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File #: 3552/147270

April 15, 2011

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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**RE: Pennsylvania Public Utility Commission, Office of Small Business Advocate, and
Office of Consumer Advocate v. Peoples Natural Gas Company LLC
Docket Nos. R-2011-2228694 (C-2011-2232327 and C-2011-2234616)**

**PREHEARING CONFERENCE MEMORANDUM OF PEOPLES NATURAL
GAS COMPANY LLC**

Dear Secretary Chiavetta:

Enclosed are the original and three (3) copies of Peoples Natural Gas Company LLC's ("Peoples") Prehearing Memorandum in the above-referenced proceeding. Copies have been served per the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions regarding this filing, please direct them to me. Please date-stamp the extra copy and return it with our messenger.

Sincerely,

David P. Zambito
Counsel for *Peoples Natural Gas Company LLC*

DPZ/kmg
Enclosures
cc: Honorable Mary D. Long
Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Small Business Advocate, and	:	
Office of Consumer Advocate	:	Docket Nos. R-2011-2228694
	:	C-2011-2232327
v.	:	C-2011-2234616
	:	
Peoples Natural Gas Company LLC	:	

**PREHEARING CONFERENCE MEMORANDUM OF
PEOPLES NATURAL GAS COMPANY LLC**

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE MARY D. LONG:

Peoples Natural Gas Company LLC (“Peoples”) hereby submits this Prehearing Conference Memorandum pursuant to 52 Pa. Code § 5.224(c) and the Prehearing Conference Order issued on April 6, 2011 by the Honorable Administrative Law Judge Mary D. Long (the “ALJ”).

I. SERVICE OF DOCUMENTS

Peoples requests that all documents be served on:

David P. Zambito
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17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: (717) 612-6052
Fax: (717) 731-1985
Email: dzambito@postschell.com

Peoples agrees to receive service of documents electronically in this proceeding. Further,

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to the extent that materials are available electronically, it is requested that copies be served upon William H. Roberts II at william.h.roberts@peoples-gas.com, John H. Isom at jisom@postschell.com, and Christopher T. Wright at cwright@postschell.com.

II. PROCEDURAL HISTORY

This proceeding was initiated on March 2, 2011, when Peoples filed with the Pennsylvania Public Utility Commission (“Commission”) at Docket No. R-2011-228694: (1) the materials that the Commission’s regulations at 52 Pa. Code §§ 53.64(c) and 53.65 require to be filed thirty (30) days before the filing of a tariff under 66 Pa. C.S. § 1307(f); and (2) the reconciliation statement that the Commission’s regulation at 52 Pa. Code § 53.64(i) requires to be filed at the same time.

On March 24, 2011, the Office of Trial Staff (“OTS”) entered a Notice of Appearance.

On March 25, 2011, the Office of Small Business Advocate (“OSBA”) filed a Formal Complaint at Docket No. C-2011-2232327.

On April 1, 2011, Peoples filed with the Commission Supplement No. 130 to Peoples Tariff Gas - Pa. P.U.C. No. 43 (“Supplement No. 130”). Supplement No. 130 is to become effective for service rendered on and after October 1, 2011.

On April 5, 2011, the Office of Consumer Advocate (“OCA”) filed a Formal Complaint at Docket No. C-2011-2234616.

On April 6, 2011, Notice of an Initial Prehearing Conference was issued. The Initial Prehearing Conference is scheduled for Monday, April 18, 2011, at 10:00 a.m. before the ALJ.

On April 6, 2011, the ALJ issued the First Prehearing Conference Order, which directed parties to prepare and distribute prehearing memoranda which set forth the history of the

proceeding, the issues, and a listing of proposed witnesses and the subject of their testimony on or before 3 p.m. on April 15, 2011.

On April 6, 2011, the ALJ issued a Protective Order for the treatment of all materials designated as “PROPRIETARY INFORMATION,” “CONFIDENTIAL AND PROPRIETARY,” and “HIGHLY CONFIDENTIAL.”

III. OVERVIEW OF PEOPLES’ FILINGS

This proceeding involves two filings by Peoples. The first is the “reconciliation statement” that Peoples filed on March 2, 2011, pursuant to Section 1307(f)(3) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(3). It specifies, for the 12-month period of February 1, 2010 through January 31, 2011: (a) the total revenues received pursuant to Section 1307(f); (b) the total natural gas costs incurred; and, (c) the difference between revenues and costs. The second is Supplement No. 130 which Peoples filed on April 1, 2011, pursuant to Section 1307(f)(1) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(1). In Supplement No. 130, Peoples has proposed rates for its recovery of natural gas costs for the period of February 1, 2011 through September 30, 2012.

