

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2011-2228694
Office of Consumer Advocate,	:	C-2011-2234616
Office of Small Business Advocate,	:	C-2011-2232327
Robert Marutiak,	:	C-2011-2239458
James H. Bittel,	:	C-2011-2243343
Norman A. Sindler,	:	C-2011-2245586
	:	
Complainants,	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	
	:	
Respondent.	:	

**JOINT PETITION FOR APPROVAL OF SETTLEMENT OF RATE
INVESTIGATION PURSUANT TO 66 Pa. C.S. § 1307(f)**

TO ADMINISTRATIVE LAW JUDGE MARY D. LONG:

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples”), the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Dominion Retail, Inc. (“Dominion”), parties to the above-captioned proceeding (hereinafter, collectively “Joint Petitioners”) hereby file this Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa. C.S. § 1307(f) (“Settlement”).¹ As explained below, the Joint Petitioners have agreed to a settlement of all issues in the above-captioned proceeding and, therefore, respectfully request that Administrative Law Judge Mary D. Long (the “ALJ”) recommend approval, and the Commission approve, this Settlement as set forth below. The Settlement has been agreed to or not opposed by all active parties in this proceeding.² In support of this Settlement, the Joint Petitioners state the following:

II. BACKGROUND

1. Peoples is a natural gas distribution company providing sales, transportation, and supplier of last resort services to approximately 360,000 customers throughout its certificated service territory, which includes all or portions of the following Pennsylvania counties subject to

¹ The Pennsylvania Independent Oil & Gas Association (“PIOGA”) is not a party to the Settlement but has indicated that it does not object to the Settlement. The Joint Petitioners and PIOGA, *i.e.* the active parties to the proceeding, are hereinafter collectively referred to as the “Parties.”

² As explained below, three Peoples customers filed Formal Complaints. However, these customers did not attend the Prehearing Conference, did not file testimony, and did not otherwise actively participate in this matter. As indicated on the Certificate of Service, Peoples is serving a copy of the Settlement on these three inactive customer complainants.

the regulatory jurisdiction of the Commission: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

2. On March 2, 2011, Peoples filed with the Commission at Docket No. R-2011-2228694: (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.

3. 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"), to become effective for service rendered on and after October 1, 2011. Peoples' filing also included Peoples' written direct testimony and supporting exhibits. Supplement No. 130 was docketed by the Commission at Docket No. R-2011-2228694 and assigned to the ALJ for hearing and recommended decision.³

4. The OTS entered a Notice of Appearance on March 24, 2011.

5. A Petition to Intervene was filed by PIOGA on April 15, 2011, and by Dominion on May 2, 2011. PIOGA's Petition was granted at the Prehearing Conference held on April 18, 2011 and Dominion's Petition was granted by the ALJ's Second Interim Order, entered May 6, 2011.

6. Formal Complaints were filed by the following: OCA at Docket No. C-2011-2234616; OSBA at Docket No. C-2011-2232327; Robert Marutiak at Docket No. C-2011-2239458; James H. Bittel at Docket No. C-2011-2243343; and, Norman A. Sindler at Docket No. C-2011-2245586.

³ Peoples' complete April 1, 2011 filing is hereinafter referred to as the "2011 Definitive Filing."

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

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

9. An initial prehearing conference was held on April 18, 2011 before the ALJ. The Parties who participated in the prehearing conference filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule and discovery rule modifications were established at the initial prehearing conference.

10. The Parties undertook formal and informal discovery prior and subsequent to the initial prehearing conference.

11. Peoples served written direct testimony, including supporting exhibits, on April 1, 2011.⁴ OTS, OCA, OSBA, and PIOGA served written direct testimony, including supporting exhibits, on May 9, 2011.⁵ Peoples, OCA, OSBA, and Dominion served written rebuttal testimony, including supporting exhibits, on May 24, 2011.⁶

⁴ Peoples served the following written direct testimony: Peoples Statement No. 1, Direct Testimony of Jon H. Skoog; Peoples Statement No. 2, Direct Testimony of Anthony Caldoro; Peoples Statement No. 3, Direct Testimony of Kenneth M. Johnston; and, Peoples Statement No. 4, Direct Testimony of Lynda W. Petrichevich.

⁵ The following written direct testimony was served by parties other than Peoples: OTS Statement No. 1, Direct Testimony of Joseph Kubas; OCA Statement No. 1, Direct Testimony of Jerome D. Mierzwa (Non-Proprietary and Highly Confidential Versions); OSBA Statement No. 1, Direct Testimony of Brian Kalcic; and, PIOGA Statement No. 1, Direct Testimony of Frank J. Ross. Dominion did not serve written direct testimony.

⁶ The Parties served the following written rebuttal testimony: Peoples Statement No. 4-R, Rebuttal Testimony of Lynda Petrichevich (Non-Proprietary and Highly Confidential Versions); Peoples Statement No 5-R, Rebuttal Testimony of Joseph A. Gregorini; OCA Statement No. 1-R, Rebuttal Testimony of Jerome D. Mierzwa; OSBA Statement No. 2, Rebuttal Testimony of

12. The Parties held several settlement conferences. As a result of these conferences and the efforts of the Parties to examine the issues raised in this proceeding, a Settlement in Principle of all issues was achieved prior to the date scheduled for service of written surrebuttal testimony and before the first day scheduled for evidentiary hearings.

13. An evidentiary hearing was convened by the ALJ on June 2, 2011. At the hearing, the Joint Petitioners reported that a Settlement in Principle, resolving all issues, had been reached. Peoples' March 2, 2011 Prefiling, the 2011 Definitive Filing, and the written direct and rebuttal testimony, including supporting exhibits, of the Parties were admitted into the record by the ALJ.

14. The Settlement agreed to or not objected to by the active Parties to this proceeding is as follows:

III. SETTLEMENT

A. Approval of the 2011 Definitive Filing as Modified

15. The 2011 Definitive Filing is approved except to the extent that it is modified by this Settlement.

B. Least Cost Fuel Procurement Policy – Reconciliation Period

16. Each of the seven specific findings set forth in Section 1318(a) and (b) of the Public Utility Code, 66 Pa. C.S. §§ 1318(a) and (b), applies to Peoples for the 12-month period of February 1, 2010 through January 31, 2011 and, as a result, the natural gas costs that Peoples incurred over the 12-month period of February 1, 2010 through January 31, 2011 were incurred

Brian Kalcic; and, Dominion Statement No. 1-R, Rebuttal Testimony of Thomas J. Butler. OTS and PIOGA did not serve written rebuttal testimony.

under a “least cost fuel procurement policy, consistent with [Peoples’] obligation to provide safe, adequate and reliable service to its customers.”

C. Least Cost Fuel Procurement Policy – Projected Period

17. Each of the seven specific findings set forth in Section 1318(a) and (b) of the Public Utility Code, 66 Pa. C.S. §§ 1318(a) and (b), appear to apply to Peoples for the 20-month period of February 1, 2011 through September 30, 2012 and, as a result, the natural gas costs that Peoples will incur over the 20-month period of February 1, 2011 through September 20, 2012 appear that they will be incurred under a “least cost fuel procurement policy, consistent with [Peoples’] obligation to provide safe, adequate and reliable service to its customers.”

18. It is understood and expressly agreed that the Commission’s findings and conclusions relating to the projected 20-month period of February 1, 2011 through September 20, 2012, are made solely for the purpose of setting prospective rates. The terms and conditions of this Settlement are not intended to limit or prevent in any way the Parties or any future complainant from challenging (1) the application of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code to Peoples for the actual 20-month period of February 1, 2011 through September 30, 2012 and, therefore, (2) whether the natural gas costs actually incurred by Peoples over that 20-month period were incurred pursuant to a “least cost fuel procurement policy, consistent with [Peoples’] obligation to provide safe, adequate and reliable service to its customers.”

D. Natural Gas Supply Rates as of October 1, 2011

19. The Joint Petitioners agree that, on October 1, 2011, Peoples may place into effect the natural gas rates set forth in Supplement No. 130, except as otherwise provided in Paragraph

22 below (regarding “Retainage Levels”).⁷ It is recognized and acknowledged that the natural gas supply rates set forth in Supplement No. 130: (1) may be superseded by Peoples’ October 1, 2011 quarterly recalculation of its natural gas cost recovery levels, in accordance with the Commission’s regulation at 52 Pa. Code § 53.64(i)(5); and, (2) will be updated to reflect the latest NYMEX prices for the projected portion of the 20-month period of February 1, 2011 through September 30, 2012.

E. Retainage Waivers

20. The Petitioners agree that the retainage waivers related to the individual customers identified in **Peoples Exhibit No. 22 (HIGHLY CONFIDENTIAL)** should be approved by the Commission.

21. For all customers that currently receive a full or partial waiver of retainage and whose contracts expire between October 1, 2011 and September 30, 2012:

(a) Peoples will perform and file updated net benefit tests, using the then-current system-wide retainage rate (lost and unaccounted-for gas (“UFG”), company use gas, and storage losses), in the context of its 2012 1307(f) proceeding to determine the appropriate levels of retainage waivers to be effective October 1, 2012. Where applicable and quantifiable, Peoples will adjust the system-wide retainage rate used in the net benefit tests for UFG related to system-wide uncorrected measurement;

(b) Effective with the new contracts for these customers, Peoples will apply a minimum retainage charge for any customer with a transportation margin greater than

⁷ By Order entered June 9, 2011, the Commission approved a base rate case settlement for Peoples at Docket No. R-2010-2201702 and, as a result, Peoples’ Tariff Gas – PA PUC No. 44 (“Tariff No. 44”) became effective on June 10, 2011. Accordingly, if the instant Settlement is approved, Supplement No. 130 will be implemented and updated, effective October 1, 2011, via a new tariff supplement to Tariff No. 44.

\$0.38/Mcf. The minimum charge will be calculated based on the discounted transportation margin rate divided by the maximum transportation rate multiplied by the currently effective retainage;

(c) Peoples will contact such customers in order to obtain any engineering analyses possessed by them. Such analyses will be used for analyzing future retainage waivers. To the extent such customers provide their engineering analyses, Peoples will provide the analyses as part of the retainage justification process; and,

(d) Peoples will perform the necessary bypass engineering analyses to assist with its evaluation of retainage waivers for such customers.

F. Retainage Levels

22. Although Peoples' annual UFG level has decreased during the 12 months ended July 31, 2010, the tariffed retainage rates will be increased to reflect the current three-year average for UFG, company use gas, and storage losses. Effective October 1, 2011, the tariffed retainage rate under Rate GS-T will be increased from 7.8% to 8.6% and the tariffed retainage rate under Rate T will be increased from 5.6% to 7.2%. The Joint Petitioners agree that Commission approval of this Settlement shall not be cited as a Commission endorsement of the retainage calculation methods employed by any party in this proceeding. The Joint Petitioners reserve the right to present alternative retainage calculation methods in any future proceeding.

G. Lost and Unaccounted-For Gas

23. Peoples shall use reasonable efforts to implement its "2011 Unaccounted-For-Gas Plan and Report" (**Peoples Exhibit No. 20**) (a complete copy of which is attached hereto as **Appendix A**) ("UFG Plan"). To the extent that Peoples does not implement any material commitment of the UFG Plan, Peoples shall bear the burden of proving by a preponderance of

the evidence in its 2012 1307(f) proceeding that it was not in the public interest to implement such material commitment. For purposes of this Paragraph, a material commitment shall mean the “Recommendations and Objectives” set forth on pages 42-43 (“Chapter 6: Conclusion”) of the UFG Report.

24. Peoples shall, in conjunction with its 2012 1307(f) filing, report on the success of the UFG Plan and update the UFG Plan to address any deficiencies or other circumstances that are inhibiting the reduction of UFG.

25. Peoples shall use reasonable efforts to achieve the UFG target ranges set forth on page 16 of Peoples Statement No. 3 (attached hereto as **Appendix B**). To the extent that Peoples does not achieve a UFG target range, Peoples shall bear the burden of proving by a preponderance of the evidence that it made reasonable efforts to achieve such UFG target range and that any prospective changes to the UFG target ranges set forth in **Appendix B** are reasonable.

