Testing.** All interconnect facilities shall be inspected and tested by a Peoples approved testing company once each calendar year not to exceed fifteen (15) months from the previous inspections at Customer's expense. This annual inspection must be completed by technicians trained to operate pressure regulating equipment in accordance with the manufacturer's procedures and specifications. Peoples reserves the right to request documentation for regular testing and technician training. The annual testing shall include, but is not limited to the following equipment: Check Valve, Regulator(s) Lock-up test, Electronic corrector (EGM) calibration, meter calibration and spot sample gas analysis at the interconnect. All documentation and calibrations records must also be submitted annually to Peoples within thirty (30) days of testing. Peoples shall have the right to periodically inspect Customer's records to determine if interconnect facilities have been inspected and tested, as required by the Master Agreement. If Customer cannot provide documentation, within five (5) days of Peoples' request, Customer is required to immediately shut-in the Interconnection facility whose measurement and testing records are deficient, for a period of one week, or until the Customer can provide proof that the Interconnect Facility has been inspected and tested, and is working properly, whichever is longer. If Customer cannot provide documentation that its Interconnect Facility has been inspected and tested on additional occasions, Peoples retains the right to take further action at its discretion, including the right to require the shut-in of the applicable Interconnect for additional time periods. If Customer repeatedly violates this provision, Peoples has the right to permanently discontinue accepting gas from wells that Customer has dedicated to said Interconnect Facility.

SECTION II **GAS QUALITY REQUIREMENTS**

2.01 **General.** Before Peoples permits the flow of natural gas into the Peoples' System, Peoples shall analyze a sample of gas to verify that it is of marketable quality. Customer will contract with a Peoples approved vendor to perform annual gas quality sample analysis including but not limited to all constituents noted below and provide inspection report to Peoples. These specifications include, but are not limited to, the following:

- (a) **Liquids** – The gas shall be free of water and hydrocarbons in liquid form at the temperature and pressure at which the gas is delivered.
- (b) **Moisture Content** – Be dehydrated by Producer and shall not have water content in excess of seven (7) pounds of water per million cubic feet of gas measured at standard conditions of 14.73 psia and 60°F, unless otherwise approved by an authorized representative of Peoples. The moisture content of the gas shall be such that it is of marketable quality, and does not cause any safety or operational problems or other adverse effects on Peoples' System or any downstream systems to which the gas may flow. Customer will be advised of any additional or specific moisture content limits for the interconnect location, or of any changes in such limits, should they be required.
- (c) **Hydrogen Sulfide** – The gas shall not contain more than four (4) parts per million on a volumetric basis, or three-tenths (0.3) of a grain of hydrogen sulfide per one hundred (100) cubic feet.
- (d) **Total Sulfur** – The gas shall not contain more than 170 parts per million, on a volumetric basis, or ten (10.0) grains of total sulfur per one hundred (100) standard cubic feet.
- (e) **Carbon Monoxide** – The gas shall not contain more than one-tenth percent (0.1%) by volume of carbon monoxide.
- (f) **Carbon Dioxide and Other Inerts** – The gas shall not contain more than four percent (4%) by volume of total combined inerts such as carbon dioxide, nitrogen, argon, and helium; provided that the total carbon dioxide content shall not exceed two percent (2.0%) by volume.

MIMA # _____

- (g) Dust, Gums and Solid Matter – The gas shall be commercially free of dust, gums, gum-forming constituents, or other liquid or solid matter which might become separated from the gas in the course of transportation through pipeline.
- (h) Gasoline - Not contain more than two-tenths (0.2) of a gallon of gasoline per one thousand (1,000) standard cubic feet unless otherwise approved by an authorized representative of Peoples.
- (i) Heating Value – Unless otherwise approved, in writing, by Peoples, the Gas delivered shall contain not less than 967 BTU per standard cubic foot and shall not exceed 1,100 BTU per standard cubic foot of natural gas calculated as the gross saturated value at 14.73 psia and 60° Fahrenheit, and a utilization factor of one thousand three hundred (1,300) plus or minus six percent (6%), the utilization factor being defined as that number obtained by dividing the heating value of the gas by the square root of its specific gravity. Gas accepted by the Company that contains less than 967 BTU per cubic foot will be enhanced to ensure that gas delivered by the Company to its end-use customers shall meet the heating value requirements set forth in applicable regulations, orders or laws. The Customer may be responsible for the costs of such enhancement.
- (j) Temperature – The temperature of the natural gas delivered into the Peoples’ System shall not exceed 100°F unless approved by an authorized representative of Peoples. The temperature shall not be less than 40°F as delivered to Peoples after passing through all regulation, measuring and over protection equipment.
- (k) Oxygen – The gas shall not contain more than 2,000 parts per million (0.2% of one percent) of oxygen by volume.
- (l) Bacteria – The gas, including any associated liquids, shall not contain any microbiological organism, active bacteria, or bacterial agent capable of causing or contributing to: (i) injury to Peoples’ pipelines, meters, regulators, or other facilities and appliances through which Customers gas flows; or (ii) interference with the proper operation of Peoples’ facilities. Microbiological organisms, including, but not limited to, sulfate reducing bacteria (SRB) and acid producing bacteria (ACB), when considered as a possibility, shall be tested for their existence utilizing the American Petroleum Institute test method API-R38 or other acceptable test method as determined by both parties.
- (m) Siloxane – On-going testing protocol:

Test Results, mg of SI / Nm ³	Action
≤ 0.4	November through February = once per week March through October = twice per month
0.40 - 0.60	Test daily until results are below 0.40
3 consecutive results ≥ 0.60 or a single test ≥ 1.0	Shut in gas until start-up conditions are re-established

2.02 Gas Odorant. Peoples will perform gas odorant tests to confirm that the Gas delivered at the Customer’s interconnect is properly odorized. If is found to have insufficient odor, then Customer will be required to purchase and install odorizing units and monitoring equipment according to Peoples’ specifications and as set forth herein. The Customer is also responsible for the maintenance of this facility including the costs of odorant supply needed to maintain a sufficient odor in all gas delivered at the Customer’s interconnect. Odorizing units and monitoring equipment specifications

MIMA # _____

- (a) **Equipment and Ownership.** The Customer will own the odorizer with associated equipment necessary to operate and deliver odor (odorizer system) and is responsible for all costs associated with operating the system. Peoples will approve the design of the odorizer system, whereinafter the Customer will purchase and install the odorizer system. Peoples may choose to be present for the installation and shall have the right to test the system after its installation. Thereafter, Peoples will operate and maintain the odorizer systems and, where applicable, a thermal electric generator (unless a public electric power supply can be made available to the site), together with necessary valves, tubing and fittings, in order to properly odorize gas delivered to the gas purchase meter. If the odorizer system is located outside of the Interconnection Facility location, the Customer shall provide site access, as described in Section 1.03 of Appendix A, for the site where the odorization system is located.
- (b) **Upgrades.** If Customer should desire to upgrade or replace any of the currently existing odorizers or generators, all equipment must be subject to the review and approval of Peoples.
- (c) **Refill.** Peoples will manage the filling and refilling (or tank exchange) of the odorant to make sure, that sufficient odorant is available for gas delivered to the gas purchase meter.
- (d) **Odorant Cost.** Customer will reimburse Peoples, upon receipt of its invoices, for the cost of odorant (based on the then applicable price per pound), including all future tank refills.
- (e) **Odorizer Site.** Customer will provide and maintain, at its own cost, perimeter fencing around the Odorizer sites to enclose and protect the odorizers and related equipment.
- (f) **Communication Cost.** Customer will reimburse Peoples, upon receipt of its invoices, for the monthly cost of public telephone or cellular service for the communications equipment used to monitor the operation of the odorizers and the odorant level and for the monthly cost of electrical service used to operate and maintain the odorizers, if electric power is provided to the odorizers from a public supplier.
- (g) **Maintenance Cost.** Customer will reimburse Peoples, upon receipt of its invoices, for the cost of any regular, periodic, and other odorizer maintenance service, including all labor and necessary replacement parts or equipment, to assure the continued efficient operation of the odorizers. This includes reserve parts held in Peoples' stock to enable timely and proficient resolutions.
- (h) **Responsibility.** Peoples is not responsible for any damage to the Odorizers or generators excepting any damage caused by the willful acts or gross negligence of Peoples.

2.03 **Gas Quality Inspections.** If gas sample analysis indicates that any of these specifications have not been met, Peoples may refuse deliveries until the Customer makes the necessary provisions to fully comply with the gas quality requirements. Customer will contract with one of the approved vendors to perform annual gas sample analysis, and provide gas analysis reports to Peoples.

2.04 **Gas Quality Inspections.** After initial deliveries are received, Peoples reserves the right to periodically sample gas at the production meter set to validate the gas quality. If the analysis indicates that gas quality specifications are not met, Peoples has the right to shut off the deliveries indefinitely until the Customer makes the necessary provisions to fully comply.

2.05 **Remedies.** Should any of the above substances enter Peoples' facilities and cause damage to metering, regulating and/or other equipment, or interruption of service, Customer shall reimburse Peoples for the costs to repair such damage and for any related costs which Peoples may incur to restore service to, and/or repair facilities of, its customers, including payments made by Peoples to customers in settlement of claims arising out of interruption of gas service. Any such costs may be deducted from payments due Customer for gas

MIMA # _____

delivered. In addition, if the gas delivered fails in Peoples' opinion to meet the quality specifications set forth herein, Peoples may elect to refuse to take all or any portion of such gas until the Customer bring the gas into conformity with such specifications. In the case of any such refusal, Customer agrees to exercise all due diligence to bring such gas into conformance with the specifications set forth herein. Peoples has the right to shut off deliveries indefinitely until the Customer makes the necessary provisions to meet the gas quality standards. Peoples may also elect to require continuous gas quality monitoring with fail safe shut off as a provision to accept existing or new deliveries. Damages as a result of gas quality violations are the responsibility of the Customer and the meter set shall be shut-in until damages are paid in full.

