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October 29, 2010

VIA HAND DELIVERY

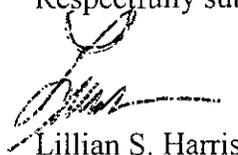
Cherie Pyle, OCMO Administrator
Pennsylvania Public Utility Commission
Office of Competitive Market Oversight
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Investigation into the Natural Gas Supply Market: Report on Stakeholders' Working Group (SEARCH); Action Plan for Increasing Effective Competition in Pennsylvania's Retail Natural Gas Supply Services Market; Docket No. I-00040103F0002; Office of Competitive Market Oversight; Docket No. M-2009-2082042

Dear Ms. Pyle:

The purpose of this letter is to advise the Office of Competitive Market Oversight ("OCMO") that, pursuant to the Commission's September 11, 2008 Order in Docket No. I-00040103F0002, Peoples Natural Gas Company LLC, held its Third Quarter Operational and Capacity Council meeting on September 20, 2010. Attached are the related Notice, Agenda, and Notes of that meeting, all of which have been distributed to the attendees. Please direct any questions regarding this matter to me.

Respectfully submitted,


Lillian S. Harris

LSH/san
Enclosures

cc: Rosemary Chiavetta, Secretary
Joseph A. Gregorini
William H. Roberts, II, Esq.

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MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

October 29, 2010

To Pennsylvania Natural Gas Suppliers:

Pursuant to the September 11, 2008 Order in Docket No. I-00040103F0002 ("S.E.A.R.C.H. Order"), please be advised that Peoples Natural Gas Company LLC has scheduled its third quarter Operational and Capacity Council meeting to be held via conference call on Monday, September 20, 2010 at 1 p.m. and you are invited to participate.

The call-in number and passcode for the call are as follows:

Call-in #: 1-866-740-1260
Passcode: 4976851

We ask that you send an email on or before September 16, 2010 indicating your desire to participate in the meeting to Counsel for Peoples, Lillian Harris, at lharris@hmslegal.com. This will facilitate ease of communications between the participants. An agenda will be provided via email prior to the meeting. If you have any questions or need more information, please contact Lillian Harris at (717)-236-1300.

Thank you and we look forward to your participation.

Peoples Natural Gas Company LLC

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Peoples Natural Gas Company LLC
September 20, 2010 Operational and Capacity Council Meeting

Agenda

1. Introductions (Lillian Harris)
2. Status of 1307(f)-2010 Case (Lillian Harris)
3. Quarterly GCR Update (Tony Caldro)
4. Transportation Programs Follow-up (Steve Kolich)
5. Pipeline Capacity and Contract Update (Ron Walther/Jon Skoog)
6. Other Issues

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NOTES OF PEOPLES NATURAL GAS COMPANY LLC'S SEPTEMBER 20, 2010 OPERATIONAL AND CAPACITY COUNCIL MEETING

Pursuant to the directive in the Pennsylvania Public Utility Commission's ("PUC") September 11, 2008 S.E.A.R.C.H. Order at Docket M-2008-2082042 and the September 17, 2009 Notice issued regarding same, Peoples Natural Gas Company LLC ("Peoples") convened an Operational and Capacity Council ("OCC") meeting via telephone on September 20, 2010. In conformance with the established process for the conduct of these OCC meetings, these Notes have been prepared and are being circulated to all participants via email and filed with the Office of Market Oversight at the PUC.

Attendees

Gary Yocca (Office of Trial Staff)
Jerry Mierzwa (Office of Consumer Advocate)
Sharon Webb (Office of Small Business Advocate)
Tony Cusati (IGS)
Brian Earhart (IGS)
Tom Scarpitti (IGS)
Dave Meyers (Dominion)
Hallie Scuilli (UGI/Gasmark)
Joe Gregorini, Anthony Caldoro, Ron Walther, Jon Skoog, William H. Roberts, II, Steve Kolich, Lynda Petrichevich, and Lillian Harris (Peoples)

An agenda was distributed in advance of the meeting, a copy of which is attached to these meeting notes. Five substantive issues (items 2 through 6 on the agenda) were discussed on the call, although the participants were invited to discuss any other issues of concern. The only other issue discussed was whether Peoples will be filing a base rate case. The parties were advised that Peoples intends to do so on October 28, 2010.