26. Nothing in Paragraphs 23 through 25 of this Settlement is intended to change Peoples’ burden of proof regarding the reasonableness of UFG levels in future UFG proceedings or to prohibit other parties from challenging recovery of UFG-related costs in future 1307(f) proceedings.

H. THE PUBLIC INTEREST

27. This Settlement was achieved by the Joint Petitioners after an extensive investigation of Peoples’ filing, including extensive informal and formal discovery and the service of written direct and rebuttal testimony (including accompanying exhibits) by a number of the Parties.

28. Acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings.

29. The Settlement provides for the recovery of natural gas costs that are just and reasonable given the positions advanced in the testimony and exhibits of the various parties.

IV. CONDITIONS OF SETTLEMENT

30. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. This Settlement shall become effective on the date on which the Commission enters a final order that adopts the terms and conditions of this Settlement. If the Commission enters a final order that approves this Settlement, but with one or more modifications, this Settlement shall nonetheless become effective unless one or more of the Joint Petitioners elects to withdraw from the Settlement. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an Order modifying the Settlement. In such event, the Settlement shall be void and of no effect.

31. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding resulting in the establishment of rates that are just and reasonable.

32. This Settlement is proposed by the Joint Petitioners to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Joint Petitioners reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument. The Settlement is made without any admission against, or prejudice to, any position that any Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

33. The Joint Petitioners acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

34. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of the Settlement. This Settlement does not preclude the Parties from taking other positions in proceedings of other public utilities under Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), or any other proceeding.

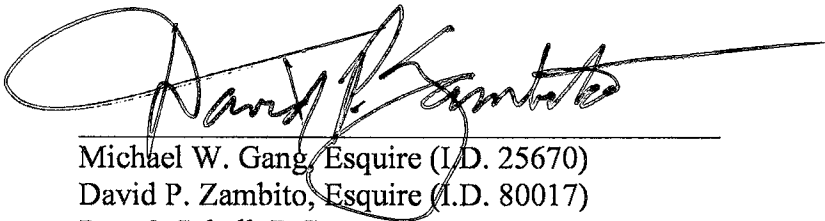
35. If the ALJ recommends that the Commission adopt the Settlement without modification, the Joint Petitioners waive their right to file Exceptions. Exceptions and replies thereto may be filed if the ALJ recommends approval of this Settlement with reservations or modifications.

36. Attached as **Appendices C** through **G** are Statements in Support submitted by Peoples, OTS, OCA, OSBA, and Dominion setting forth the bases upon which they believe the Settlement is in the public interest. Attached as **Appendix H** is PIOGA's Letter of Non-Opposition to the Settlement.

V. CONCLUSION

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that the Honorable Administrative Law Judge Mary D. Long recommend approval of and the Commission approve this Settlement, including all terms and conditions thereof without modification, and make the findings contained therein; and that the Commission promptly enter a final order consistent with this Settlement.

Respectfully submitted,




Michael W. Gang, Esquire (I.D. 25670)
David P. Zambito, Esquire (I.D. 80017)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Telephone: (717) 612-6052
Facsimile: (717) 731-1985
E-mail: mgang@postschell.com
E-mail: dzambito@postschell.com

Date:

6/29/11

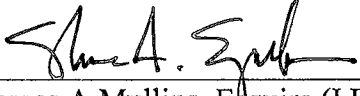
William H. Roberts II, Esquire (I.D. 54724)
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212
Telephone: (412) 208-6527
Facsimile: (412) 208-6575
E-mail: william.h.roberts@peoples-gas.com

For Peoples Natural Gas Company LLC


Richard A. Kanaskie, Senior Prosecutor (I.D. 80409)
Office of Trial Staff
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
Telephone: (717) 783-6184
Facsimile: (717) 772-2677
E-mail: rkanaskie@state.pa.us


Date: 6/29/11

For Office of Trial Staff


James A Mullins, Esquire (I.D. 77066)
Shaun A. Sparks, Esquire (I.D. 87372)
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
Telephone: (717) 783-5048
Facsimile: (717) 783-7152
E-mail: jmullins@paoca.org
E-mail: ssparks@paoca.org

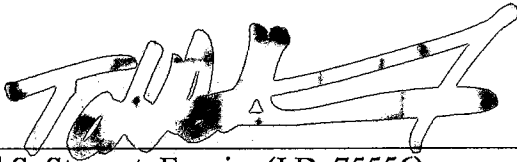
Date: 6/29/11

For Office of Consumer Advocate


Daniel G. Asmus, Esquire (I.D. 83789)
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101
Telephone: (717) 787-3138
Facsimile: (717) 783-2831
E-mail: dasmus@state.pa.us

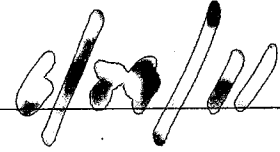
Date: 6/29/11

For Office of Small Business Advocate



Todd S. Stewart, Esquire (I.D. 75556)
Hawke McKeon & Sniscak LLP
100 North 10th Street
PO Box 1778
Harrisburg, PA 17101
Telephone: (717) 236-1300
Facsimile: (717) 236-4841
E-mail: TSS Stewart@hmslegal.com

Date:



For Dominion Retail, Inc.

TAB

A

2011 Unaccounted-For- Gas Plan and Report

March 2011



2011 Unaccounted-For-Gas Plan and Report

TABLE OF CONTENTS

CHAPTER 1: SUMMARY OF UNACCOUNTED-FOR-GAS MITIGATION PLAN AND REPORT	4
CHAPTER 2: THE UFG CALCULATION	8
CHAPTER 3: POTENTIAL CONTRIBUTORS TO UFG	
MEASUREMENT	13
PIPELINE LEAKS OR BREAKS	18
UNAUTHROIZED USE OF GAS	19
ACCOUNTING ESTIMATES/PROCEDURES	19
CHAPTER 4: 2010 UFG MITIGATION MEASURES	
GATHERING STUDY	21
TRANSMISSION STUDY.....	23
MEASUREMENT	23
COMPANY USE	29
PIPELINE LEAKAGE	29
CHAPTER 5: RECOMMENDATIONS	
DEDICATED PERSONNEL	31
SEGMENTATION	31
MEASUREMENT	36
PIPELINE LEAKAGE	40
CHAPTER 6: CONCLUSION	42
EXHIBITS	
1. L&UFG FOR THE 12-MONTHS ENDING JULY 31, 2010	44
2. GAS USED OR LOST IN COMPANY OPERATIONS	45
3. TEMPERATURE COMPENSTATION FACTOR	46
4. QUANTIFIED MEASUREMENT ERROR	47
5. SEGMENTATION OPERATIONAL AREAS	48
6. RECOMMENDATION SUMMARY.....	49
7. STORAGE MEASUREMENT	50
8. ELEVATION STUDY.....	51

2011 Unaccounted-For-Gas Plan and Report

TABLE OF CONTENTS

EXHIBITS

9. 2010 UFG MITIGATION MEASURES.....	52
10. BTU AND SPECIFIC GRAVITY STUDY	53
11. SEGMENTATION IMPLEMENTATION PLAN	54
12. UFG PROJECT PLAN	55

2011 Unaccounted-For-Gas Plan and Report

Chapter 1: Summary of Unaccounted-For-Gas Mitigation Plan and Report

This reports sets forth Peoples' plan for addressing and mitigating unaccounted-for-gas (UFG) levels on the system. It provides a review of the UFG calculation, identifies potential contributing factors to UFG, reviews the current UFG mitigation measures currently employed by the Company and provides recommendations for a plan to reduce UFG on a going forward basis.

The report will also address the UFG related commitments made by Peoples and required by the Commission in various recent regulatory proceedings. Specifically, this report is responsive to the following regulatory commitments and requirements:

- 2008 Acquisition Proceeding – Per the Joint Petition for Approval of Settlement approved by Commission order of November 19, 2010 in Docket No. A-2008-2063737, Peoples agreed to review the Company's initial operational review of the gathering system and the Commission findings in Peoples' 2009 1307(f) proceeding and its forthcoming 2010 1307(f) proceeding. Peoples also agreed to conduct a review of Peoples' prior efforts to reduce UFG and examine alternative additional measures to reduce UFG. Peoples further agreed to present a report to the OSBA, OTS and OCA with regard to the results of such investigation no later than the filing of Peoples' 2011 1307(f) proceeding.
- Peoples' 2009 Management Audit Report – The Focused Management Audit Report of The Peoples Natural Gas Company issued by the Commission's Bureau of Audits in December 2009 at Docket No. D-2009-2149012, included a finding that recommended that Peoples identify major sources of unaccounted for gas, implement programs to reduce the amount of unaccounted for gas in the system, and establish reduction goals. In its Implementation Plan filed on February 15, 2010, Peoples committed to conduct a review and investigation during 2010 and early 2011 in response to this finding and to present a report on its findings as part of Peoples' 2011 1307(f) proceeding.
- Peoples' 2010 1307(f) Proceeding – Per the Joint Petition for Approval of Settlement approved by Commission order on September 16, 2010 in Docket No. R-2010-2155608, Peoples agreed that in addition to continuing the existing local gas meter operating and audit procedures it would initiate a check meter program to validate measurement at selected local gas custody transfer meter locations. Peoples agreed to report on the results of this program and any remediation steps taken no later than Peoples' 2011 1037(f) proceeding. In its September 16, 2010 order, the Commission required Peoples to file information in the next (2011) 1307(f) proceeding so that a record may be developed to make a determination on a just and reasonable UFG rate. The Commission also required Peoples to develop and submit as part of its next (2011) 1307(f) filing, specific measures and UFG targets for its (1) gathering system, (2) storage system and (3) transmission and distribution system for the February 1, 2011, to September 30, 2012, projected period and two subsequent years following the projected period. The Commission anticipated that Peoples will submit its proposed targets as a range of expected

2011 Unaccounted-For-Gas Plan and Report

UFG results. As further explained in its order, the Commission primary objectives in establishing these filing requirements were to ensure: (1) that Peoples has developed an appropriate plan to reduce UFG; (2) that the record is developed in subsequent 1307(f) proceedings to determine the extent to which Peoples' UFG levels are just and reasonable; and (3) that the record contains sufficient information to make an adjustment to Peoples' rates, if warranted.

Background on the Peoples' System

Peoples operates an integrated natural gas system that serves approximately 360,000 customers in southwestern Pennsylvania. Peoples' system has access to numerous interstate natural gas pipelines including Dominion Transmission, Texas Eastern, Tennessee Gas, and National Fuel. The Peoples system consists of distribution, transmission, storage and gathering pipelines and related facilities. Peoples' distribution system is comprised of 6,610 miles of distribution main lines and 3,298 miles of customer service lines. Peoples' transmission system has approximately 387 miles of high pressure intrastate transmission pipelines. Peoples owns and operates five storage facilities within its service territory that have a combined storage capacity of 33 Bcf and provide a working gas capacity of 10.5 Bcf with a total maximum withdrawal deliverability of 300,000 per day. Peoples' storage facilities are beneficial to a least-cost gas purchasing strategy because they act as a natural hedge for gas prices during higher cost peak usage periods in the winter heating season. Peoples utilize its 788 miles of gathering pipelines to source significant amounts of lower cost local gas supplies. Gas moved through Peoples' gathering facilities accounts for about 38 to 40 Bcf, or approximately 78%, of the total local gas produced into the system annually. Peoples' gathering system provides a direct benefit to ratepayers through lower purchased gas commodity costs and reductions in interstate pipeline transportation capacity costs. Because of its large and diverse mix of non-distribution facility assets, Peoples' system is unique when compared to other natural gas distribution companies. It is important to note that the significant amount of storage and gathering assets contribute to Peoples' levels of gas used in company operations and unaccounted-for-gas (UFG) levels. As a result, Peoples actual levels of gas used in company operations and UFG are higher than those of typical distribution-only systems.