MIMA # _____

EXHIBIT A-_____
to
Master Interconnect Agreement

Additional Terms and Conditions Governing Transportation of Gas

This Exhibit A ("Exhibit") is made part of and is subject to the terms and conditions of the Master Interconnect Agreement made and entered into by and between Peoples Natural Gas Company LLC, with an office located at 375 North Shore Drive, Pittsburgh, Pennsylvania 15212 (hereinafter referred to as "Peoples"), and PRODUCER with an office at ADDRESS (hereinafter referred to as "Customer"). Customer and Peoples are also referred to herein individually as a "Party" and collectively as the "Parties."

This Exhibit A ___ supersedes, in its entirety, the previously executed Agreement(s) between the parties for the transport and/or purchase of gas for the meter(s) described herein.

The following table sets forth the Service Term Start Date, Service Term End Date, Gathering Rate, Retainage Rate, Receipt Point(s), and Estimated Daily Quantity for each interconnection point at which natural gas shall be transported on Peoples' System. The Service Term Start Date for each individual Receipt Point shall be the latter of the date set forth below or the first day of the immediately succeeding Production Period in which Customer delivers Gas to Peoples at the Receipt. The Service Term End Date for each individual transaction shall be the date set forth below. After this initial term, this Exhibit will automatically renew from month-to-month unless either Customer or Peoples provides written notice of termination to the other party at least (thirty) 30 days prior to the expiration date. If either party terminates this agreement, the Customer will be disconnected and the Interconnect shall be abandoned unless a subsequent Exhibit is executed within thirty (30) calendar days.

Service Term Start Date	Service Term End Date	Gathering Rate*	Gathering Retainage (%)*	Receipt Point	Estimated Daily Quantity
Date	Date	€\$/Dth €\$/mcf	%	xxxx	xxx
Date	Date	€\$/Dth €\$/mcf	%	xxxx	xxx

*Notes specifically incorporated into Rate descriptions:

- Rates for Gathering and Retainage charges are subject to change.
- Production delivered to Peoples Natural Gas tariffed division will be subject to the then-effective PES rates until the then-effective PES agreement expires (the parties specifically agree that the "Peoples Natural Gas tariffed division" excludes the former Equitable Gas Distribution Company which was merged into the Peoples' overall distribution system).

This Exhibit shall become effective upon its execution by both Peoples and Customer and shall continue in full force and effect through the end of the latest Service Term End Date set forth herein, including any extensions thereof. The obligations of Customer to make payment hereunder and the obligation of Customer to indemnify Peoples, and Peoples to indemnify Customer, pursuant hereto shall survive the termination or cancellation of the Master Agreement and this Exhibit. Peoples shall have the right to terminate this Exhibit, upon sixty (60) days advance written notice to Customer, if Gas has not flowed for the previous period of twelve (12) consecutive months, or if Peoples or its designee has caused the Interconnect Facilities to be disconnected or removed.

SIGNATURE PAGE FOLLOWS ON PAGE 2

MIMA # _____

IN WITNESS WHEREOF, Peoples and Customer have duly executed this Exhibit on this _____ day
of _____, 20____.

PEOPLES NATURAL GAS COMPANY LLC

PRODUCER

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

MIMA # _____

EXHIBIT A-_____
to
Master Interconnect Agreement

Additional Terms and Conditions Governing the Purchase of Gas

This Exhibit A ("Exhibit") is subject to the terms and conditions of the Master Interconnect Agreement made and entered into by and between Peoples Natural Gas Company LLC, with an office located at 375 North Shore Drive, Pittsburgh, Pennsylvania 15212 (hereinafter referred to as "Peoples"), and **PRODUCER** with an office at **ADDRESS** (hereinafter referred to as "Customer"). Customer and Peoples are also referred to herein individually as a "Party" and collectively as the "Parties."

This Exhibit A___ supersedes, in its entirety, the previously executed Agreement(s) between the parties for the transport and/or purchase of gas for the meter(s) described herein.

The following sets forth the additional terms and conditions whereby Peoples shall purchase natural gas from Customer at the specific Receipt Point(s) identified in this Exhibit.

1. **Sale and Purchase Obligations.** Customer shall produce and sell to Peoples, and Peoples shall take and pay for, quantities of Gas delivered to the Receipt Point(s) set forth below. Peoples shall have no obligation to pay for any Gas until such time as it has been produced and delivered to the designated Receipt Point(s). Except in instances where Peoples and Customer agree otherwise, Customer's sale shall be a full requirements sale where all Gas produced shall be delivered to Peoples. Notwithstanding the foregoing, Peoples may reduce or suspend its purchases under this Master Agreement in the event that Peoples has insufficient pipeline capacity or insufficient market demand to facilitate the sale and/or use of Customer's Gas. Upon notice to Customer, Customer shall promptly comply with Peoples' reduction or suspension request. In the event Peoples should ever cease, in whole or in part, to sell Gas directly to end-use customers (otherwise known as providing merchant or sales service), then Peoples may, in its sole discretion, terminate this Master Agreement upon at least sixty (60) days written notice to Customer.
2. **Agency.** Peoples reserves the right to act as Customer's agent to market the production dedicated hereunder while continuing to pay Customer the price set forth in this Exhibit. All other terms and conditions of the agreement shall remain in full force and effect.
3. **Title to Gas.** Customer warrants that it will have good and merchantable title to or will have the right to sell all Gas delivered under this Master Agreement and that such Gas will be free and clear of all liens, encumbrances, and adverse claims by third parties. Customer shall indemnify and hold Peoples harmless from any and all suits, claims, actions, debts, levies, accounts, damages, costs, losses, and expenses of any nature arising from or out of any adverse claims of any kind or nature asserted by any person or entity concerning such Gas, including, but not limited to any claims, suits, actions, or demands that may arise due to the nonpayment of any landowner royalties, overriding royalties, or rentals.
4. **Possession, Control, and Liability.** Title to all Gas purchased under this Master Agreement shall pass from Customer to Peoples at the Receipt Point(s). As between the Parties to this Master Agreement, Customer shall be deemed to be in possession and control of the Gas to be delivered to Peoples until Customer delivers the Gas to Peoples at the Receipt Point(s), and Peoples shall be deemed in possession and control thereafter.
5. **Peoples' Monthly Production Statement and Payment.** On or before the last business day of each calendar Month during the term of this Master Agreement, Peoples shall: (i) send Customer a production statement, in either hardcopy or electronic form, reflecting the total quantity of Gas delivered

MIMA # _____

to Peoples under this Master Agreement during the relevant Production Period; and (ii) make payment to Customer by check or by automated clearinghouse (ACH) direct deposit pursuant to a separate ACH direct deposit agreement.

- 6. Customer's Agent.** Although the terms of this Master Agreement extend to and are binding upon all Parties hereto, their respective heirs, successors, personal representatives and assigns, in no event will Peoples remit, or be required to remit, payment to more than one (1) payee per month in exchange for the Gas produced and sold hereunder. Accordingly, Customer hereby appoints the following Agent to receive all statements and payments hereunder:

Name: _____ (the "Agent")
Address: _____

The Agent is authorized to give the necessary receipts and acquaintances to Peoples and to make adjustments and settlements under this Master Agreement, and Peoples shall have no obligation with respect to, or responsibility for, the application of any gas purchase proceeds paid to the Agent. If at any time the Agent shall resign or be discharged or shall otherwise be unable or unwilling so to act, Peoples may withhold further payment of money for purchase of natural gas hereunder, without liability for interest, until Peoples is furnished by Customer with the necessary documentation (properly executed and acknowledged by all necessary parties) designating a new agent, as the case may be, to receive such payment, for all parties interested in such payment.

- 7. Royalties.** In no event will Peoples be obligated to make royalty, over-riding royalty or working interest payments for Gas purchased under this Master Agreement.
- 8. Regulatory Authorities.** Peoples shall use reasonable efforts to obtain the necessary regulatory approvals from the Commission to recover the prices paid to Customer for Gas purchased under this Master Agreement. If the Commission issues an order, opinion, act, regulation, or rule that prohibits Peoples from recovering as part of Peoples' gas cost recovery proceeding the full price paid to Customer for Gas purchased under this Master Agreement, then Peoples may at any time: (i) credit the difference between the price paid for Gas under this Master Agreement and the amount permitted to be recovered through Peoples' rates against amounts due Customer; or (ii) receive a refund of such amounts directly from Customer upon request by Peoples.
- 9. Taxes.** Customer shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") on or with respect to the Gas upstream of Receipt Point(s) and all Taxes at the Receipt Point(s). Peoples shall pay or cause to be paid all Taxes on or with respect to the Gas downstream of Receipt Point(s). If a party is required to remit or pay Taxes which are the other Party's responsibility hereunder, the Party responsible for such Taxes shall promptly reimburse the other Party for such Taxes. Any Party entitled to an exemption from any such Taxes or charges shall furnish the other Party any necessary documentation thereof.
- 10. Service Term.** The Service Term Start Date for each individual Receipt Point shall be the latter of the date set forth below or the first day of the immediately succeeding Production Period in which Customer delivers Gas to Peoples at the Receipt Point(s). The Term End Date for each individual transaction shall be the date set forth below. After this initial Service Term, this Exhibit A will automatically renew from month-to-month unless either Customer or Peoples provides written notice of termination to the other party at least thirty (30) days prior to the expiration date. If either party terminates this agreement, the Customer will be disconnected and the interconnection point shall be abandoned unless a subsequent Exhibit is executed within thirty (30) calendar days.

MIMA # _____

11. **Transaction Specifics.** The following table sets forth the Service Term Start Date, Service Term End Date, Contract Price, Receipt Point(s) and Estimated Daily Quantity for each Gas purchase transaction between the Parties.

