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July 1, 2010

VIA ELECTRONIC FILING

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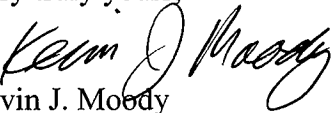
Re: Pennsylvania Public Utility Commission, Docket No. R-2010-2155608; Office of Consumer Advocate, Docket No. C-2010-2163637; Office of Small Business Advocate v. Peoples Natural Gas Company, LLC, Docket No. C-2010-2164664

Dear Secretary Chiavetta:

Enclosed is the original of the Amicus Curiae Reply Brief of the Pennsylvania Independent Oil and Gas Association which was electronically filed today in the above-referenced matter, along with the electronic filing confirmation page. As evidenced by the attached Certificate of Service, the parties of record have been served in the manner indicated.

If you have any questions regarding this filing, please contact me at your convenience.

Very truly yours,


Kevin J. Moody

KJM/jls
Enclosures

cc: Certificate of Service (w/enc)

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of the foregoing Amicus Curiae Reply Brief on the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

VIA EMAIL and/or FIRST CLASS MAIL

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Date: July 1, 2010

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Administrative Law Judge David A. Salapa

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	Docket Nos. R -2010-2155608
	:	C-2010-2163637
v.	:	C-2010-2164664
	:	
PEOPLES NATURAL GAS	:	
COMPANY LLC	:	

REPLY BRIEF OF AMICUS CURIAE
PENNSYLVANIA INDEPENDENT OIL AND GAS ASSOCIATION

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Regulation

52 Pa. Code § 5.502(e).....1

I. INTRODUCTION

As permitted by 52 Pa. Code § 5.502(e), the Pennsylvania Independent Oil and Gas Association (“PIOGA”) as *amicus curiae* submits this Reply Brief in support of Commission approval of Sections E [Gathering System Retainage], G [Retainage Levels], H [Lost and Unaccounted-for-Gas (“UFG”)], and I [Cash Out] of the Joint Petition for Approval of Settlement Agreement (“Settlement”) in this matter. The Settlement will permit the Peoples Natural Gas Company LLC’s (“Peoples”) to fully recover its reasonable UFG allowance consistent with the Commission-approved three-year average methodology.

Accordingly, PIOGA also supports rejection of Dominion Retail’s recommendation, made for the first in its Main Brief, that the increased retainage rates for transportation customers per the Settlement be rejected and Peoples be denied full recovery of its reasonable level of UFG.

II. INTEREST OF AMICUS CURIAE

As stated in its Main Brief, PIOGA is the comprehensive trade association representing oil and natural gas interests throughout Pennsylvania as a result of the April 1, 2010 merger of the Pennsylvania Oil and Gas Association (POGAM) into the Independent Oil and Gas Association of Pennsylvania (IOGA of PA). PIOGA’s 800+ members include oil and natural gas producers, Commission-licensed natural gas suppliers (NGSs) and marketers, drilling contractors and service companies, professional service firms and individuals, and royalty owners.

Also as stated in its Main Brief, during the course of monitoring Commission proceedings PIOGA became aware of several proposals in this case that would adversely impact the interests of PIOGA and its members. As a non-party in this matter, PIOGA was aware of a settlement of issues in this matter but did not see the terms of the Settlement until after PIOGA

had filed its Main Brief. Accordingly, PIOGA reserved the right to address in a Reply Brief the terms of the Settlement of interest to PIOGA.

III. SUMMARY OF ARGUMENT

Sections E, G, H and I of the Settlement represent a reasonable compromise and resolution of those issues that is supported by the record and should be approved. On the other hand, Dominion Retail's belated recommendation that Peoples be denied full recovery of its reasonable level of UFG comes way too late in the proceeding and should be rejected.

IV. ARGUMENT

A substantial amount of Pennsylvania-produced natural gas flows on Peoples' gathering system for use by system supply and transportation customers.¹ As all Peoples' customers benefit from the availability of this local production, Peoples recovers the cost of the gathering system from all customers through the delivery charge² and recovers its reasonable level of total system UFG from all customers through transportation rates and rates established in the annual Section 1307(f) proceedings.