For instance, Peoples consumes about 700,000 Mcf/year of natural gas on the gathering system to run twenty-three natural gas compressors to lower line pressures to allow local wells to produce additional supplies into the system and numerous dehydration units to reduce and manage the water content of locally-produced gas. Further, Peoples incurs UFG associated with the volumes moved through gathering system pipelines. Peoples also uses approximately 300,000 Mcf/year of natural gas at the five active storage facilities to run ten storage compressors, four relay compressors and various dehydration units to treat and inject gas into the storage reservoirs during the summer injection periods. Peoples also experiences known and determinable gas losses in the operation of our five on-system storage pools. Some of the gas injected into the storage fields during the April through October time frame, for eventual withdrawal during the winter months of November through March, migrates out of the reservoirs and is lost into neighboring formations. Peoples experiences approximately 800,000 Mcf/year in storage related losses.

2011 Unaccounted-For-Gas Plan and Report

Historical UFG Levels on the Peoples' System

As discussed later in the report, Peoples calculates total system UFG levels, excluding storage migration losses, by comparing total system requirements to total system supplies. The difference between total system requirements and total system supplies represents UFG. In order to minimize the inherent variances that arise as a result of estimating customer usage on estimated bills (residential and commercial meters are read every other month) and unbilled volume estimates, Peoples calculates UFG on a summer-to-summer basis. Peoples' yearly UFG levels are calculated based on the twelve month period ending July 31. Peoples' recent experience of total system UFG levels, excluding storage losses, is:

Total System UFG (Excluding Storage Migration Losses & Company Use)

12 Months Ended July 31	Total System UFG – Mcf	Total System Supplies – Mcf	UFG Percentage
2007	4,093,078	75,446,566	5.43%
2008	3,857,073	72,481,180	5.32%
2009	4,720,806	72,950,499	6.47%
2010	4,001,024	73,814,999	5.42%

Peoples experiences losses at its five on-system storage pools as a result of the migration of gas out of the reservoirs into neighboring formations. Peoples' recent experience of storage migration losses is:

Total Storage Migration Losses

12 Months Ended July 31	Storage Migration Losses – Mcf	Average Storage Balance – Mcf	Storage Loss Percentage
2007	651,000	26,869,688	2.42%
2008	671,000	26,328,910	2.55%
2009	724,000	25,833,128	2.80%
2010	764,000	25,328,912	3.02%

Prior to the submission of the 2009 1307(f) case, Peoples conducted a review of its gathering system pipeline assets in order attempt to begin to quantify UFG levels associated with the gathering system. As explained and presented in Peoples' 2009 1307(f) filing, the results of this review showed

2011 Unaccounted-For-Gas Plan and Report

that due to the unique characteristics of discrete parts of our gathering system, measurement data was not available at all of the necessary locations in order to quantify the specific volumes of UFG associated with gathering lines on a system-wide basis. Our system-wide gathering pipelines include various gathering facilities located throughout our pipeline network. These gathering facilities are not isolated systems where gas is simply gathered from a group of wells, moved along gathering lines, pumped through a gathering compressor and then delivered into transmission lines for eventual delivery into our distribution system. Instead, many of these gathering facilities contain groups of customers that are served directly off of the gathering lines or contain and serve numerous distribution systems that in turn, serve customers. In total, there are thousands of customers that are served in and amongst the gathering facilities. In many cases throughout the year, gas used to serve these customers located within the gathering system was provided by a combination of locally-produced gas that was moving through gathering lines, as well as gas delivered via various interstate pipelines. Because of the integrated nature of these gathering and distribution systems Peoples was unable to measure the exact volume of gas consumed by customers that only moved through gathering lines and our ability to accurately quantify system-wide gathering UFG levels was hindered.

Despite the inability to accurately quantify gathering UFG levels, in its 2009 1307(f) proceeding, Peoples did provide an estimate of gathering system UFG by examining the Kiski-Valley ("KV") northern gathering system. The KV system contains the largest amount of gathering lines on our pipeline network. It contains in excess of 500 miles, or 65%, of the total gathering system in terms of length. It also moves about 70% of the total volumes moved through gathering pipelines and represents a somewhat isolated portion of our gathering system. The gas produced into the KV system, used by customers and compressors within the KV gathering area, and moved out of the KV gathering area, are somewhat quantifiable. As a result, in the 2009 1307(f) filing and for the first time, Peoples presented an estimate of gathering system UFG by using volumetric data for gas moved throughout the KV system. However, as explained later in this report, the levels of gathering system UFG provided by Peoples in recent 1307(f) proceedings and set forth below are high level estimates only and may not accurately portray the actual levels of UFG experienced in the areas of the Peoples' system that contain gathering assets. Peoples' estimates of gathering UFG levels based on data from the KV system and provided in recent 1307(f) proceedings are:

Estimated Gathering UFG

12 Months Ended July 31	UFG Percentage
2007	5.19%
2008	6.33%
2009	6.98%

2011 Unaccounted-For-Gas Plan and Report

Chapter 2: The Calculation

Peoples Natural Gas (Peoples) calculates total system Unaccounted-For-Gas (UFG) levels by, excluding storage losses; comparing total system requirements to total system supplies (see attached Exhibit 1). The difference between total system requirements and total system supplies represents UFG. The components of system requirements and system supplies are set forth below and will be discussed in more detail below:

System Requirements

- A) Metered Customer Usage
- B) Unbilled Usage
- C) Gas Used or Lost in Company Operations
- D) Exchange Gas Delivered
- E) Off-System Deliveries
- F) On-System Storage Injections

System Supply

- G) Metered Local Gas – City Gate Deliveries
- H) Metered Interstate Gas – City Gate Deliveries
- D) Exchange Gas Received
- F) On-System Storage Withdrawals

A) Metered Customer Usage

Meter Customer Usage is obtained manually by reading the dials or index on each meter every other month for Residential and most Commercial Customers (CCS) and every month for the largest Commercial and Industrial Customers (SBS). Metered Customer Usage is further divided into 20 billing cycles to facilitate reading a subset of meters daily throughout the month to ultimately obtain the desired customer readings 50% CCS and 100% SBS each month. The information is either electronically uploaded or manually recorded and submitted to the billing system for processing.

B) Unbilled Usage

Unbilled usage is obtained by computations of the difference between billing cycle readings and estimated calendar, end-of-month readings. This step is necessary to ensure that the customer usage information in the UFG model covers the same time, which is calendar end-of-month.

C) Gas Used or Lost in Company Operations

2011 Unaccounted-For-Gas Plan and Report

Gas Used or Lost in Company Operations is the metered and estimated for processes set forth below:

Company Use

- C.1) Gathering Compression and Dehydration
- C.2) Transmission Compression
- C.3) Storage Compression and Dehydration
- C.4) Heaters
- C.5) Company Vehicles
- C.6) Company Buildings
- C.7) Pipeline Repair and Replacement
- C.8) Pipeline Pigging
- C.9) Station Upsets or ESD

Company Lost

- C.10) Storage

C.1) Company Use: Gathering Compression and Dehydration

Peoples operates 788 miles of gathering pipelines, 23 compressors and 8 dehydration units that are used to source most of the 48.4 Bcf of locally-produced volumes brought into our system annually. Compressors are used to lower pipeline pressures (suction) to allow more local supply into the system and to move these additional volumes by elevating pressures (discharge) in order to redeliver to a higher pressure pipeline system. Dehydration units are used to remove water from untreated local supply. The volumes consumed by those compressors and dehydration units are manually read and submitted to accounting systems for tracking.

C.2) Company Use: Transmission Compression

Peoples operates 387 miles of transmission pipelines and 4 compressors that are used to move local and interstate gas supplies to various storage compressors throughout the system. The volumes consumed by those compressors are manually read or estimated and submitted to accounting systems for tracking.

C.3) Company Use: Storage Compression and Dehydration

Peoples also owns and operates on-system storage network that includes five active storage facilities, 19 miles of storage pipeline, with a combined total capacity of 33 Bcf, working gas

2011 Unaccounted-For-Gas Plan and Report

capacity of 10.5 Bcf, and maximum withdrawal deliverability of 300,000 Mcf/Day. To operate these facilities requires 10 storage compressors, 4 relay compressors, and 4 dehydration units that are used to inject gas into the storage reservoirs during the summer and to treat the gas when it is withdrawn in the winter. The volumes consumed by those compressors are manually read or estimated and submitted to accounting systems for tracking.

C.4) Company Use: Heaters

Heaters are used at various locations throughout the pipeline system to raise gas temperatures at regulation stations. Not every regulator requires a heater, only regulators where the pressure drop is sufficient to cause the gas temperatures to fall below hydrocarbon dew point. Heaters are used to raise gas temperatures to avoid the drop out of liquids and freeze-offs or the blockage caused by ice forming inside a regulator or station piping. The volumes consumed by heaters are manually read or estimated and submitted to accounting systems for tracking.

C.5) Company Use: Vehicles

Peoples owns and operates Natural Gas Vehicles (NGV) used by employees to service customers, pipelines, and other facilities. The volumes consumed by NGV are manually read or estimated and submitted to accounting systems for tracking.

C.6) Company Use: Buildings

Company buildings utilize gas for heat and hot water. For Company buildings served by Peoples pipelines, the consumption volumes are manually read and submitted to accounting systems for tracking.

C.7) Company Use: Pipeline repairs and replacements

Pipelines are repaired or replaced during the year by Peoples. Before work can commence, the pipeline must be purged of gas to safely make the repairs. Company engineers estimate the amount of gas purged and submit volumes to accounting systems for tracking.

C.8) Company Use: Pigging

The company cleans and inspects pipelines by running pigs through them. Pigs move through the pipeline by differential in gas pressure upstream and downstream of the pig. When the pig reaches a receiver, gas is purged in order to safely remove the pig from the pipeline. Company engineers estimate the amount of gas purged and submit volumes to accounting systems for tracking.

C.9) Company Use: Compressor Station Upsets

2011 Unaccounted-For-Gas Plan and Report

Compressor stations can shut-down for various reasons. When a station shuts-down, pressure reliefs can allow gas to escape and thus safely suspend operations. Company engineers estimate the amount of gas released by relief valves and submit volumes to accounting systems for tracking.

C.10) Company Lost: Storage Migration

Peoples recognizes storage losses attributed to storage migration. Some gas injected into the storage fields migrates out of the reservoirs and is lost into neighboring formations. Twice a year, an engineering analysis is performed for each storage field in order to estimate the volume of gas that is lost through migration. The estimating process requires shut-in of storage operations prior to summer and winter operations. Peoples will shut-in each storage pool for a period of time to allow the injected or withdrawn gas to stabilize in the formation. After a period of time, engineers will record storage well pressures and compare pressure readings over time. The shut-in storage well pressure lost over time is an indicator of volume migration out of the storage pool. Peoples takes action to minimize gas losses from storage to the extent feasible and even though gas volumes are not significant in comparison to the extensive storage operations. The estimated storage losses are submitted to accounting systems for tracking.

Gas used in company operations and lost through storage operations totals 1,843,872 Mcf or 2.5% of the Total Supply (See attached Exhibit 2).

D) Exchange Gas

Peoples has entered into exchange agreements with other gas distribution companies to obtain service in areas that could not otherwise be served. In an exchange agreement, each party is required to deliver gas equal to the volumes they receive. These agreements also provide for monthly tracking and reporting of imbalances, when one party receives more volumes than it delivered. These volumes are reconciled annually. On a monthly basis, each company manually records the volumes delivered and received and provide that information to the exchange counterparty. Those volumes are submitted to our accounting systems for tracking.

E) Off System Deliveries

Peoples has interconnects with Dominion Transmission (DTI) at Truittsburg and Rural Valley with the ability to deliver supplies to DTI. We also have a bidirectional interconnect with Texas Eastern Transmission TETCO at Rager Mountain with the ability to deliver supplies to TETCO. Peoples' Gas Supply can nominate excess supply at these points for injection into off-system storage, reconciling

2011 Unaccounted-For-Gas Plan and Report

OBA's, or balancing exchange volumes. Pool operators on the Peoples system also have the opportunity to nominate excess supply to these points. Those volumes are measured and submitted to our accounting systems for tracking.