Service Term Start Date	Service Term End Date	Contract Price*	Receipt Point	Estimated Daily Quantity
Date	Date	_____% Inside F.E.R.C. First of the Month Dominion Transmission Appalachian Index* €\$/Dth €\$/mcf	xxxx	xxx
Date	Date	_____% Inside F.E.R.C. First of the Month Dominion Transmission Appalachian Index* €\$/Dth €\$/mcf	xxxx	xxx

*Notes specifically incorporated into Rate descriptions:

- Rates for Gathering and Retainage charges are subject to change.
- Production delivered to Peoples Natural Gas tariffed division will be subject to the then-effective PES rates until the then-effective PES agreement expires (the parties specifically agree that the "Peoples Natural Gas tariffed division" excludes the former Equitable Gas Distribution Company which was merged into the Peoples' overall distribution system).

This Exhibit shall become effective upon its execution by both Peoples and Customer and shall continue in full force and effect through the end of the latest Service Term End Date set forth herein, including any extensions thereof. The obligations of Peoples to make payment hereunder for Gas which has been delivered and the obligation of Customer to indemnify Peoples, and Peoples to indemnify Customer, pursuant hereto shall survive the termination or cancellation of the Master Agreement and this Exhibit. Peoples shall have the right to terminate this Exhibit, upon sixty (60) days advance written notice to Customer, if Gas has not flowed for the previous period of twelve (12) consecutive months, or if Peoples or its designee has caused the Interconnect Facilities to be disconnected or removed.

IN WITNESS WHEREOF, Peoples and Customer have duly executed this Exhibit on this _____ day of _____, 20____.

PEOPLES NATURAL GAS COMPANY LLC

PRODUCER

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

AGENT

Acknowledged as to the obligations of Agent only

By: _____

Name: _____

Title: _____

Date: _____

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v. :

PEOPLES NATURAL GAS COMPANY, LLC :

R-2018-3006818

SURREBUTTAL TESTIMONY

OF

DIANE MEYER BURGRAFF

ON BEHALF OF

SNYDER BROTHERS, INC., VEC ENERGY LLC, AND SNYDER ARMCLAR GAS
CO., LP ("SBI")

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 DIANE MEYER BURGRAFF
ON BEHALF OF
SNYDER BROTHERS, INC ("SBI")**

I. WITNESS BACKGROUND

- 1
- 2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 3 A. Diane Meyer Burgraff, 37 Whittakers Mill Rd., Williamsburg VA 23185.
- 4 **Q. PLEASE STATE BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.**
- 5 A. I am an independent consultant employed by Snyder Brothers, Inc, VEC Energy LLC, and
- 6 Snyder Armclar Gas Co., LP (collectively, "SBI").
- 7 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**
- 8 A. I am responding to the Rebuttal Testimony of Witness Joseph Gregorini for Peoples Natural
- 9 Gas Company LLC ("Peoples"), Witness Russell Feingold for Peoples, and Witness Brian
- 10 Kalcic for the Office of Small Business Advocate ("OSBA") on the issue of proposed Rate
- 11 AGS. I will discuss proposed Rate AGS, water vapor standards, and PIOGA fees.
- 12 **Q. BEFORE DISCUSSING YOUR DETAILED RESPONSES, DO YOU HAVE ANY**
- 13 **PRELIMINARY COMMENTS?**
- 14 A. Yes. SBI's primary position is that Rate AGS should not be approved for Peoples' tariff for
- 15 all of the reasons I described in my Direct Testimony. *See* SBI Statement No. 1.

1 However, even if some rate for collection of a portion of non-gas gathering costs from
2 producers is approved, there are components of proposed Rate AGS that should be denied
3 regardless of the decision on a rate. Those components are the indexing provision and
4 maximum rate proposal as well as the provision that allows billing of Rate AGS to producers
5 who make no use of Peoples' gathering system. I will discuss these provisions in this
6 Surrebuttal Testimony and why they should be denied.

7 II. INDEXING AND THE MAXIMUM RATE

8 **Q. DOES WITNESS GREGORINI ANYWHERE IN HIS TESTIMONY DENY THAT**
9 **THE INDEXING PROPOSAL ACCOMPANYING RATE AGS WILL RESULT IN**
10 **OVER-RECOVERY OF NON-GAS COSTS OF THE GATHERING SYSTEM IF**
11 **GAS PRICES RISE FOR THE DOMINION SOUTH POINT INDEX?**

12 A. No. Even though Peoples' indexing proposal will result in over-recovery of the non-gas costs
13 of the gathering system if gas prices rise, Witness Gregorini tries to argue through a lengthy
14 discussion that this result is an acceptable outcome. I will list each argument he makes and
15 explain why I do not agree with his arguments.

16 1. *The indexing proposal for Rate AGS ensures that Rate AGS rates do not create an "economic*
17 *disincentive" for conventional producers.* Peoples Statement No. 2-R, Rebuttal Testimony
18 of Joseph Gregorini, Page 21, Lines 1-2.

19 With this argument, Witness Gregorini wants the reader to believe that as gas prices rise,
20 producers can afford to pay more for gathering services and therefore should do so. While
21 he argues that his proposal will not create an economic disincentive for producers, in reality,
22 it does just that. The economic disincentive created by this mechanism is the disincentive to
23 flow gas to Peoples' gathering system when gas prices rise. The economic incentive created

1 by this proposal is to find another market or route for producer production. This proposal
2 confiscates producers' profits for the benefit of Peoples' bottom line. Somehow, Witness
3 Gregorini wants the reader to believe that it is good for producers to have their profits taken
4 by Peoples in a rising gas price market because to do otherwise would be an economic
5 disincentive to the producer.

6 Peoples is not fully tying Rate AGS to market prices as it claims because if it were doing so,
7 there would not be a proposed minimum rate. Peoples' proposed Rate AGS moves in one
8 direction, and that is up from the \$0.26 cent per Mcf minimum. If gas prices fall, Rate AGS
9 does not go down. This proposal, if permitted to take effect, would create a class of producer-
10 customers who get charged higher rates as they make higher profits only to have those profits
11 taken by Peoples for the benefit of Peoples' owners. Peoples' argument here is that it should
12 be allowed to over-recover non-gas costs so that a producer is better off somehow. This
13 argument fails as nonsensical.

14 2. *The indexing proposal strikes a fair balance between cost recovery and the producer's ability*
15 *to pay in order to ensure a sustainable local production market.* Peoples Statement No. 2-
16 R, Rebuttal Testimony of Joseph Gregorini, Page 21, Lines 6-7.

17 If Peoples was truly concerned about the producer's ability to pay or reasonableness of
18 proposed Rate AGS, it would not have lost over 15 million Mcf of SBI production off of the
19 Equitable system to other pipelines since 2009 due to Rate AGS on the Equitable system.

20 Peoples' argument is a thinly disguised attempt to feign concern for producers' ability to pay,
21 but the rate only moves in one direction and that is up from the minimum. At the minimum
22 rate under proposed Rate AGS, Peoples recovers about one-third of its gathering system non-
23 gas costs from producers. The other two-thirds of non-gas costs of the gathering system in

1 this proposal by Peoples are recovered in rates to end-use customers. Any movement of Rate
2 AGS up from the minimum, therefore, is clearly an over-recovery of non-gas costs, because
3 there is no offset proposed to the rates of end-use customers. This rate indexing mechanism
4 is purely designed to take producers' profits in a rising gas price market and give those profits
5 to Peoples. It is an attempt to over-recover costs from its producer-customer class to enhance
6 its own bottom line.

- 7 3. *Ms. Burgraff's concerns about higher market prices and over-collections are not supported*
8 *by the evidence.* Peoples Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini,
9 Page 21, Lines 11-12.

10 If Witness Gregorini believes his own statements that gas prices will be fairly stable, then he
11 should see no need to have an indexing mechanism.

- 12 4. *Peoples expects to employ a more regular and frequent rate case cycle to seek recovery of*
13 *LTIP investments.* Peoples Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini,
14 Page 22, Lines 13-14.

15 If Peoples will be seeking rate relief more often, then Witness Gregorini should find no need
16 for this proposal since his Rebuttal Testimony already stated that projections show a stable
17 gas cost for the next four years. Peoples Statement No. 2-R, Rebuttal Testimony of Joseph
18 Gregorini, Page 21, Lines 20-22.

- 19 5. *Support is based on a fairly straightforward concept. It is derived from the fully allocated*
20 *gathering cost of service for the FPFTY of \$0.76 per Mcf.* Peoples Statement No. 2-R,
21 Rebuttal Testimony of Joseph Gregorini, Page 22, Lines 20-22.

22 Witness Gregorini throughout his testimony uses the terms "straightforward concept" and
23 "simple premise" in an effort to encourage the reader to equate the words "straightforward"

1 or "simple" with common sense and reasonableness. Peoples Statement No. 2-R, Rebuttal
2 Testimony of Joseph Gregorini, Page 13, Line 10. This proposal is far from that. There is
3 nothing at all reasonable or justifiable about setting a rate that has the potential of over-
4 recovering non-gas gathering system costs by almost two-thirds just to enhance Peoples'
5 bottom line and penalize producers. Recall that two-thirds of non-gas gathering system costs
6 in the rate design as proposed by Peoples are to be recovered from end-use customers and
7 about one-third from producers if the minimum \$0.26 per Mcf Rate AGS is put in place.
8 Any movement up from the minimum rate proposed by Peoples results in over-recovery of
9 non-gas costs of the gathering system.

10 Taken to the extreme, if the Rate AGS were to rise to its maximum proposed rate of \$0.76
11 per Mcf, Peoples would recover all of its gathering system costs from producers and another
12 two-thirds of its gathering system costs from end-use customers, or an over-recovery of non-
13 gas costs of the gathering system of about \$16 million annually. That over-recovery would
14 solely benefit Peoples' owners, but no other constituency—not producers and certainly not
15 end-use customers.