Nonetheless, in its direct testimony, the Office of Consumer Advocate (OCA) argued that Peoples should adopt a separate gathering system retainage charge to reflect gathering system UFG. Dominion Retail made a similar proposal, albeit through a different route. In its direct testimony, Dominion Retail argued that Peoples' gathering system UFG resulted from Peoples' policy of permitting producer ownership and control of local production metering so, to reduce gathering system UFG, Dominion Retail argued that Peoples should resume ownership and

¹ Peoples St. No. 3 (Gregorini Direct) at 12.

² Peoples St. No. 5 (Gregorini Rebuttal) at 9, lines 2-6; 10, lines 14-15 ("The use of local gas production has been a good deal for all customers on Peoples' system . . .").

control of local natural gas production meters and meter reading. Peoples' testimony explained why Dominion Retail's view of the cause of gathering system UFG is mistaken.³

Dominion Retail's alternative recommendation on this issue was to derate all monthly local production by the total gathering system throughout percentage, which would reduce the retainage rates for transportation customers (Rates GS-T and T) and the UFG volumes incorporated into PGC customer rates. Dominion Retail argued that its alternative proposal "will have the salutary effect of placing the financial responsibility for the gas loss in those who are causing the loss, namely, the producers."⁴

Section E of the Settlement resolves this separate gathering system retainage issue in a reasonable manner that is supported by the record and consistent with the manner in which the Commission recently considered these issues for another utility with substantial local production flowing through its gathering system for use by its customers. Section E requires Peoples to analyze the potential impacts of assessing a separate gathering system charge to customers who use the system and to local producers, and to present this analysis no later than its 2011 Section 1307(f) filing. Section E also confirms that all parties may address the issues raised by the analysis in Peoples' base rate proceeding anticipated to be filed in 2010. As Peoples' testimony points out, a fair and reasonable allocation of gathering system costs can be properly accomplished only in a base rate case where all relevant factors can be considered.⁵ This is how the Commission considered allocation and recovery of Equitable's gathering system costs.⁶

³ Peoples St. No. 5 at 10, line 20 through 12, line 9.

⁴ Dominion Retail St. No. 1 (Butler) at 8, lines 3-5.

⁵ Peoples St. No. 5 at 9, line 1 through 10, line 16.

⁶ *Pa. P.U.C., et al. v. Equitable Gas Co.*, Docket No. R-2009-2088072, *et al.*, Order entered September 30, 2009.

Dominion Retail's initial position that producers cause gathering system UFG is simplistic and not supported by anything in the record in this proceeding.

Section G of the Settlement provides for an increase in the tariffed retainage rates for transportation customers to reflect the level of Peoples' total UFG based on the three-year average methodology approved by the Commission in Peoples' 2009 Section 1307(f) case. This resolution is amply supported by the testimony of OTS and Peoples and should be adopted, as it permits Peoples to fully recover its reasonable level of UFG in accordance with the Commission-approved methodology.

Section H of the Settlement requires Peoples to continue its UFG and mitigation measures and to report the results no later than its 2011 Section 1307(f) case. This requirement complements the gathering system analysis required by Section E of the Settlement and should be approved. In addition to supporting rejection of OSBA's proposal to cap Peoples' recovery of its UFG level, this requirement will inform the debate about who should pay for what costs of the gathering system.

Section I of the Settlement provides for changes to Peoples' current cash out procedures. The reasonableness of these changes is supported by Dominion Retail's testimony⁷ and should be adopted.

As stated above, PIOGA's position is that Peoples should be able to fully recover its reasonable level of UFG. Accordingly, PIOGA supports Peoples' position that the Commission reject Dominion Retail's recommended disallowance of Peoples' recovery of the slight increase in its experienced UFG, as determined by the Commission-approved the three-year average method. PIOGA's review of the record shows that Peoples' rationale in its Reply Brief is correct

⁷ Dominion Retail St. No. 1 at 4, line 22 through 7, line 6.

– Dominion Retail’s recommendation, made for the first time in its Main Brief, comes way too late in the litigation process to be considered.

V. **CONCLUSION**

For the reasons set forth in its Main Brief and this Reply Brief, PIOGA requests that the Commission approve the Settlement in this matter and reject the contrary recommendations of OSBA and Dominion Retail.

Respectfully submitted,



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