F) On-system Storage Injections

Peoples also owns and operates on-system storage network that includes five active storage facilities. During the April through October time frame, Peoples injects gas into these underground storage reservoirs for eventual withdrawal during the winter months of November through March. The company can turn storage inventory of approximately 10.5 Bcf annually depending upon weather. Those volumes are measured and reported electronically to the company SCADA system for tracking.

G) Metered Local Gas

Peoples has approximately 3,995 Metered Local Gas interconnects which supply about 48.4 Bcf annually. Local Gas can be delivered to distribution, gathering, or transmission pipelines. Producers manually pull charts or read mechanical indexes and provide this information to a Peoples approved integrator. The integrator will process the charts and mechanical index readings and send the results to Peoples for processing in its transportation system or payment system depending upon who is purchasing the supply.

H) Metered Interstate Gas

Peoples has 18 interconnects with interstate pipelines including Dominion Transmission, National Fuel Gas Supply, Texas Eastern Transmission, and Tennessee Gas Pipeline. Peoples' Gas Supply can execute purchases for supply into these pipelines for redelivery to the city gate or off-system storage. Supplies from these interconnects satisfy requirements not supplied by Metered Local Gas. City gate volumes are measured and transmitted electronically by the interstate pipeline to Peoples for processing by its payment system.

Summary

System UFG is calculated by subtracting Total Supply 73.8 Bcf from Total Requirements 69.8 Bcf. For the study period ending July 2010, the System UFG is 4 Bcf or 5.42% of the Total Supply. Gas Used or Lost in Company Operations is 1.8 Bcf or 2.5% of the Total Supply. The sum of Company Use and Unaccounted For is 5.8 Bcf or 7.92% of the Total Supply (See attached Exhibit 1).

2011 Unaccounted-For-Gas Plan and Report

Chapter 3: Potential System UFG contributors

Potential System UFG contributors have been identified by Peoples for the following categories:

- A) Measurement Errors
- B) Pipeline Leaks or Breaks
- C) Unauthorized Use of Gas
- D) Accounting Estimates/Procedures

Each category of potential system UFG contributors will be reviewed below.

A) Potential causes of measurement errors include:

- A.1) Meter Installation, Maintenance, and Calibrations
- A.2) Meter Error
- A.3) Meter Sizing
- A.4) Meter Reading
- A.5) Meter Failures

A.1) Measurement Installation, Maintenance and Calibrations

Calibrating meters regularly is critical to ensure the accuracy of measurement. Meters are calibrated by comparing the reading of a meter with a known standard. Calibrating meters is relatively straightforward and should be conducted at a frequency recommended by the manufacturer or based on data collected and analyzed by the company documenting the meter error as found and as left. The frequency should increase or decrease based on the data collected by the company and the error rate deemed acceptable by the company.

Accurate measurement requires temperature and pressure adjustments to compensate for pipeline operating conditions at the time measurement is taken. In addition to calibrating meters, pressure and temperature transmitters should also be calibrated. The effect of temperature and pressure on measurement is discussed below in section A.2.

Turbine and Rotary meters are mechanical and require maintenance including oiling moving parts to ensure accuracy. Orifice measurement requires plate maintenance including cleaning the plate and measuring the orifice diameter to ensure the plate has not been damaged. Ultrasonic meters have diagnostic programs which should be run regularly to validate meter performance and accuracy. Diaphragm meters are primarily used on residential homes and are replaced when performance is not in specification.

2011 Unaccounted-For-Gas Plan and Report

Meter installation practices are also important to providing accurate measurement. Most meters are affected by turbulent flow. Meter installations abide by AGA recommendations for meter location relative to reducers, elbows, valves, compressors, regulators, etc. Some measurement may be improved by installing gas conditioning equipment such as straightening vanes to artificially create laminar flow.

Peoples operates storage meters, exchange meters, compressor meters, fuel meters, and check meters. Producers operate Local Gas interconnects via the Meter Operating Agreement (MOA). Some of these meters may contribute to the company unaccounted for study. Peoples should review procedures pertaining to meter installation, maintenance and calibrations to remove that uncertainty from this study.

A.2) Meter Error

Meter error can occur when information important to correcting measurement is not in-place. Gas temperature, pressure, and elevation are needed to accurately compute volumes. Combining Boyles and Charles Law for computing gas volumes yields the following equation:

$$V_{\text{corrected}} = V_{\text{uncorrected}} \times \left(\frac{P_{\text{gauge}} + P_{\text{atmosphere}}}{P_{\text{base}}} \right) \times \left(\frac{T_{\text{base}} + 460}{T_{\text{flowing}} + 460} \right)$$

P_{gauge} – Pressure recorded in the gas stream

$P_{\text{atmosphere}}$ – Atmospheric pressure based on meter elevation (typically used 14.4 which correlates to 500 feet above sea level)

P_{base} – Contract pressure typically 14.73

T_{base} – Contract temperature (typically 60 degrees)

T_{flowing} – Flowing gas temperature

Peoples operates meters which are not temperature, pressure or elevation corrected. A temperature correction study was performed in 2003 by Dominion which resulted in a recommendation to adjust non-temperature compensated meters by 2.32% to take into account measurement error attributable to temperature compensation (See attached Exhibit 3). Some of these meters contribute to the company unaccounted for gas levels.

Peoples uses a default meter elevation of 500 feet above sea level to determine the conversion of gauge pressure to absolute pressure. Based on a service area elevation study, we concluded this is incorrect. The conversion of gauge pressure to absolute pressure depicted the Boyles/Charles Law computation:

$$P_{\text{absolute}} = P_{\text{gauge}} + P_{\text{atmosphere}}$$

P_{gauge} – meter pressure probe reading

2011 Unaccounted-For-Gas Plan and Report

$P_{atmosphere}$ – meter location atmospheric pressure, Peoples default 14.4 psig (500 ft above sea level)

This equation should be modified to account for $P_{atmosphere}$ associated with the meter specific elevation which range from 14.29 psia at 750 feet above sea level to 13.41 psia at 2500 feet above sea level. Measurement error related to elevation can range from 0.45% to 5.08% across Peoples service territory according to attached Exhibit 8.

Peoples should apply reasonable compensation factors to measured volumes to adjust consumption and supply to correct for variations in gas temperature, pressure, and elevation to remove that uncertainty from this study.

Meter error can also be attributed to not compensating for variations in gas composition. Gas is compressible and requires volume compensation to account for this effect. The following equation will adjust for gas super compressibility:

$$V_{corrected} = V_{uncorrected} \times (Z_{base} / Z_{flowing})$$

Z_{base} – Super compressibility at base conditions (typically 0.60 for natural gas)

$Z_{flowing}$ – Super compressibility at flowing conditions

Super compressibility can be obtained through gas compositional analysis. Chromatographs are typically used to obtain gas composition. Measurement incorporating chromatographs sampling gas as it is being measured and computing volumetric adjustments real time, would improve accuracy.

Attached Exhibit 10 depicts a sampling of compositional readings that could result in measurement adjustments due to super compressibility ranging from 0.21% to 0.27%. More sample points are required to provide for a meaningful measurement adjustment. Peoples should obtain gas composition analysis and apply reasonable compensation factors to measured volumes to remove that uncertainty from this study.

Turbine meters utilize a calibration factor generally referred to as a “K” factor for the electrical output or pulses per unit volume of flow at line conditions. K factor is set by choosing “change gears” that make each meter output shaft revolution. Using the incorrect K factor can result in measurement error. Peoples should review K factors for existing turbine meter installations, and change inaccurate K factors in order to remove that uncertainty from this study.

Orifice measurement calculations require orifice and tube diameters to compute volumes. Those parameters are entered into a corrector or utilized by the integrator in conjunction with recorded differential pressure to compute volumes. Differential pressure readings should be

2011 Unaccounted-For-Gas Plan and Report

monitored to ensure differential pressure is within the recording device tolerance. When differential readings approach the device limits, plate changes are required to bring the differential pressure back into range. Communicating plate changes to the integrator or corrector is critical to accurate measurement. Peoples should review orifice measurement practices to ensure orifice and tube diameters are recorded and plate changes are made, to remove that uncertainty from this study.

Measurement error can be introduced by gas contaminants. Dirt or oil can build in the pipeline or meter which will cause changes to the base conditions used to compute volumes which cause measurement error. Meter inspections should include cleaning the meter to remove contaminants. The frequency of these inspections should be reviewed to minimize the impact of contaminants on measurement. Filtration upstream of measurement may be necessary to ensure measured gas is free of contamination. Peoples should review meter inspection practices to ensure contamination is eliminated to remove that uncertainty from this study.

Gas sourced from Local Meter interconnects and on-system storage withdrawals contain water vapor which is included in the measured volumes recorded by the company. Higher water content equates to higher gas measured. Typically the water is removed through distributed dehydration facilities located at compressor sites. Measurement should be compensated for the volumes of water collected or boiled off as a result of this processing. Peoples estimates the impact of water saturated gas through the following AGA calculation:

$$W = V_{\text{pres}} / P$$

W - Mole Fraction of Water Vapor in a gaseous mixture

V_{pres} - Vapor pressure of water at a given temperature (psia)

P – Peoples system average pressure at 60 degrees F (psia)

$$W = 0.2563 / (58.5 \text{ psig} + 14.73) \text{ psia} = 0.0035 = 0.35\%$$

Equation based on American Gas Association (AGA) 11 Measurement of Gas properties. Natural Gas is fully saturated when its flowing gas temperature is equal to its dew point.

Peoples should review the impact of water extracted from gas to validate the measurement adjustment to eliminate that uncertainty from this study.

A.3) Meter Sizing

Meter sizing can introduce measurement error when a meter's operating characteristics do not match the consumption or supply profile. Orifice, Turbine, Rotary, Ultrasonic, and Diaphragm meter all have limitations on operating parameters to achieve accurate results. Each meter has specific flow and pressure ranges for operating optimally. When actual conditions fall outside

2011 Unaccounted-For-Gas Plan and Report

that optimal range, measurement error is introduced. Customers with a wide flow profile may require multiple meter runs in order to capture the low flow through peak flow operations.

Peoples's Engineers design meter installations to accurately measure volumes consumed or produced based on the requirements provided by the customer. When actual operations begin, those requirements may differ from the original parameters given to Peoples. Over time, requirements can also change base on changes to the customer's operations. Peoples should review meter sizing for existing installations, change measurement installations operating outside optimal range, to remove that uncertainty from this study.

A.4) Meter Reading

Peoples made adjustments caused by differences in meter reading dates of customers. Residential and most commercial customers are read on a cycle billing schedule which allows Peoples to read each customer every other month. Monthly readings are further subdivided into cycles or routes where readings are collected each day throughout the month until all the required readings are obtained. An estimate is made to compensate cycle billing to convert those readings to calendar month end. While this can vary significantly during a calendar period, the impact is minimized by calculating UFG in summer months.

Producers operate Local Meter interconnects where measurement is obtained based on the Meter Operating Agreement (MOA) requirements which allow for meter reading dates other than calendar month end. Peoples should review estimating calculations for compensating non-calendar month end meter readings, make adjustments to calculations that are incorrect, apply compensation calculations to non-calendar month end readings, to remove that uncertainty from this study.

Meter reading error can occur on manually and electronically read meters. Errors in manually read indexes can occur by transposing numbers, misreading dials, uncorrected readings or keypunch error. Mechanical charts are integrated by manually tracing the pen movement recorded on a chart for pressure and volume. Errors can be introduced into measurement calculations by incorrect chart interpretation, meter kind, meter size, or plate size. Peoples uses an independent integrator to conduct annual audits of its chart integrator to ensure that chart interpretation is performed accurately. Peoples should review measurement collection practices, meter characteristic reporting, to remove that uncertainty from this study.