16 Again, at the bottom of Page 22 on Lines 22-23 and continuing to Page 23, Lines 1-2 of his
17 Rebuttal Testimony, Witness Gregorini repeats the statement that he used in response to
18 discovery that there will be an offset to end-use customers if Rate AGS rates rise, but that is
19 simply not true. SBI Statement No. 1, Direct Testimony of Diane Meyer Burgraff, Exhibit 1
20 (EDB-1), SBI-Peoples-I-14. There is no offset or true up mechanism proposed in this
21 proceeding that would credit any revenue obtained by Peoples from a rise in Rate AGS back
22 to end-use customers.

1 As to the calculation of the maximum rate itself, Witness Feingold made a correction to the
2 costs supporting that maximum rate through response to my discovery, as I described in my
3 Direct Testimony. SBI Statement No. 1, Direct Testimony of Diane Meyer Burgraff,
4 Page 17, Line 20 to Page 18, Line 3. That error has still not been corrected by making an
5 adjustment to the \$0.76 proposed maximum rate.

6 As Witness Gregorini likes to say, this proposal is a straightforward concept, but that
7 straightforward concept proposed by Peoples is profit for Peoples above any reasonable
8 return opportunity allowed in this proceeding. Any rise in gas prices becomes added profits
9 to Peoples in the form of non-gas cost over-recovery going straight to Peoples' bottom line.

10 **Q. DO YOU HAVE ANY OTHER COMMENTS ABOUT PEOPLES' INDEXING AND**
11 **MAXIMUM RATE PROPOSAL?**

12 A. Yes. The proposal to put into place an indexing mechanism and maximum rate that could
13 allow for such a huge over-recovery of non-gas costs of a public utility is singularly the most
14 audacious proposal for creating excessive earnings potential that I have ever encountered in
15 my 40 plus years in the public utility industry. The Rate AGS indexing and its maximum
16 rate proposal should both be rejected as completely unreasonable and without any merit
17 whatsoever.

18 **III. RATE AGS MINIMUM RATE**

19 **Q. HAS WITNESS GREGORINI PROVIDED ANY JUSTIFICATION FOR THE \$0.26**
20 **PER MCF MINIMUM RATE IN THIS PROCEEDING?**

21 A. No. Witness Gregorini reiterates in his Rebuttal Testimony what he stated in response to
22 discovery and what I outlined in my Direct Testimony; he used his own judgment and
23 feedback from PIOGA to derive the rate. Peoples Statement No. 2-R, Rebuttal Testimony

1 of Joseph Gregorini, Page 23-24; SBI Statement No. 1, Direct Testimony of Diane Meyer
2 Burgraff, Page 19, Lines 14-19. He kept no notes or documentation of any kind of that
3 PIOGA feedback. He provides no description whatsoever as to his thought process or what
4 judgment he employed to arrive at a rate of \$0.26 per Mcf. He uses no cost analysis to
5 determine what costs should be allocated to producers versus end-use customers. He
6 employs no value of service analysis except his "feedback" from PIOGA, and he makes no
7 other attempt to justify the rate level. Peoples has the burden to prove that the rate is fair and
8 reasonable, and it has provided no evidence to support the rate at all. Peoples has no
9 justification for why \$0.26 was selected as opposed to some other rate like \$0.20 or \$0.10.
10 It seems to be completely arbitrary.

11 Despite the lack of evidentiary support for this seemingly arbitrary rate level, SBI recognizes
12 that PIOGA, who has taken no active role in this proceeding at all, has not opposed it. For
13 PIOGA members, this minimum rate as proposed will result in either a large decrease
14 (Equitable producers) or a small initial decrease for Peoples' PES participants, and for some
15 producers, like SBI, it will mean a large rate increase. When combined with the indexing
16 proposal, however, that initial impact on the Equitable producers and PES participants would
17 change if gas prices increase. For PES participants, the gathering rate will increase above
18 the current maximum rate of \$0.32 per Mcf if the market price of gas exceeds \$2.58 per Mcf
19 ($\$0.32/12.4\% = \2.58).

20 **Q. DO YOU HAVE ANY COMMENTS ABOUT THE MINIMUM RATE PROPOSAL?**

21 A. SBI continues to maintain its position that the non-gas costs of the gathering system should
22 be paid for by end-use customers and not producers. It has proposed an alternative in this

1 proceeding to its primary position if the Commission decides that charging a producer for
2 this service is appropriate.

3 SBI's alternative proposal would make the \$0.26 per Mcf a maximum rate, with no indexing,
4 which could be flexed downward to take into consideration value of service and/or
5 gradualism to producers such as SBI.

6 SBI has moved over 15 Bcf from the Equitable system since 2009 due to Equitable's Rate
7 AGS, and that has not been rebutted by any party to this proceeding.

8 SBI suggests in its alternative proposal that a rate of \$0.10 per Mcf, increased by the overall
9 average rate increase given to end-use customers at the end of this proceeding, be adopted
10 for producers that are paying either no rate or a small rate. This recommendation would
11 reflect gradualism for customers like SBI and may help to keep some Pennsylvania supply
12 from leaving Peoples gathering system.

13 **IV. GAS MOVEMENT BY SBI OFF PEOPLES AND EQUITABLE DUE TO RATE AGS**

14 **Q. DO YOU HAVE ANY COMMENTS ABOUT WITNESS GREGORINI'S**
15 **STATEMENT ON PAGE 38 WHERE HE STATES THAT SBI HAS "NOT**
16 **PROVIDED ANY DIRECT EVIDENCE IN ITS DIRECT CASE OR IN DISCOVERY**
17 **THAT SHOWS THAT PEOPLES' PROPOSED RATE AGS TARIFF AND THE**
18 **PROJECTED INITIAL GATHERING RATE OF \$0.26/MCF WOULD CAUSE IT TO**
19 **MOVE CONVENTIONAL PRODUCTION TO OTHER MARKETS?"**

20 **A.** Yes. I am not sure what kind of direct evidence Witness Gregorini is envisioning, but SBI
21 is not going to move gas off of the Peoples system over a proposed rate that is not yet
22 approved. The evidence that SBI has presented is that SBI moved 15 Bcf off of the Equitable
23 system since 2009, which was soon after the gathering rate on that system was increased as

1 a result of a base rate case. Therefore, if history is used as a predictor of the future, SBI will
2 move gas from the Peoples system if Rate AGS is approved as filed.

3 SBI produced 1.75 Bcf into the Peoples system according to Witness Gregorini in the HTY.
4 End-use customers cannot benefit from such a proposal if it results in local gas moving off
5 the gathering system. A rate design that includes a rate so high at the \$0.26 level, that the
6 revenues designed to be recovered by the rate cannot be achieved because the associated
7 volumes are lost to other pipelines, is an illogical rate design. It would make more sense, at
8 a minimum, to put in place a rate that can accommodate market realities, such as the
9 alternative proposal that I am recommending. The old adage that "half a loaf is better than
10 none" is applicable here. Peoples needs to recognize that, by proposing a charge of a
11 minimum of \$0.26 per Mcf for a gathering rate to a producer that has alternative options for
12 moving its supply to market and which has not paid any rate at all to date for moving gas
13 into Peoples gathering system, Rate AGS will result in the loss of local gas to the Peoples
14 gathering system. SBI clearly has demonstrated the ability to move gas to other pipelines in
15 the past, but perhaps what SBI needs to make clear in surrebuttal is the amount of gas that
16 will be taken off the Peoples system if the \$0.26 rate is approved.

17 **Q. CAN YOU STATE THAT IF THE \$0.26 PER MCF MINIMUM RATE IS**
18 **APPROVED, SBI WILL MOVE GAS OFF OF THE PEOPLES SYSTEM, OR ARE**
19 **YOU JUST SPECULATING THAT COULD HAPPEN BASED ON HISTORY?**

20 **A.** I am not speculating about SBI's plans. SBI has advised me that in response to Witness
21 Gregorini's statements about lack of evidence as to the movement of gas from the Peoples
22 system, that if the \$0.26 per Mcf rate minimum for Rate AGS is approved, SBI plans to
23 immediately move almost 600,000 Mcf annually to other pipelines that are not affiliates of

1 Peoples, and can and will do so with little or no investment at all by simply turning valves,
2 so the gas will flow into existing alternative pipelines. SBI can also move approximately
3 150,000 Mcf a year to the Peoples' TWP affiliate with no investment needed.

4 Another approximately 200,000 Mcf annually of gas can easily be moved with minimal
5 pipeline investment to non-affiliates of Peoples, and another 140,000 Mcf annually can be
6 moved to TWP with minimal pipeline investment.

7 These volumes, over 1 Bcf in total, of Pennsylvania supply represent the "low hanging" fruit,
8 or volumes that can be moved with no investment or minimal investment; of that,
9 approximately 700,000 Mcf per year is gas not going to TWP, but instead to non-affiliates
10 of Peoples.¹

11 Volumes not mentioned need further review, and for some wells, shut-in may be the best
12 course of action economically. However, a study of all meters has not yet been completed
13 since it will take some time to do so. If indexing is approved, more gas will likely be moved
14 by SBI as it evaluates the economics of pipeline investment to relocate gas versus paying a
15 higher gathering rate. Other producers may also decide to move their supply if Rate AGS
16 rates rise with a gas price index.

17 Witness Gregorini criticizes SBI for objecting to discovery on this subject, but the question
18 PNG to SBI-II-22 that he refers to on Page 38, Lines 7-8 of his Rebuttal Testimony asks
19 about Equitable's service territory and not Peoples'. PNG to SBI-II-22 asks for information
20 about every well in Equitable's service territory, even those that may have no pipeline
21 connection to Peoples or Equitable. Witness Gregorini's accusation is misleading since SBI-
22 Peoples-II-22 did not even ask about Peoples' service territory. Peoples, within the past few

¹ This analysis is Highly Confidential and will be provided to parties that have executed the Protective Order as part of SBI's responses to Peoples Set II Interrogatories.