Status of 1307(f)-2010 Case

Lillian Harris advised that the Company had received a Final Order from the Commission entered September 16, 2010, approving the Joint Petition for Settlement of the 2010 1307(f) case. She noted that Peoples would be making a compliance filing in accordance with the Final Order on or before September 30, 2010. There were no questions with regard to this item.

Quarterly GCR Update

Anthony Caldoro provided an update about Peoples' anticipated October 1, 2010 quarterly gas cost rate. He noted that while he would not be able to provide the exact rate, the Company anticipated filing a slight reduction from the July 1, 2010 total GCR because of a decrease in commodity prices and a change in the level of the over/under collection factor.

Transportation Programs Update

Steve Kolich noted that there have been no significant changes to Peoples' two transportation programs since the second quarter OCC meeting. The two programs are: the Priority One (or P-One) Program that serves residential and essential human needs customers and the Non-Priority One (or NP-One) Program that serves mostly larger transport customers.

Mr. Kolich noted that there was a slight decrease in the NP-One participation over the prior three months with approximately 89,800 customers in the program. He also noted that there are still three pool operators participating in the P-One Program.

With regard to NP-One participation, Mr. Kolich explained that it has stayed fairly constant with a slight reduction of about one percent. There are approximately 7,088 NP-One customers with fifteen pools operating. Mr. Kolich also noted that there are nineteen direct transport customers moving approximately 725,000 Mcf on Peoples' system. Mr. Kolich asked if anyone had any suggested changes to the programs or questions about them and no attendee made any suggested changes or asked any questions.

Pipeline and Capacity Contract Update

Ron Walther explained that in the 1307(f) 2009 case Peoples agreed to update the parties on the status of its efforts to access Rockies Express gas supplies. Mr. Walther advised that Peoples has continued purchasing REX-sourced gas at the DTI interconnect at Lebanon, Ohio and into Tennessee Gas Pipeline when it was cost effective to do so. Since expiration of Peoples' winter-only Tennessee firm capacity contract, Peoples' has been purchasing gas delivered to its city gate at its Tennessee interconnect. Peoples believes that much of that gas was sourced either from REX or Marcellus shale production. Mr. Walther also noted that, as previously reviewed by the OCC and explained in this year's 1307(f) case, Peoples has amended its contract to move part of its DTI firm transportation receipt point capacity to Clarington, Ohio where REX interconnects with DTI. Peoples will shift 5,190 Dt/day of receipt point capacity to Clarington when DTI's Hub III project becomes operational in November, 2010.

Jon Skoog was introduced as Peoples' new Gas Supply Manager and he reported with regard to Peoples' efforts to examine and consider the various options in order to reduce its design day capacity by 15,000 Mcf/Day. Mr. Skoog reported that Peoples undertook an operational review of its system and an economic least cost review of the available options. Peoples used the SynerGee Gas or Stoner model, reviewing the operational needs throughout Peoples' system under the agreed-to design day requirements of 685,000 Mcf/Day. Based on the operational characteristics of the system, the model segmented Peoples' system into three sections: Grove City, West System, and East System. For each of these segments, the model then calculated the design day requirements utilizing the available supply sources (storage, pipeline capacity and local production) in order to determine available excess capacity.

The results of the Stoner analyses showed:

There is no excess capacity currently available on the Grove City segment. Design day requirement on the West system is supplied by DTI, Tennessee, on-system storage, and local production. The model confirmed that the Tennessee supply of 20,000 Dth/Day is required at Pitt Terminal to support the design day requirements located on that part of the system. Because of the lower-cost options provided by on-system storage and local production, capacity reductions on the West System should be achieved through DTI contract reductions. Design day usage on the East System is supplied through Texas Eastern, on-system storage, and local production. The model showed that currently there is some level of excess capacity on the East System. Because of the lower-cost options provided by on-system storage and local production, capacity reductions on the East System should be achieved through TETCO contract reductions.

