

Appendix M

3. The Suppliers presented Testimony of James Crist in support of their position, advancing the following recommendations:

- That transportation customers be permitted to fully use the storage for which they pay through distribution rates and Banking Balancing & Advancing ("BB&A") fees;
- That the Company increase efforts to educate customers about Choice;
- That modifications be made to the merchant function to include working capital costs associated with gas in storage to ensure fairness to Choice customers; and
- That the purchase of receivables ("POR") discount be adjusted annually and requiring that late payment fees be offset against uncollectibles expense, thus reducing the POR discount.

4. While the case proceeded on a litigation track, the Parties simultaneously began to discuss settlement of the case. Those settlement discussions proved to be fruitful, resulting in the full settlement of all issues in the case. The Settlement obviated the need for hearings and results in substantial movement toward the positions advanced by the Suppliers.

5. In particular, the Settlement provides a process to assign on-system storage capacity to NP-1 Suppliers, based upon the amount of load that they serve, at no additional charge. (Settlement, ¶ 53). This resolution satisfactorily addresses the concern raised by the Suppliers that NP-1 customers were paying for storage costs through distribution rates and not receiving access to or benefits from that storage. This provision is significant in that it will provide benefits to those suppliers and customers in the NP-1 arena that previously were not available.

6. Likewise, the Parties have agreed, as part of the Settlement, to permit transfers of balances between NP-1 pools and Priority-1 pools. (Settlement, ¶ 54). This provision will allow

greater flexibility for suppliers that serve customers in both classifications, and should assist in reducing imbalance charges and other costs for suppliers serving such customers.

7. The Company also agreed to remove all required natural gas procurement costs from base rates and to instead recover those costs through the price to compare (“PTC”). (Settlement, ¶ 51). Those adjustments will be made through compliance with the Rulemaking proceeding at Docket No. L-2008-2069114.

8. The Settlement will allow the implementation of the proposed POR Program. (Settlement, ¶ 42). While the Suppliers have contended that the discount at which this POR is to be provided is significantly higher than the discounts of POR Programs in every other NGDC service territory – and any EDC service territory in Pennsylvania, for that matter – the Suppliers nonetheless understand that Peoples' uncollectible rate is among the highest and, therefore, translates directly into the high discount rate. The Suppliers hope that once Peoples' new billing system is up and running, it will give Peoples the tools it needs to significantly reduce its uncollectibles expense component, thereby reducing its purchase of receivables discount.

9. Peoples also has agreed to continue its collaborative process to address retail Choice issues and, in particular, to address the issue of customer education. Peoples has agreed to develop a customer education plan targeted for implementation in the Fall of 2011. (Settlement, ¶ 55). The Suppliers believe that such programs are critical to the expansion of Choice opportunities for customers, and commends Peoples for agreeing to implement such changes.

10. Another provision of significance to the Suppliers, is Peoples' agreement to ensure that its new billing system will be capable of managing several billing rate types that predominate in the marketplace upon deployment, and its agreement to consider additional

modifications to its billing systems once the new system is operable. (Settlement, ¶ 56). These changes are critical to ensure that the billing system installed by Peoples is capable "out of the box" to manage the more common billing requirements of natural gas suppliers, and Peoples has demonstrated the willingness to be flexible in making future modifications to its system to accommodate additional billing options.

11. The Settlement resolves a few issues that were not championed by the Suppliers, but for which the outcome could have significantly impaired the competitive marketplace that exists in Peoples' service territory. A particular example is Peoples agreement to apply \$3 million in excess of its producer enhancement services ("PES") revenues to reduce loss and unaccounted-for gas on its gathering facilities that are used to deliver gas to Peoples and its customers. The use of this excess revenue to reduce loss and unaccounted-for gas is an appropriate use of such revenues, and is supported by the Suppliers.

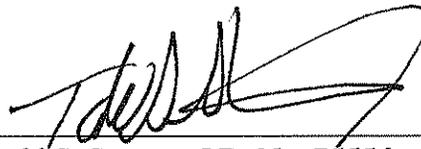
12. Finally, the Settlement includes a provision with which the Suppliers do not agree, but which they are willing to allow into the Settlement, with a reservation that the Suppliers could address the provision at an appropriate time in the future. Paragraph 29 of the Settlement addresses the agreement of the Office of Trial Staff, the Office of Consumer Advocate, the Office of Small Business Advocate, and Peoples to request, by a separate filing with the Commission, the initiation of a generic investigation addressing inter-NGDC competition – sometimes referred-to as Gas-on-Gas Competition, and the competitive rates that are a result of such competition. It is the position of a few Parties that rate discounts resulting from such competition should not be permitted to persist. While the Suppliers do not agree with the position of these Parties on the need for such a proceeding, as condition of the Settlement they have reserved the right to oppose the need for such a proceeding if and when such a

proceeding is requested. In the event that the Commission would ever commence such a proceeding, the Suppliers would contend that so long as gas on gas competition persists, it would be unfair to discontinue the ability of any single NGDC to discount transportation rates in order to compete for load.

13. Because the Settlement represents a substantial movement toward the positions taken by the Suppliers in this case through testimony and otherwise, the Suppliers believe it is in the public interest. The suppliers further submit that the Settlement is a reasonable and appropriate resolution of the issues in this rate case. Accordingly, the Suppliers respectfully request that the Commission approve the Settlement, without modification, and that it do it expeditiously.

WHEREFORE, Dominion Retail, Inc., and Interstate Gas Supply, Inc., respectfully request that the Commission, approve the Joint Petition for Approval of Settlement of All Issues, with all due haste and without modification.

Respectfully submitted,



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