1 days has now realized its error and asked a discovery question as to the Peoples system, so
2 Witness Gregorini's criticism was totally unfounded.

3 SBI is not attempting to threaten with this action plan, it is just a business reality that the
4 payment of \$455,000 annually in Rate AGS (at the \$0.26 rate applied to 1.75 Bcf HTY
5 volumes) to Peoples can instead be used to build pipelines each year to move the gas to
6 another pipeline. Western Pennsylvania, where natural gas production started, has many
7 pipeline systems, and many are in close proximity or overlap. Many meters already have the
8 connections needed to move the supply to more than one pipeline. Many meters that do
9 require minimal investment to move gas to another pipeline may need a pipeline costing less
10 than \$20,000 to install.

11 In one year, the investment can be made to connect many gas meters, where another pipeline
12 is not already in place, to alternative pipelines that are not Peoples' affiliates. SBI is making
13 a prudent business decision to move gas if Rate AGS is approved as filed. It may not be the
14 only producer to make such a decision, especially if the indexing proposal is approved.

15 Peoples needs to reflect market realities in its pricing proposals and value of service to
16 individual producer-customers. Its \$0.26 minimum rate for Rate AGS may work well with
17 small producer-customers who have limited options for their supply, but it does not work
18 with larger producers who have more options. Peoples needs to consider the impact on all
19 producers when it makes its rate proposals instead of wrongly assuming that all producers
20 have no options other than Peoples' pipelines.

21 Looking at the attached table, prepared in response to PNG to SBI-II-2 (attached hereto as
22 Exhibit 1 (EDB-S-1)), of all the outlets for the gathering pipelines of SBI and related entities,
23 only the interconnecting pipelines owned by the Peoples Equitable Gas Company ("PEGC"),

1 Columbia Gas Transmission ("TCO"), and National Fuel Gas Supply ("NFGS") have rates
2 listed. Most of the pipelines have no charges listed and many have no retainage listed.
3 Clearly, SBI and its affiliates have options that are less expensive than Peoples' proposal
4 under Rate AGS.

5 The alternate proposal that I recommend (\$0.10 per Mcf plus the overall average increase
6 that is assigned to end-use customers at the conclusion of this proceeding) may not keep all
7 of SBI's volumes on Peoples' gathering system, but it could keep some of SBI's gas on
8 Peoples' gathering system. The only option that could keep all of SBI's gas on Peoples' is no
9 Rate AGS (our primary position) or a flexible Rate AGS that could flex from a maximum
10 rate of \$0.26 to a minimum of zero with no indexing to accommodate producers such as SBI
11 who can turn valves and move their supply to another pipeline with no investment necessary.

12 **V. RATE AGS FOR GAS PRODUCERS WHO DO NOT USE THE**
13 **GATHERING SYSTEM**

14 **Q. HAS PEOPLES JUSTIFIED ITS PROPOSAL THAT PRODUCERS WHO DO NOT**
15 **MAKE USE OF THE GATHERING SYSTEM SHOULD HELP PAY FOR IT?**

16 A. No, again Witness Gregorini uses the term "straightforward" to describe Peoples proposal to
17 recover non-gas costs of the gathering system from producers who don't even use the
18 gathering system. Peoples Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini, Page
19 28, Line 13. While it may be a straightforward proposal, it is devoid of merit.

20 **Q. WHAT DOES WITNESS GREGORINI SAY ABOUT PEOPLES' RATIONALE FOR**
21 **WHY PRODUCERS WHO DO NOT MAKE USE OF THE GATHERING SYSTEM**
22 **SHOULD PAY FOR IT?**

23 A. He states in his Rebuttal Testimony that the proposal is "to assess a fee . . . for any gas

1 produced into the gathering, transmission, or distribution systems." Peoples Statement No.
2 2-R, Rebuttal Testimony of Joseph Gregorini, Page 28, Lines 13-22. He goes on to state that
3 "the rationale for these fees is straightforward as well; both conventional and non-
4 conventional producers derive a benefit from using the Peoples' systems to access markets
5 for their supplies." Peoples Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini,
6 Page 28, Lines 18-20. That is the sum-total of his justification for this proposal. What he
7 completely ignores or chooses to gloss over is the fact that the charge that he is proposing to
8 assess producers of conventional and non-conventional supply is non-gas gathering system
9 costs. The proposed charge is to all Pennsylvania producers for the costs of the gathering
10 system, even those that make no use of the gathering system. There is no possible
11 justification for charging gathering system non-gas costs on volumes that do not flow through
12 the gathering system. By doing so, Peoples just risks having more gas move off of the
13 Peoples system. The fact that Rate AGS states that the fee for non-conventional supply is
14 negotiable does not justify its existence. In its rate design, as displayed in response to SBI-
15 Peoples-I-9, Peoples, in the FPFTY, has included \$963,772 of revenue recovery of gathering
16 system non-gas costs on volumes that are not even injected into the gathering system, but
17 instead are injected downstream of the gathering system. *See* SBI Statement No. 1, Direct
18 Testimony of Diane Meyer Burgraff, Exhibit 1 (EDB-1), SBI-Peoples-I-9.

19 Peoples has made no valid argument why it should burden producers of unconventional
20 supplies, who make no use of a low-pressure Peoples' gathering system, with costs of that
21 system. Witness Gregorini has not provided any justification for this proposal at all. It is
22 completely without merit and Peoples, who has the burden of proof in this case, has not
23 provided any proof of the reasonableness of this proposal. It should be rejected as meritless.

VI. WATER VAPOR STANDARDS

1
2 **Q. YOU TESTIFIED THAT IF RATE AGS IS NOT APPROVED, THEN THE WATER**
3 **VAPOR STANDARD OF 7 POUNDS PER MILLION CUBIC FEET ("THE SEVEN-**
4 **POUND STANDARD") SHOULD BE ELIMINATED FROM THE TARIFF AND**
5 **MIMA IN FAVOR OF A NEGOTIABLE STANDARD. YOU ALSO TESTIFIED**
6 **THAT, IF RATE AGS IS APPROVED, THEN RATE AGS SHOULD INCLUDE**
7 **DEHYDRATION SERVICE AND THAT THE SEVEN POUND STANDARD**
8 **SHOULD BE ELIMINATED FROM PEOPLES' TARIFF. ON PAGE 42, LINE 20**
9 **OF HIS REBUTTAL TESTIMONY, WITNESS GREGORINI DISAGREES WITH**
10 **THOSE RECOMMENDATIONS. PLEASE COMMENT ON THIS SUBJECT.**

11 A. Witness Gregorini states that tariff water vapor language is necessary to enable Peoples to
12 enforce a water vapor standard when necessary. For the majority of Peoples' producers,
13 those who subscribe to the PES Program, Peoples has for many years agreed to accept gas
14 with a water vapor content much higher than the seven-pound standard. For Peoples to insist
15 in this proceeding that the seven-pound standard is such a critical standard to be adhered to
16 for operational reasons is just disingenuous given its history of accepting much higher water
17 vapor content from producers when Peoples is paid a fee.

18 As shown in the attached exhibit, clearly much higher standards than the seven-pound
19 standard are shown as acceptable levels for introduction into Peoples' pipelines even for lines
20 up to 400 pounds of line pressure. *See* SBI Statement No. 1-S, Surrebuttal Testimony of
21 Diane Meyer Burgraff, Exhibit 2 (EDB-S-2). It is my understanding that gathering pipelines
22 usually operate at less than 200 pounds of pressure, and for Peoples, pressure on its gathering
23 system can be much lower than that in the range of 20 to 50 pounds.

1 **SCENARIO ONE: RATE AGS IS NOT APPROVED**

2 If Rate AGS is not approved, then Peoples needs to have the water vapor standard be a
3 negotiable standard when needed. The standard that is negotiated needs to be fair to both
4 parties. If Peoples feels that, from an operational standpoint, it needs to set a standard for
5 situations when it cannot reach agreement with the producer, then it should set a reasonable
6 standard, such as the standards it applies to PES participants. PES enrollees have enjoyed
7 water vapor allowances for low-pressure lines that are much less stringent than the seven-
8 pound standard. The seven-pound standard set by Peoples acted to encourage enrollment in
9 PES so that participants would have the water vapor standard relaxed to the much less
10 stringent standards shown on the attached exhibit and avoid the threat of shut-in for non-
11 compliance with the unrealistic and economically unachievable seven-pound standard.
12 *See* SBI Statement No. 1-S, Surrebuttal Testimony of Diane Meyer Burgraff, Exhibit 2
13 (EDB-S-2).

14 It is my understanding that a seven-pound water vapor standard per Mcf is typical for a high-
15 pressure transmission line and is a typical requirement for interstate gas transmission lines,
16 but is not realistic, economically or technologically, to achieve on a gathering low-pressure
17 line.

18 **SCENARIO TWO: RATE AGS IN SOME FORM IS APPROVED**

19 If Rate AGS is approved resulting in the elimination of the PES Program, producers who
20 were paying the PES fee and getting a realistic/relaxed standard as their incentive to sign up
21 for PES, would naturally expect that by paying Rate AGS, dehydration service would be
22 included in the rate paid. This is true especially since PES contributions helped to fund the
23 dehydration investment that is included in Peoples' gathering system rate base.

1 For SBI, which has not paid the PES fees (and previously PEP fees) for several years but did
2 pay when Peoples first introduced the voluntary program, it is not clear that Rate AGS
3 includes any dehydration service in exchange for the Rate AGS charges proposed. In its
4 filing, Peoples is proposing Rate AGS, but has maintained the unrealistic seven-pound
5 standard instead of including dehydration service as part of Rate AGS. Water vapor standard
6 is proposed as a negotiable item in Peoples' filing and is not included as part of the Rate AGS
7 charge, even though dehydration investment is in gathering system non-gas costs recovered
8 through Rate AGS.