Based on the operational review, DTI and TETCO represented the available options to achieve the reduction of 15,000 Mcf/Day in design day capacity. Based on the results of the Stoner Model and the need to provide seasonal and peak supplies to the Johnstown and Altoona areas, the maximum capacity reduction on TETCO would be a 5,000 Dth/Day reduction at the Ebensburg M-3 delivery point. The remaining 10,000 Dth/Day capacity reduction would be achieved through a pro-rata reduction of DTI capacity.

Recommendations/Action Plan

Peoples recommended releasing 10 MMcf of the Dominion Transmission FTNN capacity on a non-recallable basis starting 11/1/2010. The current contract expires on March 31, 2014. In addition, Peoples recommended releasing 5 MMcf of Texas Eastern Transmission FT-1 capacity on a non-recallable basis starting November 1, 2010. The current contract expires on April 30, 2019.

In both cases Peoples indicated its plans to issue an RFP with varying terms including winter only, one year, and remaining contract term. Peoples indicated it would evaluate results and implement the described capacity reduction prior to November 1, 2010.

Jerry Mierzwa from the Office of Consumer Advocate questioned whether Peoples could get more than the maximum rate offered under the capacity release situation described above and Mr. Skoog indicated that it was possible to receive in excess of the maximum rate but that Peoples would need to evaluate all options on contracting in order to examine the best alternative for operational needs and least cost purchasing.

Mr. Gregorini asked the group to please let Peoples know right away if any of the participants did not believe the process described by Jon Skoog was considered not to be reasonable in any way. No parties voiced any concerns regarding same.

Other Issues

Mr. Gregorini reported on two separate issues: (1) Peoples' transition away from the Dominion family of companies; and (2) Peoples' anticipated Rager Mountain Storage Expansion Project. With regard to the first item, Mr. Gregorini indicated that Peoples is trying to shift away from the Dominion Transition Services Agreement by the end of 2010, with a few exceptions. Peoples is anticipating movement toward a fully stand-alone company by mid-2011. . Mr.

Gregorini reported that the timeframes for completion of transition to the new IT and billing systems and a Pittsburgh based call center would occur by mid-2011.

With regard to the Rager Mountain Storage Project, Mr. Gregorini advised that Rager Mountain is a large storage facility in the eastern part of the system which is located very close to the Texas Eastern pipeline. At present, Peoples can only turn 5-6 Bcf annually from the facility due to operational constraints and its geographic location with regard to the Peoples' system. Peoples will be undertaking facility enhancements at the Rager Mountain storage facility. Peoples anticipates filing an application with FERC to lease up to four Bcf of storage to a storage company and that storage company would then sell the storage service at a market-based rate under a FERC-regulated service. One of the on-system benefits provided by the facility enhancements will be that Peoples will be able to turn the Rager Mountain Storage earlier in the winter and more fully use the facility to its maximum capability. Mr. Gregorini advised that Peoples would be selling currently unused gas in the pool to accomplish this and anticipates some type of sharing of revenues with customers.

Mr. Gregorini asked if any participants had questions with regard to the transition issues or the Rager Mountain Storage Project and no participant had any questions or comments. Mr. Gregorini queried whether any party had questions with regard to any other issue and Mr. Mierzwa asked whether Peoples would be filing a base rate case. Mr. Gregorini replied in the affirmative stating that Peoples anticipates filing a base rate case on October 28, 2010. Peoples anticipates using a June 30, 2010 test year and a June 30 2011 future test year. The meeting closed with no party indicating they had further questions or comments. Peoples indicated that it would circulate meeting notes and file them with the Commission in accordance with standard practice.

LSH/san