A.5) Meter Failure

Meter failure can result in missing or incorrect measurement data. Failures can occur when water saturated gas freezes due to ambient temperature or temperature drops in the measurement process. Meters can also fail due to damage caused by vandalism; environmental

2011 Unaccounted-For-Gas Plan and Report

elements; theft; or accidents. Improper maintenance or equipment operating outside of manufactures specification can also lead to meter failure. Unrecognized meter failures can contribute to incorrect measurement data provided to accounting systems. Peoples should review processes for recognizing meter failures; repair affected meters; review maintenance procedures; to remove that uncertainty from this study.

B) Pipeline Leaks or Breaks

Pipeline damage is considered a significant contributor to UFG. The following classification of pipeline damages was considered:

Pipeline Damage

- B.1) Pipeline Leaks
- B.2) Pipeline Breaks

B.1) Pipeline Leaks

Pipeline leaks occur due to various reasons including corrosion, line hits, pipe joint failure, etc. Leaks can also occur in ancillary pipe equipment. Methods for detecting and reporting leaks include walking the pipeline, aerial surveillance, or inbound calls.

Quantifying the impact of pipeline leaks is a challenge due to the data needed to compute lost volumes.

Peoples reports for DOT purposes gas lost through leakage as a computation based on pipeline pressure, leak diameter, and the duration from which the leak was reported until it was repaired.

Not considered was the duration the leak existed prior to initial discovery. On rural gathering and distribution pipelines, leaks could exist unrecognized for an extensive period of time. An aggressive estimate of pipeline leakage would consider the time from last surveyed until repaired as the duration. The company has a formalized leak survey program in accordance with DOT regulations that covers gathering, transmission, storage and distribution lines as well as compressor stations throughout the system. In addition, we leak survey non-DOT-jurisdictional gathering lines. Peoples should consider reviewing the parameters used to calculate pipeline leakage to determine if the duration represents the correct history of that leak, to remove that uncertainty from this study.

B.2) Pipeline Breaks

2011 Unaccounted-For-Gas Plan and Report

Pipeline breaks are a separation in the pipeline causing the release of gas to atmosphere. Gas lost through pipeline breaks are computed by using the diameter of the pipeline, operating pressure, and duration of time from initial break to repair. Estimating gas lost through pipeline breaks can have duration errors like those on pipeline leaks. Since breaks are typically a larger release of gas versus leaks, minor errors in duration can result in significant changes in lost volumes reported. The company has a formalized damage prevention program that includes procedures for preventing damage to buried pipelines and the associated loss of gas. Peoples should consider reviewing the parameters used to calculate pipeline breaks to determine if duration represents the correct history of the break, to remove that uncertainty from this study.

C) Unauthorized Use of Gas

Unauthorized use of gas can occur due to various reasons listed below:

- C.1) Gas Theft
- C.2) Free Gas

C.1) Gas Theft

Gas theft can occur when customers take gas without authorization of Peoples. Detecting gas theft is difficult when theft is done in moderation. The company has established policies and procedures to detect and take corrective action on the unauthorized use of gas by any third party. Peoples is adding a newly created position dedicated to Gas Theft in 2011. Peoples should consider reviewing unauthorized gas detection procedures to remove any uncertainty in this study.

C.2) Free Gas

Free gas can occur when producers enter into agreements with landowner's providing gas entitlements in exchange for right-of-way. Peoples has approximately 3,995 producer managed Local Gas interconnects. Without proper safeguards, free gas consumers can be served by back flowing gas from Peoples pipelines. Engineers design measurement sites to prevent back flow. Annual inspections should include reviewing back flow prevention equipment to remove any uncertainty in this study.

D) Accounting Estimates/Procedures

Accounting estimates/procedures were examined for the following reasons listed below:

- D.1) Estimated Gas Use
- D.2) Missing Measurement Points

2011 Unaccounted-For-Gas Plan and Report

D.1) Estimated Gas Use

Peoples uses estimates to approximate gas usage every other month for cycle billed customers. Estimates are used to approximate the impact of cycle billed customers conversion to calendar month end. Estimates are also used for company use calculations including storage losses and equipment fuel when meters do not exist. Finally, estimates are used to quantify the volume of water received at Local Meter interconnects. Peoples uses estimates only when collecting, correcting, or measuring is impossible or not practical. The Accounting estimating process needs to be reviewed to eliminate any uncertainty in this study.

D.2) Missing Measurement Points

Peoples makes every effort to account for all measurement points received or delivered to its pipeline system. There is a potential for process gaps that could result in consumers or suppliers not processed in the accounting system. Peoples does not believe that such gaps exist that would lead to missing measurement points. A review for potential missing measurement points would eliminate any uncertainty in this study.

Peoples will remediate some of these possible contributors to UFG during 2011, report on the results, and make recommendation for actionable items.

2011 Unaccounted-For-Gas Plan and Report

Chapter 4: 2010 UFG Mitigation Measures

During 2010, Peoples took measures to mitigate lost and unaccounted for. It implemented changes in procedures to analyze and enhance:

- A) Gathering Study
- B) Transmission Study
- C) Measurement
- D) Company Use
- E) Pipeline Leakage

The following describes the actions and results for each category.

A) Gathering Study

Starting with Peoples' 2009 1307(f) filing, Peoples attempted to estimate the UFG in the Gathering System. This was done by focusing on the Kiski-Valley Gathering System which represents approximately 65% of the total Gathering pipelines; 52.1% of the total local supply volumes and; 2,617 local supply interconnects. Over the past year, additional analyses in the following areas were performed to verify the results of the original Kiski-Valley Gathering Study:

- 1) Verify Supply and Requirements
- 2) Accuracy of Measurement Data
- 3) Missing Measurement Data
- 4) Recommendation

A.1) Verify Supply and Requirements

Requirements used in gathering model include residential and small commercial customers attached to gathering or served by gathering interconnect. Large commercial and industrial customers attached to gathering or served by gathering interconnect were also identified. Gas consumed and pumped by gathering compressors were also included as requirements in the model.

Supply used in the gathering model is exclusively producer managed Local Meter interconnects. The meters attached to the gathering study were verified as interconnected with the appropriate Kiski-Valley gathering pipeline.

As a result of recent additional analyses performed during the review of UFG, Peoples identified gaps in the original gathering study in the following areas:

2011 Unaccounted-For-Gas Plan and Report

- 1) Missing distribution customer consumption for operating systems served exclusively by 23 interconnects with the gathering system
- 2) Inaccurately identified commercial customer consumption attached to gathering system
- 3) Missing fuel used by relay compressors inside gathering systems

A.2) Accuracy of Measurement Data

The accuracy of the measurement data included in this study was examined. Peoples has procedures in place to audit integrator procedures to ensure integration is accurate. We also have procedures to inspect producer sites to verify the required equipment is installed and operating at Local Meter interconnects. We reviewed calibration procedures for measurement incorporated in this study including consumer, producer, and compression meters. Measurement correction for temperature, pressure, elevation and super compressibility was also examined. We concluded that the study does have errors associated with meter calibrations and correctors which require procedural changes to remove any uncertainty from this study.

A.3) Missing Measurement Data

Not every point on the gathering system has measurement. Peoples has twenty two backup feeds from transmission built to ensure reliable service to consumers attached to or serve by gathering systems. We tried not to include systems with these backup feeds but the gathering system is interconnected through common headers at compressors so we cannot guarantee that supply from transmission backup is not included in this study.

We also rely upon billing system customer information to identify customers attached to gathering or served by gathering system interconnects. A review of the billing system found that service pipelines were missing or inaccurate on 5% of the data.

We concluded that the study does have errors associated with transmission feeds and missing consumption which require additional actions to remove any uncertainty from this study.

A.4) Recommendation

To remove uncertainty from this study, we recommend installation of additional measurement which includes adding measurement at 22 transmission backup feeds, adding measurement at 23 distribution feeds, and upgrading measurement at 19 compressor stations to measure pumped volumes.

Due to the design of the Peoples pipeline system, isolation of all gathering pipeline from distribution requires additional 156 meters to quantify volumes for stations without

2011 Unaccounted-For-Gas Plan and Report

measurement. Since these changes are significant and require a large investment, we have not proceeded with isolating gathering (see recommendations chapter for an alternative approach).

B) Transmission Study

Due to the design of the Peoples pipeline system, isolation of the transmission pipeline from distribution and gathering requires additional 173 meters to quantify volumes for stations without measurement. Since these changes are significant and require a large investment, we have not proceeded with isolating transmission (see recommendations chapter for an alternative approach).

C) Measurement

Peoples Natural Gas reviewed operations for measurement gaps and implemented changes for temperature compensation, meter sizing, malfunctioning meters, and dead meters for the following categories:

- 1) Distribution Measurement
- 2) Gathering Measurement
- 3) Storage Measurement
- 4) Transmission Measurement

C.1) Distribution Measurement

Peoples serves approximately 360,000 residential, commercial, and industrial customers with an annual throughput of approximately 65 Bcf. Residential and most commercial customers are read once every two months on a billing cycle basis. This measurement is further subdivided into 20 cycles which ensure that each meter is read over the course of two months. Peoples' largest commercial and industrial customers are read every month.

One of the major contributing factors to UFG on the distribution system is measurement accuracy associated with the impact of temperature on gas measured at the customer meters. The volume of a given amount of gas is directly proportional to its absolute temperature. This means that if you maintain a constant pressure and increase the temperature of a given volume of gas, the volume will increase. Conversely, if you decrease the temperature, the volume will decrease. For measurement and billing purposes, Peoples utilizes a fixed temperature constant of 60 degrees Fahrenheit. However, the majority of gas consumption on Peoples' system occurs during the winter months when the average temperature is well below 60 degrees Fahrenheit. During the course of the year, the average gas temperature for Peoples' system is approximately 50 degrees Fahrenheit. What this means is that, absent a temperature correction adjustment, some meters across our system register lower volumes on an annual basis. Based on an analysis prepared in 2003 by Dominion's Gas Metering Department, the average annual effect of

2011 Unaccounted-For-Gas Plan and Report

correcting measurement for temperature improves (increases) metered usage on the Peoples' system by a factor of 2.32%.

Over the last 2 years, Peoples has identified several situations where such temperature metering inaccuracies are known to exist and we have developed plans to address them. They are listed below:

Distribution Meters

- a) Rotary Meters
- b) Diaphragm Meters
- c) Turbine Meters
- d) Non-Registering or Dead Meters

C.1.a) Rotary Meters

Rotary meters are commonly used for commercial customers and are used to handle higher volumes and pressures. Peoples added temperature corrected measurement on 77 low pressure rotary meters. More capital investment and labor is needed to replace the remaining 2,975 uncorrected rotary meters.

Temperature compensation will provide for an increase in measured volumes of approximately 2.32% based upon a 51.62 degrees Fahrenheit weighted average gas temperature. **This can result in an increase in measured volumes of between 9,000 and 10,000 MCF/YR for rotary measurement depending on usage and actual temperature.**

C.1.b) Diaphragm Meters

Diaphragm meters are the most common type of gas meters installed by Peoples and are used in most residential and small commercial installations. The Company practice is that all residential diaphragm meters added and changed during the year are temperature compensated.

In 2010, Peoples replaced 14,439 diaphragm meters with temperature corrected meters. On average, there are 15,000 meters changed out each year. Temperature compensation will provide for an increase in measured volumes and reduced UFG levels by approximately 2.32% and as a result the annual increase in measured volumes of 31,000 Mcf for every 15,000 meters. More capital investment and labor is needed to replace the remaining 197,948 meters of the uncorrected diaphragm meters.