9 The early PEP programs, which SBI participated in 2002 and 2005, included capital
10 contributions by producers to pay for dehydration facilities on the Peoples system. Peoples
11 stated, in response to discovery, that it could not retrieve information on the PES or PEP
12 programs before the year 2012. *See* SBI Statement 1, Direct Testimony of Diane Meyer
13 Burgraff, Exhibit 1 (EDB-1), SBI-Peoples-I-29 and SBI-Peoples-I-31. Those contributions
14 are now long forgotten as Peoples wants the ability to charge producers a second time for
15 dehydration investment through Rate AGS, if it decides to do so, by refusing to negotiate a
16 reasonable water vapor standard.

17 **Q. PLEASE DISCUSS THE USE OF DRIPS AS A DEHYDRATION METHOD AND**
18 **ADDRESS WITNESS GREGORINI'S DISCUSSION OF THIS SUBJECT IN HIS**
19 **REBUTTAL TESTIMONY.**

20 A. Witness Gregorini states that the MIMA requires producers to install drips. Peoples
21 Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini, Page 41, Line 4. SBI does this
22 already. Witness Gregorini states in the same paragraph that Peoples has dehydration
23 facilities to remove water vapor that were installed using PES funds. Rate AGS, if approved

1 in some form, should include dehydration service, and it should not be a negotiable item but
2 instead an included service for the rate paid.

3 **Q. WHAT DOES WITNESS GREGORINI SUGGEST PRODUCERS DO WHEN**
4 **PEOPLES, FOR WHATEVER REASON, REFUSES TO NEGOTIATE A LOWER**
5 **WATER VAPOR STANDARD?**

6 A. Witness Gregorini states that he expects producers to have and maintain necessary
7 dehydration equipment. Peoples Statement No. 2-R, Rebuttal Testimony of Joseph
8 Gregorini, Page 44, Lines 1-3. He does not, however, explain what is involved in meeting
9 that expectation from a standpoint of cost or technology, nor if his expectation is at all
10 realistic to achieve. For example, if it costs \$95 per day in desiccant to sell \$140 worth of
11 gas, it is not economical to do what Witness Gregorini is expecting. My client advises that
12 glycol dehydrators are very expensive, require daily monitoring, and are not effective on
13 low-pressure pipelines. Peoples' proposal for the seven-pound standard for water vapor is
14 not realistically achievable from an economic or technological standpoint.

15 **Q. WHAT IS YOUR REACTION TO THE RECOMMENDATION THAT PEOPLES**
16 **HAS THE RIGHT TO SHUT IN WELLS THAT DO NOT COMPLY WITH THE**
17 **SEVEN-POUND STANDARD OR THE NEGOTIATED STANDARD AS WITNESS**
18 **GREGORINI THREATENS ON PAGE 45, LINES 1-11 OF HIS REBUTTAL**
19 **TESTIMONY?**

20 A. If a water vapor standard is freely negotiated between two parties and is not coerced by
21 Peoples, then parties to the agreement should honor that commitment.

22 Adherence to the seven-pound standard on a low-pressure gathering system is not a realistic
23 expectation, according to SBI. If Peoples shuts in gas on low-pressure gathering lines

1 because a producer is not adhering to that unrealistic standard, Peoples is acting in a manner
2 that is not in the best interests of its end-use customers.

3 **Q. HOW SHOULD PEOPLES ADDRESS LOCAL GAS WELLS THAT ARE CAUSING**
4 **IMMINENT AND LOCALIZED OPERATIONAL, PIPELINE, OR CUSTOMER**
5 **SERVICE ISSUES DUE TO WATER VAPOR?**

6 A. If there are any safety issues regarding water vapor, Peoples should immediately contact
7 producers in the geographic area of the problem and then work with those producers to
8 solve it.

9 **VII. MOTIVATION FOR PEOPLES PROPOSAL—PIOGA INTERVENTION AND**
10 **FEES**

11 **Q. WITNESS GREGORINI MAKES A POINT OF STATING ON PAGE 13, LINES 3-6**
12 **OF HIS REBUTTAL TESTIMONY THAT PIOGA HAS NOT PRESENTED ANY**
13 **TESTIMONY IN THIS CASE AT ALL. WHY DO YOU THINK THAT'S THE**
14 **CASE?**

15 A. Peoples' motivation to want to charge producers for a portion of Peoples' cost-of-service is
16 not immediately obvious but becomes clear after some reflection. Peoples' motivation, as
17 with Equitable's before it, contrary to their statements about who benefits and derives value
18 from the use of the gathering system and their desire to design rates with that fairness goal
19 in mind, is really a self-serving proposal for stable and low-risk cost recovery.

20 Peoples' motivation to shift cost recovery to producers is one of ease of cost recovery and
21 risk aversion for cost recovery. The shift of base rate costs from (a) customer classes that
22 are represented by either governmental parties and their experts (OCA and OSBA) or by
23 large law firms and their experts (PII and similar), to (b) producers (many of whom are small

1 with limited resources and use their trade association counsel as their representation and
2 often without an expert due to cost) would seem to be a good strategy for Peoples. The shift
3 of base rate costs in this proceeding would normally have provided a fairly easy path to cost
4 recovery through Rate AGS, if it were not for SBI's intervention. Peoples has made it easy
5 for governmental parties and large end-use customers to support Peoples' proposal for cost
6 recovery since every party seems to have the mistaken belief that they benefit from this
7 proposal because it shifts base rate costs away from their constituents. This Surrebuttal
8 Testimony will hopefully show the parties that charging producers for gathering costs, as
9 this rate is proposed, is not in their constituents' best interests.

10 Peoples, in this proceeding, in order to have what it thought would be a clear path to success
11 for Rate AGS, needed a proposal that would get PIOGA on board.

12 PIOGA, the trade association, did not actively oppose the Rate AGS proposal because it must
13 have thought that the proposals were helpful to the majority of its membership. PIOGA gets
14 two additional benefits under Peoples proposal to continue the beneficial billing and
15 collection arrangement for its association at no cost to its membership and PIOGA producers,
16 many of whom are smaller than SBI. First, producers (Peoples PES customers) who support
17 Peoples' Rate AGS proposal, avoid the threatened shut in of their wells for noncompliance
18 with the unrealistic seven-pound water vapor standard by enjoying a relaxed water vapor
19 standard. Second, the majority of PIOGA member-producers get a proposed rate reduction
20 or fee reduction based on the minimum rate proposed under Peoples' indexing proposal.

21 "Something for almost everyone to like" was Peoples' plan for the Rate AGS proposal. This
22 plan failed to consider the impact of (a) the potential loss of gas supply volumes from Peoples
23 gathering system to other pipelines from those producers getting a sizeable rate increase

1 under Rate AGS and (b) the indexing approval if adopted and the potentially larger loss of
2 local, low-cost gas supply in the longer term from the gathering system if producing gas into
3 the Peoples system no longer makes economic sense for many producers.

4 PIOGA member-producers who are slated to get significant rate increases under Peoples'
5 proposal, because they did not participate in the PES program, were ignored by Peoples and
6 by PIOGA. Peoples kept the Rate AGS proposal at a level of \$0.26 per Mcf minimum rate
7 because that was less than the \$0.32 per Mcf PES fee, and therefore was appealing to PES
8 subscribers.

9 As for SBI, it has not opted into the PES program for many years now because it did not see
10 value in the program after the first few years. The PES program did not continue to enhance
11 SBI production volumes, which was the original purported benefit of the program. Peoples
12 did not make the program mandatory and so SBI made a business decision to opt out. Many
13 other producers feared shut in over the water vapor standard if they could not comply with it
14 and opted to stay in.

15 Producers like SBI are the only producers getting a significant rate increase under Rate AGS.

16 **VIII. OTHER ISSUES**

17 **PES**

18 **Q. DO YOU HAVE ANY COMMENTS IN RESPONSE TO WITNESS GREGORINI'S**
19 **REBUTTAL TESTIMONY ON THE PES PROGRAM?**

20 A. The PES Program has no impact on this case since it is being eliminated so I am not going
21 to respond to all of Mr. Gregorini's rebuttal on this subject. The main purpose of my Direct
22 Testimony on the subject was to demonstrate how little of the funds paid into PES were
23 actually used for capital improvements to benefit producers since 2012 and perhaps before

1 that if information had been made available by Peoples. It is not at all surprising that some
2 producers, such as SBI, did not participate in the program in recent years. They did not see
3 the value for their large contributions made in the early years of the program.

4 **Q. AFTER READING WITNESS GREGORINI'S REBUTTAL TESTIMONY, DOES**
5 **HE CREATE THE IMPRESSION THAT BY OPTING OUT OF THE VOLUNTARY**
6 **PES PROGRAM, SBI WAS AVOIDING COSTS IT SHOULD HAVE BEEN PAYING**
7 **ALL ALONG AND FOR THAT REASON SHOULD NOW HAVE TO PAY A LARGE**
8 **RATE INCREASE AS ALMOST A FORM OF MAKING UP FOR PAST SINS?**

9 A. Yes. The impression Witness Gregorini creates is that these were fees due to Peoples for the
10 services they provided to producers and SBI was avoiding its responsibility to pay what it
11 owed. In fact, PES and PEP were optional programs started by Peoples in 2002 (ironically
12 with SBI as one of the producers who helped start the program) to work with producers and
13 collect capital contributions from them to help pay for projects that would enhance
14 production. Snyder Brothers enrolled in the 2002 PEP program and the next iteration of PEP
15 which was the 2005 PEP program. When the 72-month term of that 2005 program ended,
16 Snyder Brothers did not renew because it did not see any noticeable improvements in
17 production received into Peoples above and beyond what was obtained from the 2002
18 program capital investments. This was a business decision to not participate in a voluntary
19 program where it contributed to capital investments made by Peoples to enhance production.
20 In other words, SBI did not see a "value of service" reason to continue to participate. Peoples
21 is now creating the impression that SBI has failed to pay for services it received and so it
22 should be forced to make up for that shortfall with a very high rate increase. SBI did not fail
23 to pay, it opted out of a voluntary program.