A. RECONCILIATION STATEMENT

Peoples’ reconciliation statement is a “look back” at the natural gas costs it incurred (and the natural gas cost revenues it recovered) over the 12-month period of February 1, 2010 through January 31, 2011. The Commission’s review of Peoples’ reconciliation statement is intended to determine whether the natural gas costs that Peoples incurred over the 12-month period of February 1, 2010 through January 31, 2011 were “incurred consistent with the standards in section 1318 [of the Public Utility Code].” 66 Pa. C.S. § 1307(f)(5). Section 1318 sets forth the

standard of 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. § 1318(a).

In order to enable the Commission to conclude that Peoples pursued a “least cost fuel procurement policy” during the reconciliation period, Peoples has prepared direct testimony and supporting exhibits that it filed with the Commission and served on the three public advocates on April 1, 2011, and that it will offer into the evidentiary record at the appropriate time. Peoples’ direct testimony and exhibits show that, except for routine variations in customer demand in pipeline and market rates and the projected release pipeline capacity for the entire winter period of November 1, 2011 through March 31, 2012 (as described in Peoples Statement No. 1), the natural gas costs that Peoples incurred over the reconciliation period were the same ones that it projected it would incur in its 1307(f)-2010 proceeding.

B. SUPPLEMENT NO. 130

The natural gas supply rates that Peoples has proposed in Supplement No. 130 are based on Peoples’ projected natural gas costs for the 20-month period of February 1, 2011 through September 30, 2012, as well as the reconciliation of past costs and revenues. Those natural gas supply rates include capacity charges, gas cost adjustment charges, and commodity charges that will apply to all of Peoples’ supply and standby customers, and banking, balancing and advancing (“BB&A”) and retainage charges that will apply to those of Peoples’ larger customers who purchase their natural gas supplies from alternative natural gas suppliers. The Commission’s review of the projected natural gas costs reflected in the rates proposed in Supplement No. 130 is intended to determine whether those projected costs, for the “1307(f)-2011 projected period” of February 1, 2011 through September 30, 2012, also will be incurred under a “least cost fuel procurement policy.” 66 Pa. C.S. § 1318(a). The only difference

between the Commission's retrospective and prospective reviews is that the retrospective review of Peoples' reconciliation statement obviously is the Commission's final consideration of Peoples' natural gas costs and procurement policy over the reconciliation period -- in this case, February 1, 2010 through January 31, 2011. By way of contrast, the Commission's prospective review of Supplement No. 130 is subject to a future retrospective review when the first 12 months of the 1307(f)-2011 projected period -- in this case, February 1, 2011 through January 31, 2012 -- becomes the reconciliation period in Peoples' 1307(f)-2012 proceeding.

In order to enable the Commission to conclude that Peoples will be pursuing a "least cost fuel procurement policy" during the 1307(f)-2011 projected period, the direct testimony and supporting exhibits that Peoples served on April 1, 2011 also address its natural gas supply portfolio and projected natural gas costs over that 20-month period. That testimony and the accompanying exhibits will show that Peoples' natural gas supply portfolio over the 20-month projected period of February 1, 2011 through September 30, 2012 represents a "least cost fuel procurement policy," and that, as a result, Peoples should be allowed to recover all of the natural gas costs that it projects it will incur during that period.

C. UNACCOUNTED-FOR GAS STUDY

By order entered November 19, 2009, the Commission approved the acquisition of Peoples by PNG Companies LLC, an indirect subsidiary of SteelRiver Infrastructure North America LP. Paragraph 66 of the settlement requires Peoples to investigate unaccounted-for gas ("UFG") on its system and provides that: "PNGC will present a report to OSBA, OTS and OCA with regard to the results of such investigation no later than the filing of PNGC's 2011 1307(f) proceeding." Peoples provided its "2011 Unaccounted-For-Gas Plan and Report" (Exhibit 20 of its April 1, 2011 filing) in compliance with the requirements of the acquisition settlement. The

Report sets forth Peoples' plan for addressing and mitigating UFG levels on its system and addresses how Peoples intends to comply with its obligations resulting from its 2009 Management Audit and its 2010 1307(f) proceeding.

IV. WITNESSES

Peoples intends to present the testimony of the following individuals in its case-in-chief, who will testify as to the matters explained in the following prefiled statements and exhibits:

Witness	Issues	Exhibits Sponsored
1. Jon H. Skoog Vice President, Peoples Natural Gas Company 375 North Shore Drive Pittsburgh, PA 15212 Phone: (412) 208-7907 Email: jon.h.skoog@peoples-gas.com	Procurement policy, natural gas supply portfolio, hedging program, off-system sales, shut-in policies, and various contracts for natural gas supplies and services.	Exh. Nos. 1, 2, 3, 4, 13, 14, 15
2. Anthony Caldoro Consultant – Rates and Regulatory Affairs Peoples Natural Gas Company 375 North Shore Drive Pittsburgh, PA 15212 Phone: (412) 208-6529 Email: anthony.caldoro@peoples-gas.com	FERC matters and development of natural gas supply rates.	Exh. Nos. 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 16, 17, 18, 19
3. Kenneth M. Johnston Vice President, Operations Peoples Natural Gas Company 375 North Shore Drive Pittsburgh, PA 15212 Phone: (412) 208-7930 Email: kenneth.m.johnston@peoples-gas.com	Lost and unaccounted for gas.	Exh Nos. 20, 21

4. Lynda W. Petrichevich
Manager
Rates and Regulatory Affairs
Peoples Natural Gas Company
375 North Shore Drive
Pittsburgh, PA 15212
Phone: (412) 208-6528
Email: lynda.w.petrichevich@
peoples-gas.com

Customer requirements for the
reconciliation and projected
period, waiver of gas retainage,
and the proposed retail tariff
supplement.