2011 Unaccounted-For-Gas Plan and Report

The impact of non-temperature compensated meters on total system unaccounted for is:

$$UFG_{TC} = 2.32\% \times V_{TC}$$

UFG_{TC} – Unaccounted for gas attributed to non-temperature compensated meters

V_{TC} – Annual volume measured by non-temperature compensated customer meters

As of yearend 2010, 53.7% of the metered volumes come through temperature compensated meters. Using the UFG_{TC} , it is estimated that approximately 600,000 Mcf a year is attributable to customer meters that are not yet temperature compensated.

$$UFG_{TC} = 2.32\% \times 25,835,499 \text{ Mcf} = 599,384 \text{ Mcf}$$

C.1.c) Turbine Meters

Turbine gas meters are typically used for customers with the highest usage such as large commercial and industrial customers. Gas turbine meters measure gas volume by determining the speed of the gas moving through the meter. Because the volume of gas is inferred by the flow, it is important that certain flow conditions exist. In certain situations where a large turbine meter is in place and the customer reduces usage, such that lower flow rates occur, the meter may fail to record some gas usage. As the Company finds these potential situations, the meter size is checked and if needed, a smaller sized turbine or rotary meter is installed.

Because of recent usage declines for some of our larger end-use customers, Peoples conducted a field audit of all 228 turbine meters. Over the past 2 years, these meters were analyzed for accuracy and targeted for replacement, if required. Peoples audited 201 of 228 large volume turbine meters and concluded that 99 meters were not sized properly. We replaced 66 of 99 meters with roots meters sized to accurately record measurement. Since most of the meters were replaced in late 2010, it is too early to quantify the volumetric impact. Further data needs to be gathering and reviewed in order to report the impact on UFG. In 2011, Peoples has plans to replace an additional 39 meters and will audit 25 additional large volume turbine meters and replace the remaining meters not sized properly.

C.1.d) Non-registering meters

Non-registering meters are meters where gas is flowing through the meter, but where consumption is not registering. These are also referred to as stuck meters or dead meters.

2011 Unaccounted-For-Gas Plan and Report

Currently Peoples has a process in place to routinely investigate non-registering meters in a timely fashion and replace or repair the meter as necessary. **This process revealed 250 meters that were not registering which accounted for 46,385.6 Mcf.** Peoples will continue to review billing system audits for early detection of non-registering or dead meters.

C.2) Gathering Measurement

Peoples receives 70-75% of its total system deliveries from local producers. Currently, there are approximately 220 local producers and 3,995 meter accounts on the system. Producers may have a single or multiple metering stations. Typically, these meters are operated under a Measurement Operating Agreement (MOA), with local producers owning the equipment and being responsible to operate the stations measurement equipment consistent with approved industry standards and materials. Gas Integrators, approved by Peoples, calculate production volumes on behalf of the local producers. Under the MOA, the producer must also have all measurement facilities inspected and tested by the same Integrator at least once every twelve months to ensure the facility is measuring accurately. Peoples has the right to audit and examine any records, charts, accounts, and meter facilities under these agreements.

Over the past 2 years, Peoples has taken the following steps in order to improve and validate the measurement accuracy of local production:

- a) Meter Calibrations
- b) Integrator Certification
- c) Chart Integration Audit (Peoples)
- d) Independent Chart Integration Audit
- e) Random Producer Site Audit
- f) Volume Audit
- g) Installed Audit Meters

C.2.a) Meter Calibrations

The MOA requires annual meter tests to be performed by an approved integration company on behalf of the local producer. The results of these meter tests are provided to Peoples.

MOA audit tracking system was put into place to record and track required annual meter tests for producer facilities. **To date 99% of the 2010 annual meter tests have been received. Procedures and standards are currently being developed to ensure timely**

2011 Unaccounted-For-Gas Plan and Report

review, notification and resolution for test results indicating an error percentage greater than 2%.

C.2.b) Integrator Certification

The MOA Integration & Field Guidelines requires that each approved integration company have their integrator machines and scanners, certified by an Integrator Service Company. **Current certifications are on file for all seven approved Integration Companies.**

C.2.c) Chart Integration Audit (Peoples)

Peoples employees perform annual chart audits on 10% of the meters. This is a visual audit reviewing chart labeling, pen settings, and chart appearance. The process performed by Peoples employees does not validate volumes. Three percent of the meters audited by Peoples are selected for additional audit by an independent Integrator.

C.2.d) Independent Chart Integration Audit

Peoples uses a 3rd party to audit 3% of the meters/charts described above. The third party integrator audits a year's worth of charts for the meters selected. It is these 3rd party audits that validate volumes. **The independent auditor found no major issues in the chart integration process.**

C.2.e) Random Producer Site Audit

Peoples employees perform an annual on-site field audit to visually inspect the site and the equipment. The inspection includes: a general review of the installation and operation of the equipment, such as required relief valves, accurate regulator set points, and positive shut-off drips. **Peoples inspected 597 producer sites in 2010, and found that all sites were in compliance with company standards.**

C.2.f) Volume Audits

The purpose of a volume audit is to compare current and prior consumption, and flag significant variances for review. The volume audit in place had comparative parameters that created exceptions too large to manage. Peoples responded by changing parameters to compare a historic rolling 3 month average to current consumption and investigate variances that exceed 25% and 11 mcf. **This change was recently implemented and therefore we do not have enough data to provide meaningful results.**

C.2.g) Installed Audit Meters

2011 Unaccounted-For-Gas Plan and Report

Audit meters have been placed at strategic locations on the gathering system that will allow us to compare the gathering system volumes collected at these meters with the volumes reported through upstream production measurement points. The results will verify and/or identify issues with the upstream measurement points.

Twenty meters were installed, 8 in 2010 and 12 in 2011. Peoples will need procedural changes to collecting comparative measurement to ensure that readings occur simultaneously with producer readings. **We cannot provide meaningful results until this process change generates comparable data for a comparable time period.**

C.3) Storage Measurement

Peoples reviewed storage measurement which accounts for approximately 10.5 Bcf of injections and withdraws annually. Given the large volumes of gas attributed to storage facilities, improvements in storage measurement can potentially lead to improvements in system UFG levels. As part of our ongoing efforts to review storage measurement, Peoples recently conducted an evaluation that resulted in a plan to improve the measurement of gas into and out of our five storage facilities. The plan includes the replacement of less accurate orifice meters with ultrasonic meters, evaluating injections/withdraw rates to ensure they are within meter operating range (see attached Exhibit 7) and the installation of modems to verify the accuracy of the follow averaging methodology currently in place.

Over the last 2 years, Peoples has replaced the orifice meters at Wall and Truittsburg Stations with state of the art ultrasonic meters. Orifice meters require more maintenance and do not handle a large range of flow rates as well as ultrasonic meters (3:1 turndown ratio compared to 10:1 turndown ratio for ultrasonic).

Peoples has also installed multi-port modems to allow remote downloading of injection / withdrawal volumes. Modems allow us to access Electronic Volume Recorders on turbine meters to determine Volumetric Data. These devices record volume measurement, not flow averaging measurement, which is accepted as industry standard equipment for custody transfer. Data collected from Electronic Volume Recorders was compare to the previous flow averaging measurement and confirmed both were accurate. These devices remain in place for future comparison.

Peoples will continue to look for better technology to minimize measurement inaccuracies during low flow conditions.

C.4) Transmission Measurement

Peoples Natural Gas transmission pipeline receives 25-30% of its system gas supply from 18 interstate pipeline interconnects. Given the large volumes of gas attributed to interstate

2011 Unaccounted-For-Gas Plan and Report

pipeline interconnects, review of calibration records can potentially lead to discovery of measurement errors which could impact system gas supply volumes and UFG levels.

Peoples conducted witness test inspections at all interstate pipeline receipts into its transmission system. The interconnecting pipeline will notify Peoples of a pending calibration. Then perform a meter calibration with Peoples employees present to witness the process. Of the 15 total interconnects, 14 witness tests were performed and the remaining interconnect was calibrated but not witnessed by Peoples. The calibration results confirmed that measurement was accurate and within interconnecting pipeline company tariff specifications.

Peoples will continue to perform annual witness tests to ensure interconnect accuracy is within tariff specifications or request repairs and adjustments to properly credit our account.

D) Company Use

Peoples is actively repairing and installing pipelines to ensure safe and reliable service. During 2010, it reviewed tracking of construction blow-down, a contributor to company use, in each of its operating areas to verify estimating and reporting practices. Construction blow-down is an engineering calculation that estimates gas lost during installation, repair or removal of a pipeline or stations. Estimating procedures take into account pipeline volume, operating pressure, and blow-down duration. The engineering estimates are reported to accounting systems for tracking.

Peoples completed its review and implemented consistent estimating and reporting procedures across all operating areas. **Consistent blow-down reporting will improve the accuracy of company use and remove any uncertainty from the UFG calculation.**

Compressor and dehydration fuel contributes 50% or 1 Bcf annually to the total Company Use. Last year, Peoples reviewed all gas equipment to determine facilities that did not have meters. A process was created to ensure estimated volumes were collected for unmetered gas equipment. Estimated volumes were reported and tracked in accounting systems. **Verification and implementation of estimation and reporting procedures was completed which eliminates uncertainty from the UFG calculation.**

E) Pipeline Leakage

During 2010, Peoples completed leak surveys on 309.9 miles of gathering pipelines. It found and repaired 408 leaks; replaced 22,795 feet of gathering pipeline; abandoned 6,625 feet of unnecessary gathering and high pressure distribution pipelines. As of the end of 2010, there were 203.9 miles of gathering lines that had not been leak surveyed. These lines are included in the Company's plan to leak survey during 2011. Once this mileage is completed, all 788 miles of Peoples' gathering lines will have been leak surveyed. We will continue leak surveillance on all gathering pipelines to ensure gas lost through gathering pipeline leakage is mitigated.

2011 Unaccounted-For-Gas Plan and Report

In 2010, Peoples leak surveyed distribution, jurisdictional gathering, transmission, and storage pipeline in accordance with DOT guidelines. Class 1 leaks are reported and repaired within DOT guidelines. A total of 6,071 leaks, including leaks on customer services lines, were repaired in 2010 at a cost of \$7 MM.

These actions were implemented to recover some of the estimated 85,000 Mcf lost through gathering pipeline leakage, 343,400 Mcf lost through distribution pipeline leakage, and 11,300 Mcf lost through transmission pipeline leakage annually. This is based only on estimated gas lost from the time the leak is found until repaired. **Peoples will review the gas lost estimating methodology and continue to leak survey all pipelines to mitigate the impact of leaks on the UFG study.**

Attached Exhibit 9 summarizes the UFG actions taken in 2010 including status and effectiveness ranking.

2011 Unaccounted-For-Gas Plan and Report

Chapter 5: Recommendations

Peoples has taken measures to reduce UFG through increased leak surveillance, measurement audits, and quantifying company use. We have also determined that our pipeline system, which is made up of gathering, transmission, distribution, and storage, is integrated. We do not have measurement to sufficiently isolate pipelines by function to determine a representative UFG for each. The costs to create this isolated study are also prohibitive which is why we recommend a more conservative approach to segmenting our system and examining UFG results.

This report recommends that the following efforts be systematically evaluated and measured to further identify and reduce UFG. Instead of implementing multiple efforts company wide, we recommend selectively choosing new efforts, measuring the results, before deciding to implement company wide. Exhibit 6 summarizes the recommendations.

A) Dedicated Personnel

Because of the importance and magnitude of the lost and unaccounted for gas, we recommend the Company designate a UFG Project Manager with engineering and analytical support to manage measurement, UFG analysis, and UFG reduction efforts. These resources would ensure a focused organized approach and a single point of contact to manage and measure the efforts.

Group Responsibilities Include:

- 1) Processing monthly UFG at an overall system level and segment level.
- 2) Analyzing monthly UFG and establishing actionable items when results do not meet Company goals.
- 3) Documenting UFG mitigation measures including actions, costs, and results.
- 4) Defining measurement and UFG operating procedures
- 5) Review meter sizing, compensation and calibrations
- 6) Auditing monthly measurement processing for Large Volume C&I Customers, Storage, Interconnect, Segment, Fuel and Producer meters.