IX. 2018 1307(F) CASE TARIFF LANGUAGE

1
2 Q. WHAT IS YOUR COMMENT ABOUT THE DISCUSSION CONCERNING THE
3 LANGUAGE THAT APPEARS IN PEOPLES' TARIFF IN RATE GS THAT
4 APPLIES RETAINAGE TO ALL PIPELINE SYSTEMS OF PEOPLES
5 REGARDLESS OF WHERE A PRODUCER INJECTS PRODUCTION VOLUMES?

6 A. Witness Gregorini tries to recreate history by suggesting that Peoples made it clear in its
7 2018 1307(f) filing and testimony to the Commission that it was requesting authority to
8 collect a portion of gathering system UFG on all conventional gas production coming into
9 Peoples' pipeline systems, regardless of whether the production entered via a transmission
10 line, distribution line, or gathering line. Peoples employed a long-used utility rate tactic of
11 using vague tariff language that it could interpret in its own way to achieve its desired results
12 after the fact. Peoples characterized its filing as being modeled after Equitable's Rate AGS,
13 but Equitable's Rate AGS has no authority to charge retainage on conventional gas coming
14 into its transmission system. In his Rebuttal Testimony, Witness Gregorini quotes from
15 Peoples' Witness Petrichevich's Rebuttal Testimony from the 2018 1307(f) case where she
16 made it clear that the request by Peoples – to expand gas retainage to offset UFG on its
17 gathering system – was to include conventional gas production that enters Peoples through
18 *distribution* lines. Peoples Statement No. 2-R, Rebuttal Testimony of Joseph Gregorini, Page
19 31, Line 7. Witness Petrichevich, however, made no mention of including transmission lines
20 in Peoples' request to expand gas retainage and stated that the request for including
21 distribution pipelines was for "administrative ease." Peoples Statement No. 2-R, Rebuttal
22 Testimony of Joseph Gregorini, Page 31, Line 12. Her administrative ease argument subjects
23 over 1 Bcf of additional annual supply to retainage charges for gas that enters Peoples' system

1 through non-gathering pipelines. I discussed this subject further in my Direct Testimony.
2 *See* SBI Statement No. 1, Direct Testimony of Diane Meyer Burgraff, Page 31, Lines 5-20.
3 Peoples presented an argument in last year's 1307(f) case that its Rate GS tariff was modeled
4 after Equitable's Rate AGS tariff and argued that it should be allowed to retain volumes from
5 conventional well production into Peoples' gathering system to help with the UFG problem
6 in that system. It explained that it was expanding that retainage proposal to include
7 conventional gas volumes that flow directly into Peoples' distribution system because it was
8 a small amount of additional production, and Peoples was asking for that expansion in
9 applicability of the retainage percentage due to administrative ease. Contrary to Peoples'
10 argument, the additional production into Peoples' distribution system is in fact more than a
11 small amount of additional supply, since it is over 1 Bcf annually. *See* SBI Statement No. 1,
12 Direct Testimony of Diane Meyer Burgraff, Exhibit 1 (EDB-1), SBI-Peoples-I-17. Peoples,
13 in its 1307(f) 2018 case, did not even attempt to justify its proposal for gathering system
14 UFG retainage to be applied to gas that did not flow through Peoples' gathering system as
15 making any sense; Peoples simply argued that it was easier administratively to apply
16 retainage to all Pennsylvania conventional well production volumes regardless of whether
17 the gas came in through a gathering line or a distribution line. Peoples never mentioned
18 transmission lines in its arguments.

19 I maintain my position that I previously described in my Direct Testimony that Peoples' Rate
20 GS tariff is overly broad, thus allowing retainage on gas coming into the transmission system
21 in violation of the Commission's order in last year's 1307(f) case. The language currently
22 appearing in the Rate GS tariff does not represent the spirit of what Peoples presented to the
23 Commission, and it is not what the Commission discussed allowing in its Order. The tariff

1 language in effect today does represent what Peoples wanted to obtain from its last 1307(f)
2 case, even if it was not what they asked for in testimony or what the Commission approved
3 in its Order.

4 Peoples' 2018 1307(f) case should not be used as precedent in this proceeding. Peoples was
5 given permission to charge retainage on conventional gas supply entering its distribution
6 system because of Ms. Petrichevich's "administrative ease" argument. Peoples' overly broad
7 language in Rate GS should be corrected, not cited as a precedent.

8 First, Peoples should be required to correct its current tariff and exclude transmission lines
9 from its retainage provision in Rate GS presently in effect because it does not comply with
10 the Order in Peoples' 2018 1307(f) case.

11 As to this proceeding, last year's Peoples 1307(f) case decision on retainage, which was due
12 to an administrative ease argument, should not become a precedent to charge producers—
13 supplying both conventional and unconventional supplies to Peoples—for non-gas costs
14 related to Peoples' gathering system for gas that does not even flow through the gathering
15 system, but instead enters Peoples' system downstream of the gathering system.

16 X. GATHERING ASSETS IN RATE BASE

17 **Q. IN WITNESS GREGORINI'S REBUTTAL TESTIMONY, HE DISCUSSES ALL OF**
18 **THE COMPANIES THAT HAVE DIVESTED OF GATHERING ASSETS. DOES HE**
19 **EXPLAIN WHY PEOPLES HAS NOT?**

20 A. No. Witness Gregorini does not explain why Peoples has not divested its gathering system.
21 No one is forcing Peoples to keep the gathering system in rate base. Peoples could take these
22 assets out of rate base and divest itself of these assets, just as other utilities have done, as
23 described by Mr. Gregorini. *See* Peoples Statement No. 2-R, Rebuttal Testimony of Joseph

1 Gregorini, Page 19, Lines 13-22. If the purpose of these assets is to primarily benefit
2 producers, as Peoples likes to have everyone believe, then it should have divested itself of
3 its gathering assets years ago. Equitable did such a divestment years ago and then decided
4 to buy back the Apollo Gathering System and other gathering systems in the early 2000s.
5 Both Peoples and Equitable have made the decision to keep these assets in rate base and such
6 have deemed their gathering system to be property that is used and useful in the public
7 service. The "public," if Rate AGS is approved, will include producers.

8 Peoples wants it both ways: rate base/rate of return treatment for its gathering assets – a
9 ratemaking treatment that has traditionally been reserved for public utilities – and approval
10 to recover rate base from what should be non-utility customers.

11 Charging a producer for rate base and a return component and the remaining costs of service
12 creates a new class of customer, a producer-class. If Rate AGS is approved by the
13 Commission, then the Bureau of Investigation and Enforcement ("I&E") will need to look at
14 the interests of this class of customer, just as they look at balancing the interests of all of its
15 other constituencies. Likewise, OSBA will need to evaluate if its mission should include the
16 interests of small business producer-customers in future rate cases, since this new class of
17 customer will be paying a portion of Peoples' cost-of-service if this rate is approved. Witness
18 Gregorini asserts in his Rebuttal Testimony that since producers are charged retainage, that
19 fee opens the door to other charges without changing the definition of service to the public.
20 In my view, the assignment of fixed costs and a return component to a producer-class of
21 customer solidifies the producer as part of the public in public utility service and does change
22 the definition of service to the public to include producer-customers as part of the public.

XIII. WITNESS FEINGOLD-PEOPLES

1
2 **Q. DO YOU HAVE ANY COMMENTS ABOUT WITNESS FEINGOLD'S REBUTTAL**
3 **TESTIMONY?**

4 A. Witness Feingold testifies for many pages regarding why he changes his mind from case to
5 case. The long and the short of it offers no valid or persuasive justification for his changing
6 views.

7 I do want to correct some statements he made in his testimony. He stated that I was Director
8 of Rates at Peoples during the 1983 rate case, which is not accurate. John R. Fellabom was
9 Director of Rates during Peoples 1983 rate case. I became Director of Rates at Peoples in
10 the fall of 1984 and I retained Mr. Feingold as the rate design witness in Peoples' 1986 rate
11 case. That was the second case he did for Peoples. While Witness Feingold in his Rebuttal
12 Testimony in this proceeding focuses on the Peoples 1983 rate case and describes that times
13 were different then because it was prior to unbundling, he conveniently avoids any mention
14 of his involvement in Peoples' 1986 rate case.

15 In the 1986 base rate case for Peoples, Mr. Feingold was the rate design witness. Peoples
16 was ahead of the curve and already had transportation services for customers in that
17 proceeding. Mr. Feingold, in the 1986 rate case, specifically recommended that the company
18 propose a Gathering Transportation rate on Peoples' system that would charge end-use
19 customers a fee if they transported local gas through the gathering system. The rate he
20 recommended was based on a fully allocated cost-of-service of the gathering system. At no
21 time did he suggest that producers should be charged any of the costs of Peoples' gathering
22 system. He recommended that the full cost of the gathering system be recovered from end-
23 use customers.

1 Peoples was offering transportation service in the mid-1980s, contrary to Witness Feingold's
2 statements. *See* Peoples Statement No. 11-R, Rebuttal Testimony of Russell Feingold,
3 Page 29, Line 15. Mr. Gregorini, who was hired by me into Peoples from Equitable in 1987,
4 perhaps a year after that case was completed, and Mrs. Petrichevich, who worked for me in
5 the Rate department at Peoples during the early 1980s and then moved to Gas Supply, can
6 both probably recall that transportation service was already being offered in the mid-1980s
7 contrary to Mr. Feingold's views expressed in his Rebuttal Testimony. Mr. Feingold himself
8 supported transportation rates for Peoples in the 1986 base rate case. Thus, in the 1980's,
9 Mr. Feingold recommended that all costs of Peoples' gathering system be paid for by Peoples'
10 retail and transportation customers.