Exh. Nos. 1, 2, 22, 23

At this time, Peoples cannot provide any further identification of issues in this purchased gas cost proceeding. Peoples reserves the right to present additional witnesses, testimony and exhibits on all matters arising during the course of the proceeding, including all matters raised by other parties.

Peoples will be amending its prefiled statements and exhibits, as appropriate, during the course of this proceeding, based upon more recent information, as such information becomes available. Such update(s) will reflect changes in information relevant to the determination of the proper level of purchased gas cost recovery rates to become effective October 1, 2011.

V. DISCOVERY

Peoples is willing to agree to the discovery rule modifications set forth in the Prehearing Memorandum of the OCA, with three exceptions. First, Peoples objects to the following modification: "Requests for admission be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service." While Peoples will make every effort to respond to requests for admission within the shortened timeframe, Peoples cannot predict the nature or number of such requests and whether information needed to respond will be readily available to Peoples within the shortened time frame. The proposed modification is contrary to the spirit of amicable discovery, as it gives the requesting party undue leverage, and imposes a draconian penalty for failure to meet a shortened deadline.

Second, Peoples proposes that discovery requests served after noon on a Friday or the business day before a state-recognized holiday be deemed served on the next following business day. This modification ensures that responding parties are treated fairly in light of the shortened response times.

Third, Peoples proposes that, because of the truncated litigation schedule, answers to written interrogatories be served in-hand within five (5) calendar days of service of the interrogatories which are served after the due date for Other Parties' Direct Testimony. The parties should have the opportunity for at least two rounds of discovery for use in preparation of Rebuttal Testimony.

Peoples is not aware of any outstanding discovery disputes. Peoples is willing to work with the parties, through informal discovery, to expedite discovery.

VI. LITIGATION SCHEDULE

The parties have engaged in discussions regarding the procedural schedule; however, a consensus has not yet been reached. Based on those discussions, Peoples proposes the following compromise schedule:

Other Parties' Direct Testimony	May 9, 2011
Rebuttal Testimony	May 24, 2011
Surrebuttal Testimony	May 31, 2011
Evidentiary Hearings (with Oral Rejoinder)	June 2, 2011
Main Briefs	June 21, 2011
Reply Briefs	June 29, 2011

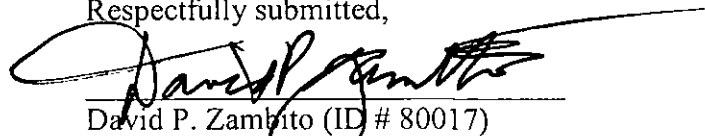
All dates are in-hand delivery. Electronic mail for receipt and distribution of testimony and exhibits will satisfy in-hand service dates, with follow-up hard copies provided by first class mail.

Peoples is not aware of any substantial consumer interest with respect to the proposed rate increase. Peoples does not propose that any public input hearings be held absent substantial public interest in the filing.

VII. SETTLEMENT

As of this time, no settlement discussions have been held but the parties have already engaged in informal discovery. Peoples remains open and available for settlement discussions with the other parties and would support initiatives to begin settlement discussions at the earliest possible date.

Respectfully submitted,



David P. Zambito (ID # 80017)
John H. Isom (ID # 16569)
Christopher T. Wright (ID # 203412)
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William H. Roberts II, Esquire (I.D. 54724)
Peoples Natural Gas Company LLC
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E-mail: william.h.roberts@peoples-gas.com

Date: April 15, 2011

Counsel for *Peoples Natural Gas Company LLC*

CERTIFICATE OF SERVICE
Docket No. R-2011-2228694

I hereby certify that I have this day served a true copy of the foregoing Prehearing Memorandum of Peoples Natural Gas Company LLC, upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL:

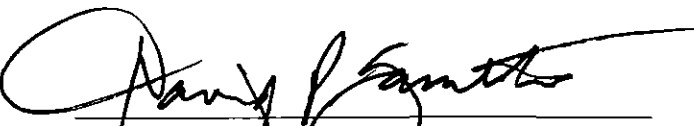
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Daniel G. Asmus, Esquire
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DATED: April 15, 2011



David P. Zambito, Esquire
Counsel for Peoples Natural Gas Company LLC