B) Segmentation

Peoples has been unable to generate accurate discrete Distribution, Gathering, or Transmission UFG due to the historical integration of these pipeline systems. In previous chapters, we have described the challenges to separating pipeline systems by function. We recommend a different approach to study our system through segmentation, which will provide a detailed systematic approach to focus capital and resources on the specific problematic pipeline and meter. Segmentation does not necessarily separate pipelines by function, but it does isolate sections of the system to either identify areas of

2011 Unaccounted-For-Gas Plan and Report

elevated UFG or identify areas of acceptable UFG. Segmentation will not immediately reduce UFG; it will allow us to study discrete, well defined sections of the overall pipeline system to identify specific problems which in turn require further actions to correct. Then we can focus our resources on solving specific issues identified in segmentation studies.

We recommend installing measurement to definitively isolate areas of the pipeline system to reduce the problem into smaller, more manageable parts. These are well defined distribution or gathering areas where supply and consumption can be obtained through existing or new measurement. The systems must be self contained so that all elements that contribute to the balance of supply versus requirements can be obtained so that it results in a representative UFG. This process eliminates the unknowns, is repeatable, and can either eliminate or identify an area for further analysis

The process of choosing pipeline operating areas to study can be done by examining maps and hydraulic models to determine pipelines that are currently isolated or can be economically isolated with few additional measurement points. We will assume that customer's locations are discretely defined within the billing system by operating area, pipeline, and address. Building upon this, we need to isolate the supplies into the pipeline operating area being studied. Fortunately, pipeline operating areas are separated by either a regulator station or compressor station which either lower or raise gas pressure so that one pipeline system can feed another. Installing measurement at strategic station locations can isolate supply that feeds the pipeline operating area being studied.

Once we have discretely defined the supply and requirements, a system balance and resulting UFG can be calculated for each segment. The summation of supplies less the summation of requirements results in the pipeline operating area unaccounted for volume. That unaccounted for volume divided by the total supply results in the pipeline operating area UFG percent.

For example, we recommend considering Altoona pipeline operating area to study. Our customers attached to the Altoona pipeline operating area can be identified in our billing system and obtained easily for this study. Peoples will need to install custody meters at two existing regulator stations (LS-1732 60th Street and LS-1845 Kittanning Trails) to quantify the supply into the Altoona area. Once all the supply and requirements are identified, Altoona pipeline operating area balance could be processed to identify total Altoona UFG.

If the Altoona pipeline operating area balance resulted in UFG above the system average, we recommend further subdivision of the Altoona pipeline operating area by installing measurement at strategic regulator stations that feed smaller distribution networks (Segments). Then repeat the process of obtaining customers usage tied to these Segments, balancing supply measured at these regulators with customer usage, to obtain Segment level UFG.

2011 Unaccounted-For-Gas Plan and Report

With the UFG results of Altoona Segments, Peoples can evaluate pipeline age, leak history, measurement points, to determine root cause of the elevated Segment UFG. Then repair or replace the problematic pipeline or meter. Rebalance the Segment to quantify the impact of the repair.

Peoples will need a system to process and aggregate measurement monthly, balance supply with requirements, to produce Segment UFG. We are in the process of evaluating systems to manage measurement data for the company. These systems may also perform Segment balancing by aggregating supplies and requirements tied to a common Segment, then computing the difference to obtain segment UFG. Having a system that can repeatedly process measurement data is critical to compute Segment balances, timely identify measurement error, evaluate problematic systems, and quantifying repair results.

As a critical first step, we recommend studying the following four pipeline operating areas based on a goal that balances both the need to address gathering related UFG and the ability to simply and economically isolate areas from the overall pipeline system:

- 1) Northern District
- 2) Grove City
- 3) City Area of Pittsburgh
- 4) Altoona

These four study areas discretely isolate 47% of our customers; 49% of our annual throughput and discretely isolate Northern gathering, transmission and storage from the remaining Peoples pipeline systems (see attached Exhibit 5). We recommend expediting this project over a two year period starting with Northern District and Grove City with a goal to have measurement in place for those systems by the end of 2011. By March of 2012, we will be in position to report Northern District and Grove City UFG. Using results from these UFG studies, we can refine our analysis by adding measurement to areas identified as having elevated UFG and, if necessary, move forward with segmentation measurement for Altoona and the City Area of Pittsburgh. By March of 2013, we will have the results of these study areas and be in position to recommend further segmentation within those systems and recommend segmentation on the remaining Peoples pipeline system.

B.1) Northern District

The Northern district is our largest gathering system with approximately 25.2 Bcf of production, 19 gathering compressors, 2 storage compressors, 1 storage system, approximately 2,617 local supply interconnects, and approximately 42,000 customers. The challenge will be to isolate this system to discretely define the inlets and outlets. Besides storage injections and withdrawals, gas can be delivered to two pipeline interconnects with Dominion, or into the Peoples transmission system. We are

2011 Unaccounted-For-Gas Plan and Report

evaluating two options to isolate the gathering system at the transmission interconnects or gathering interconnects.

B.4.a) Transmission Interconnects Option

A recommended approach to isolate the Northern district would be to upgrade measurement at the Derry interconnect, install measurement at Coxcomb on TP301 prior to the Dominion interconnect, and install measurement on P-5961 which is a high pressure distribution line transporting gas to the City Area of Pittsburgh. This would isolate northern gathering, northern transmission, and northern storage from the remaining Peoples pipeline systems. A system balance would incorporate newly installed isolation measurement, storage measurement, Dominion interconnect measurement, and customer usage to determine Northern district UFG.

B.4.b) Gathering Interconnects Option

In order to isolate gathering from transmission, we would need to install 22 meters on transmission regulating stations that back feed gathering which added to producer interconnects would provide a total supply into the gathering system. Then we would need to upgrade measurement at the 19 gathering compressors and install 23 meters at gathering regulating stations that feed distribution systems which added to the customer consumption, compressor fuel, would provide a total requirement on the gathering system. This option may not be cost justified and therefore we recommend implementing the Transmission Interconnects Option first, and if the results justify, then proceed with Gathering Interconnects Option.

B.2) Grove City

The Grove City district is geographically the northernmost area of our operating system. It is completely isolated from the Peoples transmission system, and has several small distribution systems supplied from 12 interconnects with National Fuel, Columbia of PA, and Tennessee Gas. There is also a small volume of local production that compliments the supply. Each delivery point is individually measured into the distribution area, which serves approximately 10,600 customers.

B.3) City Area of Pittsburgh

The City Area of Pittsburgh district is the largest distribution area in the Peoples system, with more than 100,000 customers. The vast majority of the customers and consumption are concentrated within the

2011 Unaccounted-For-Gas Plan and Report

immediate Pittsburgh city and surrounding areas, and are supplied from the transmission system through one major city gate station (XS-94 Chalfant Station).

B.4) Altoona

The Altoona district is geographically the easternmost area of our operating system. It can be easily isolated, does not have gathering, transmission or storage facilities, and provides a good comparison/contrast to gathering. The Altoona district has 3 distinct distribution areas that can be individually evaluated.

B.1.a) Altoona/Hollidaysburg/Tyrone

These areas are supplied by 2 city gate stations (LS-1723 60th Street, LS-1845 Kittanning Trails) from the Peoples transmission system. These distribution areas represent more than 94% of the Altoona customers and consumption.

B.1.b) Cresson

The Cresson area has 2 supplies along SR-53 (LS-3362 from the west, and LS-3262 from the east) from the Peoples transmission system, and serves approximately 1,685 customers.

B.1.c) Claysburg

The Claysburg area is an isolated distribution system, supplied from a single interconnect (XS-207 Claysburg Connection) with Texas Eastern, and serves approximately 305 customers.

Segmentation Summary

We recommend moving forward with the following actionable items:

- 1) Identify / validate the all consumption and supply points for each of the 4 pipeline areas.
- 2) Determine exact count of customers for each pipeline area, gather and validate consumption history, to determine total requirements by sub-system.
- 3) Validate supply measurement at interconnect meters and production meters for each pipeline area.
- 4) At a minimum, we need to systematically install meters to isolate pipeline areas under consideration. A high level estimate per site is \$250,000, with the understanding that each location will require more detailed engineering and design to develop more refined costs.
- 5) Utilize the "measurement system" to collect measurement; define supply/requirement associations; and balance pipeline operating areas to report on monthly and annual pipeline area UFG.

2011 Unaccounted-For-Gas Plan and Report

- 6) Identify pipeline area UFG above system average UFG.
- 7) Identify additional measurement for further subdivision (Segments) and analysis.
- 8) Add these new measurement points; Segments supply/requirement association; and balance using a measurement system to determine Segment UFG.
- 9) Engineering will identify, repair and replace pipelines or meters using Segment analysis.
- 10) Rerun Segment analysis to obtain the UFG reduction resulting from pipeline repairs, pipeline replacement and measurement upgrades.

Segmentation Meter Installation Plan

- 1) 2011 Phase
 - a. Northern District – 3 meters at Derry, Coxcomb, and P-5961
- 2) 2012 Phase
 - a. Analyze results from Northern District (ND) and Grove City (GC) studies
 - b. If UFG warranted, identify additional ND or GC segmentation and proceed with meter installation
 - c. City Area of Pittsburgh – 1 meter at XS-94 (Chalfant Station)
 - d. Altoona – 2 meters at LS-1723 (60th Street) and LS-1845 (Kittanning Trails)
 - e. Cresson – 2 meters at LS-3362 (SR-53 West) and LS-3262 (SR-53 East)

For more details, refer to attached Exhibit 11.

Segmentation Assumptions

- 1) Customer data can quantified and extracted for each of the 4 areas
- 2) All the supply interconnects are:
 - a. Measured
 - b. Identified for new measurement
 - c. Do not feed unless there is an emergency
- 3) Measurement is accurate
- 4) Purchase or implement a “measurement system” capable of audits and system balancing
- 5) Approval to proceed

System Segmentation Analysis will allow Peoples to systematically and methodically identify and isolate unaccounted for gas contributors. For an implementation timeline, refer to attached Exhibit 12.

C) Measurement

We have identified gap in the current measurement collection and auditing process. These additional steps are recommended to ensure measurement used in the UFG study is accurately recording volumes.

2011 Unaccounted-For-Gas Plan and Report

- 1) Internal Measurement Audits – Currently, measurement data reported from the field is submitted to financial systems without programs in place to inspect the measurement and verify its accuracy. We recommend instituting monthly audits of measurement data collected for large volume consumers, producers, storage, compressors, fuel and pipeline interconnects meters. Unaudited data from the field is analyzed to examine:
 - a. Historical volumes comparison to identify high/low variance based on:
 - i. Year vs. Year
 - ii. Month vs. Month
 - iii. Month vs. Average (rolling 12 month, 6 month, 3 month, etc.)
 - b. Consumption volumes vs. base and weather calculation for heat sensitive customers
 - c. Orifice measurement differential pressure
 - d. Electronic measurement
 - i. Missing data
 - ii. Measurement spikes
 - e. Segment balance to compare historical UFG

Once the analyst has reviewed and corrected all the reported audit exceptions, the measurement system is closed and locked, before reporting final audited measurement data to the financial systems. Peoples will update measurement SOPs to document this process.

- 2) Calibrations - Measurement uncertainty can be reduced by implementing a calibration program for company operated meters and establishing calibration procedures for MOA producer operated meters. Calibration is the process of comparing existing meter to a certified accurate meter. Calibration instruments are also used to validate pressure and temperature transmitters which compensate measurement for pipeline operating conditions.

We recommend that Peoples establish and implement a calibration program with a frequency based on meter function (i.e. interconnect, storage, compressor, fuel, check, and C&I) and meter type (i.e. rotary, turbine, diaphragm, orifice, and ultrasonic). Then update the SOP to reflect these new procedures. Use the “measurement system” database to monitor calibration activity, record the as-found and as-left results, make the appropriate measurement adjustments when conditions exist outside the company acceptable tolerance, and identify meters that require repair or replacement.