11 Witness Feingold has changed his view again not once, but twice during the last 11 years as
12 to which party(ies) should be responsible for gathering system cost recovery. He
13 recommended in Equitable's 2008 base rate case that all of the costs of the gathering system
14 be paid by producers and he changed his mind again for Peoples' 2012 base rate case when
15 he said the costs should be shared between end-use customers and producers.
16 He has no valid reason for his changing views about what party(ies) should pay for the
17 gathering system.

XIV. SUMMARY

18
19 **Q. PLEASE SUMMARIZE YOUR REBUTTAL.**

20 A. Peoples should not be allowed to place Rate AGS in its tariff. It should recover its non-gas
21 gathering system costs from end-use customers, who are the beneficiaries of the gathering
22 system just as they have always been.

1 Alternatively, if Rate AGS is to be approved in some form, Peoples should incorporate value
2 of service to producers in its pricing of Rate AGS or it will lose local gas off of its gathering
3 system. Rate AGS should reflect market realities. The rate should be set with a maximum
4 of \$0.26 and a minimum of ideally zero or at the rate of \$0.10 plus the overall average
5 increase given to end-use customers in this proceeding in an effort to keep local gas flowing
6 on Peoples gathering system.

7 Peoples' proposal to index gas costs is just a proposal to over-recover non-gas gathering
8 system costs for the benefit of Peoples' owners and should be disallowed.

9 The maximum rate, which is part of the indexing proposal of \$0.76, should be disallowed.

10 Peoples' proposal to charge gathering system non-gas costs to producers who make no use
11 of the gathering system has no merit and makes no sense. It should be denied. Tariff
12 language on charging a negotiable rate to gas not coming through the gathering system
13 should be eliminated from any approved Rate AGS tariff. Specifically, the Rate AGS
14 language "Gathering of natural gas from unconventional sources, including but not limited
15 to horizontally drilled Marcellus and Utica shale shall be negotiated within the MIMA" needs
16 to be revised to limit the gas to which any approved Rate AGS is applied, to only that gas
17 that actually comes into Peoples' gathering system, since the Rate AGS recovers only
18 gathering system non-gas costs and no other costs.

19 Finally, PIOGA and Peoples should end their billing and collection arrangement since it
20 provides no benefit to end-use customers and creates an appearance of an arrangement that
21 is, at the very least, not arms-length with producers.

1 Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. It does, but I reserve the right to supplement this testimony should parties file additional
3 discovery responses or supplemental testimony.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

PEOPLES NATURAL GAS COMPANY, LLC

**:
:
:
:**

R-2018-3006818

**EXHIBITS
OF
DIANE MEYER BURGRAFF**

ON BEHALF OF

**SNYDER BROTHERS, INC., VEC ENERGY LLC,
AND SNYDER ARMCLAR GAS CO., LP ("SBI")**

June 12, 2019

Name	Short	Type	Gathering	Retainage	Water Vapor
Peoples Natural Gas	PNG	LDC	\$0.000	2%	7 lbs
Peoples Natural Gas	PEGC	LDC	\$0.655	4%	20 lbs*
Peoples Gas LLC	PTWP	LDC	\$0.000	2.9%	---
Columbia Gas Transmission	TCO	FERC Interstate Pipeline	\$0.000	0%	7 lbs
Columbia Gas Transmission	TCO	FERC Interstate Pipeline	\$0.270	0%	7 lbs
Dominion Gas Transmission	DETI	FERC Interstate Pipeline	\$0.000	0%	7 lbs
Dominion Gathering	DGP	Midstream	\$0.000	13%	7 lbs
Equitrans	EQT	FERC Interstate Pipeline	\$0.595	10%	7 lbs

*After reasonable investigation, SBI is unable to locate documentation confirming this water vapor standard; however, SBI believes that 20lbs is the applicable standard.



Re: Peoples Natural Gas Water Vapor Standards

Dear Producer:

Peoples Natural Gas Company LLC (Peoples) is committed to providing safe and continuously reliable natural gas service to all of its customers. In support of this commitment, Peoples' Rates and Rules Governing the Furnishing of Service to Natural Gas Suppliers ("Supplier Tariff") contain Public Utility Commission approved gas quality standards. These standards, which are set forth in the attachment, help to maintain the integrity of Peoples' pipeline system and, in particular, to protect pipelines and associated equipment from corrosion.

In addition to other compliance options available to producers, these gas quality tariff provisions allow Peoples to enter into agreements with natural gas producers whereby the Company will treat gas on behalf of the producers in order to meet the gas quality requirements outlined in the Supplier tariff. Producers who have entered into such gas quality treatment agreements, including the Peoples' Production Enhancement Services (PES) Program, will be subject to the water vapor standards reflected in the attached schedule. The gas quality tariff provisions also permit the Company to refuse to accept gas delivered by a producer should the producer fail to meet these tariffed or agreement gas quality requirements.

With this letter, Peoples is providing written notice that it will commence water vapor monitoring effective June 1, 2017. If a producer's gas quality does not meet the tariff or agreement standard, then Peoples will shut in production either until the producer demonstrates that it has workable, installed gas treatment equipment that brings the gas into compliance or in accordance with procedures adopted pursuant to the gas quality treatment agreement. These are the only two ways for a producer to avoid having Peoples shut in production that fails to meet either the tariff or agreement standard. Peoples reserves the right to continue monitoring producer interconnects subsequent to this initial test to ensure maintenance of gas quality equipment and standards.

We appreciate your patience and cooperation as we work to ensure satisfactory gas quality and to protect the Peoples' pipeline system. If you have any questions, please contact me directly.

Sincerely,

Jeffrey S. Nehr
Vice President, Production and Business Development
Peoples Natural Gas
412-244-2588
Jeffrey.s.nehr@peoples-gas.com

Peoples Supplier Tariff

2. Measurement and Quality of Gas

All gas delivered shall be measured by meter. The term "mcf" as used in the Company's schedule of rates, shall mean 1,000 cubic feet of gas at no more than 8 ounces above an assumed atmospheric pressure of 14.4 pounds at whatever temperature the gas may be during the period of measurement. If gas is supplied from a low-pressure distribution system in which the pressure of the gas is regulated not to exceed 8 ounces, the measurement will be at whatever pressure the gas may be during the period of measurement. If gas is delivered from a high-pressure system, measurement will be corrected to a pressure base of 14.73 psia. If measurement is corrected for temperature, measurement will be corrected to 60°F.

Gas delivered into the Company's system should be free from oil, water, salt, gum, dust, and other foreign substances that might interfere with the marketability of the gas. Unless otherwise agreed to by the Company, the gas delivered shall contain not less than 967 Btu per cubic foot and shall not exceed 1,100 Btu per cubic foot (as determined by calorimeter test @ 60 degrees Fahrenheit and saturated with water vapor). Gas accepted by the Company that contains less than 967 Btu per cubic foot will be enhanced to ensure that gas delivered by the Company to customers shall meet Commission heating value requirements, and the Company may charge for this. (C) Unless otherwise agreed to by the Company through separate agreement, gas delivered by a supplier shall not contain more than:

- (a) Seven (7) pounds of water per million cubic feet on an approved dew point apparatus.
- (b) Three (3) percent by volume of carbon dioxide.
- (c) Twenty-five hundredths (0.25) grains of hydrogen sulfide per 100 cubic feet.
- (d) Ten (10) grains of total sulfur per 100 cubic feet.

The Company may enter into agreements with suppliers whereby the Company will agree to treat gas on behalf of a supplier in order to meet such gas quality requirements outlined above. Should the supplier not enter into such an agreement and fail to meet these gas quality requirements, the Company may refuse to accept gas delivered by the supplier and should a supplier cause damage to any metering, regulating and/or other equipment or interruption of service, the supplier shall reimburse the Company for the costs to repair such damage and for any related costs which the Company may incur to restore service to ratepayers and/or repair facilities, including payments made by the Company to customers in settlement of claims arising out of interruption of gas service. The supplier agrees to allow the Company to make necessary gas samples to permit testing of the delivered gas to determine quality of gas delivered by the supplier.

Peoples Natural Gas

2016 PES Agreement - Allowable Water Vapor Level (#/mmscf) vs. Regulator Set Pressure (psi)

<i>PSI</i>	<i>#/mmscf</i>
1	543
2	511
3	482
4	457
5	434
6	413
7	394
8	377
9	361
10	347
11	334
12	321
13	310
14	299
15	289
16	280
17	271
18	263
19	256
20	248
21	241
22	235
23	229
24	223
25	218
26	212
27	207
28	203
29	198
30	194
31	190
32	186
33	182
34	178
35	175
36	171
37	168
38	165
39	162
40	159
41	156
42	154
43	151
44	149
45	146
46	144
47	142
48	139
49	137
50	135

<i>PSI</i>	<i>#/mmscf</i>
51	133
52	131
53	129
54	128
55	126
56	124
57	122
58	121
59	119
60	118
61	116
62	115
63	113
64	112
65	111
66	109
67	108
68	107
69	106
70	104
71	103
72	102
73	101
74	100
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84	90
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89	86
90	85
91	85
92	84
93	83
94	82
95	82
96	81
97	80
98	80
99	79
100	78

<i>PSI</i>	<i>#/mmscf</i>
105	75
110	72
115	70
120	67
125	65
130	63
135	61
140	59
145	57
150	56
155	54
160	53
165	52
170	50
175	49
180	48
185	47
190	46
195	45
200	21
205	21
210	20
215	20
220	20
225	19
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290	16
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310	15
320	14
330	14
350	13
375	13
400	12