Calibrations on site cannot always be obtained due to the size of the meter. In-testing is commonly used to determine large meter accuracy. Peoples will obtain redundant meter modules that have been lab tested and certified accurate. Annually, we will select a subset of meters that could not be calibrated onsite, and replace the modules with certified modules. Then, the removed modules will be sent to the lab for testing and recertification. Meter

2011 Unaccounted-For-Gas Plan and Report

accuracy outside company tolerance will be identified for repair or retirement. The “measurement system” will be updated with the calibration results and if appropriate, measurement adjustments. The resultant certified meter module will be reused for this In-testing program. The measurement SOP will be updated to include in-testing calibration frequency based on meter function, size and type.

Producer operated MOA meters are calibrated by company approved integrators. Each calibration is documented and the results provided to Peoples. The MOA agreement, which contractually describes producer operations, will need to be revised to include actions taken when meter error is outside the company tolerance including prior period adjustments, meter shut-in, and meter repair. Tracking and reacting to producer operated meter calibrations is also recommended.

In order to evaluate the impact meter calibrations has on UFG, we recommend selecting a manageable sample set of measurement for each function, type and operator; compare as-found errors; and determine the volume impact attributed to calibrations. Then we will evaluate the volume recovery impact versus the implementation costs to determine how to proceed with a companywide initiative.

- 3) MOA Measurement - We recommend the company calibrate and determine measurement compensation methods in place for the top 50-200 producer operated MOA meters which account for up-to 60% of the local gas receipts. Then evaluate measurement error attributed to calibration, compensation, and integration to determine if we should proceed with additional steps including assuming operations of those meters and replacing chart recorders with correctors that would compensate measurement for temperature and pressure. This would potentially improve meter accuracy by eliminating potential measurement error attributed to chart integration, uncorrected measurement, and improper calibrations.

Then as an ongoing program, Peoples will evaluate operating and calibrating additional MOA meters to remove more uncertainty from the UFG study.

- 4) Temperature Compensation - In prior years, Peoples has studied the effect of temperature compensation on measurement and determined that 2.32% under measurement is attributed to non-compensated measurement. The non-temperature compensated meters were quantified on attached Exhibit 4. Replacing meters to compensate for temperature will take 15 years at a cost of \$3.2 MM per year resulting in a UFG reduction of 47,000 Mcf per year. At this point in time, we do not anticipate accelerating this program.
- 5) Meter Replacement – Peoples gas has identified turbine measurement operating outside manufacturer’s accuracy range during low flow conditions. Replacing measurement not sized properly would record volumes previously missed. We have replaced 66 turbine meters with

2011 Unaccounted-For-Gas Plan and Report

rotary meters to record volumes properly. We have identified 33 more turbine meters for replacement and 27 turbine meters that still need evaluated. Peoples will evaluate additional meter sizing audits.

We also manage non-registering (dead meters) by repairing or replacing these meters when they are reported. Exhibit 4 reports annual UFG attributed to 250 dead meters as 46,368 Mcf. Additional billing system audits can be used to identify non-registering meters to capture volumes properly. Peoples will evaluate billing system audits to determine proper method of detecting non-registering meters to reduce the impact on UFG.

- 6) Gas Composition – Local gas receipts account for over 70% of total system supply deliveries and sources of local gas vary based on the geologic formation. Peoples uses a system average BTU of 1030 and specific gravity of 0.6 which may not be applicable to all gas received into its system. Gas compositional data is used to compute the effect of super compressibility on measured volumes. Since gas is compressible and the composition of gas is an important factor in determining its compressibility, we recommend studying the effect of super compressibility on production measurement. First, we will define representative sample areas for consideration. Then obtain and analyze gas samples to determine gas composition including specific gravity. Volume computations utilized by the integrator would be updated and compared using newly acquired meter specific gravity to compute the appropriate super compressibility factor, apply that factor to the volume calculation. The results of this study would be quantified to determine the impact on UFG.

We recommend additional gas sampling at strategic locations throughout the pipeline system to estimate Peoples overall BTU and specific gravity. Then analyze the impact on consumption and storage measurement when this new system specific gravity and associated super compressibility are used to compute measured volumes. The results of this study would be quantified to determine the impact on UFG.

- 7) Audit Measurement – Peoples is evaluating utilizing audit measurement at Interstate Pipeline Receipt points. Installing meters that we own, operate, calibrate, and read would provide more timely information on measurement errors at interconnects. Most pipeline tariffs limit the historical period for adjustments to six months which if not uncovered could result in loss of receipt volumes. Incorporating audit meters in our monthly closing process to determine measurement errors would allow Peoples the ability to proactively seek adjustments when audit meter differs from the interconnect meter and reduce the impact of interconnect measurement on UFG.
- 8) Measurement Adjustments – Monthly UFG studies will be impacted by measurement reporting inconsistency. Specifically, not all data is reported as calendar month end. Peoples will evaluate capabilities of the “measurement system” to gather hourly data; summarize to produce gas day

2011 Unaccounted-For-Gas Plan and Report

volumes; summarize to produce calendar month end volumes. As we move toward reporting pipeline operating area UFG and Segment UFG to quantify the impact of changes to facilities and operations, monthly UFG will be important part of the process.

- 9) Internal Audits – Peoples is evaluating utilizing internal auditors to identify gaps in its measurement process. Internal audits could be conducted annually to further refine the measurement process to ensure recommendations were implemented and new recommendations are generated as the auditor delves into the measurement process deeper.

D) Pipeline

Peoples currently spends approximately \$12 MM dollars per year on distribution and gathering replacements, and \$5-7 MM dollars on transmission and storage replacements, and Pipeline Integrity projects. Several different engineering and operating tools and programs have been implemented over the years to assist in the decision to replace segments of pipe. Considerations such as operating and leak history, system reliability, public and employee safety, and regulatory requirements all contribute to the overall decision and prioritization to replace a section of pipe.

Pipeline replacement projects fall into 3 distinct categories: compliance, emergency renewals, and planned renewals. Projects that fall under the compliance and emergency categories are non-discretionary in nature, and completed on as-required basis. Compliance related projects (i.e. Active Corrosion, corrosion remediation, unrepairable leaks, etc.) are scheduled according to code and company SOP's, and are usually completed within a specified time interval (i.e., calendar year, 15 months, etc.). Emergency renewals are projects that require immediate attention to eliminate or avoid public danger (Class I leaks), restore service in customer outages or repair 3rd party damages. Renewal projects associated with the Pipeline Integrity Program (IMP) also fall into the non-discretionary compliance category, and are prioritized within Baseline Assessment Plan.

1) Repair/Protect/Replace Program

Planned renewals are evaluated under the company Repair/Protect/Replace (R/P/R) program. The program provides a tool to compare the cost of replacing a segment of pipe against the repair and maintenance cost to continue to operate the existing segment. Projects that meet the criteria for R/P/R are reviewed and prioritized monthly by local operations. Projects that do not meet the initial R/P/R criteria can be further evaluated for replacement for other considerations (safety, reliability, operating condition, etc.). When approved, they are included in the monthly review and project prioritization discussions at the local operations.

2) Active Corrosion Program

2011 Unaccounted-For-Gas Plan and Report

Peoples has implemented a program whereby any short segment of pipe that has experienced 3 leaks within the most recent 18 months is considered a potential candidate for Active Corrosion (AC). These segments are further researched to verify the presence of active corrosion, and if validated, are scheduled for replacement within the calendar year. If they do not meet the definition for AC, they are included with the planned renewals and evaluated under the normal R/P/R process.

3) Bare Steel Program

Peoples also has developed an in-house Bare Steel Relative Risk Report that provides a relative risk ranking of bare steel pipelines. The algorithm is modeled after an AGA sponsored report that compared several different risk algorithms, and assigns weights values to several parameters that relate to the condition and operating history of the pipe segment. The ranking provides a tool to evaluate segments for replacement that may not fall under the R/P/R or AC programs.

These programs provide analytical tools compare segments across the entire Peoples territory and rank them against each other under a common system, and can indicate where best to invest capital funds by prioritizing replacements such that segments with the greatest need can be addressed first.

It is recommended that Peoples continue with these UFG-reducing pipeline programs and to increase expenditures from historical levels on gathering system related pipeline repair/replacement programs.

Attached Exhibit 12 contains a preliminary UFG Project Plan with timelines to complete segmentation, measurement, and pipeline initiatives.

2011 Unaccounted-For-Gas Plan and Report

Chapter 6: Conclusion

As we have indicated, the complexity of our system has made it difficult to pinpoint 2 or 3 specific items that are the primary drivers to mitigate UFG. We believe that many of the actions that we pursued have resulted in some recent reductions in UFG but clearly there is additional progress that can be made in reducing UFG levels. While we are committed to reducing UFG on an ongoing basis, we also want to be effective with our dollars. As a result, our recommendations reflect a narrower focus. For example, many of our action items are phased projects that will allow us to change course based on data analysis. The objective is to determine the “root cause” so the UFG reduction activities can be repeated on a wider scale.

In summary, our recommendations and objectives for 2011 are:

1. UFG Project Manager – A dedicated position to serve as a focal point and provide oversight of the accomplishment of our UFG plan. This position will analyze data, recommend courses of action, monitor progress of our recommendations and help implement new procedures and processes.
2. Segmentation Study – A systematic phased approach to diagnose portions of our system and understand the UFG drivers that we can then specifically address. The main objectives of this study are data and determining root cause. This approach is expected to be the most effective long-term way to mitigate system UFG levels but will not produce immediate results.
3. Measurement Improvements - In addition of the segmentation study, we will proceed with actions to improve measurement accuracy and uncertainty, as a contributor to UFG. This includes:
 - a. Conducting monthly audits of requirements vs. supply (vs. annual) and taking corrective actions
 - b. Formalizing meter calibration program with specific criteria and guidelines
 - c. Calibrating and analyzing measurement compensation for a sampling of producer meters
 - d. Continuing with the temperature compensation meter program
 - e. Replacing turbine meters on customers with low flow conditions
 - f. Redefining the process for handling non-registering meters now that the responsibility is within Peoples
 - g. Gathering and analyzing gas composition data to reflect the impact on UFG calculation and perhaps adjust measurement compensation factors
 - h. Preparing a monthly UFG report with variance explanations and recommendations
 - i. Continuing internal audits of measurement processes

2011 Unaccounted-For-Gas Plan and Report

4. Pipeline leakage reduction – Continuing to repair leaks or replace pipelines to reduce lost gas from leakage. In particular, increase gathering system expenditures from historical levels by continuing with the additional focus on gathering systems that was started in 2010. Additionally, review methodology for calculating gas lost from breaks and leakage.
5. Continue many of the programs or actions started in 2010, including witness testing of meters on interconnects, getting accurate measurement on company use gas, and conducting MOA audits.

Exhibit 1

Peoples Natural Gas Company LLC
Unaccounted For Mcf As a % of Total Supply
By Month for Twelve Months Ended July 31, 2010

Line#	2008 August	2008 September	2008 October	2008 November	2008 December	2009 January	2010 February	2010 March	2010 April	2010 May	2010 June	2010 July	Twelve Months Ended 31-Jul-10
	5	47	351	497	950	1,213	1,121	702	340	197	26	7	5,456
1	Billing Degree Days												
2	381,675	465,634	1,168,372	1,674,194	3,595,969	4,369,394	4,164,697	2,671,474	1,318,788	917,905	493,464	413,330	21,634,896
3	144,904	145,844	337,996	388,853	963,675	1,131,040	1,098,370	668,040	302,393	240,602	131,612	131,006	5,684,535
4	9,157	9,764	11,755	14,911	18,722	21,397	19,201	12,572	17,811	9,139	12,396	12,142	168,967
5	173,042	156,606	153,424	137,721	136,237	130,245	130,044	132,822	136,343	199,682	194,076	184,372	1,843,476
6	40,853	2,892	323,513	88,021	238,111	628,288	6173,859	626,312	(118,353)	(309,338)	(9,539)	7,652	40,749
7	749,637	780,145	1,995,260	2,303,700	4,952,714	5,629,778	5,238,453	3,498,591	1,656,969	1,021,951	827,615	758,206	29,373,019
8	156,830	189,995	493,088	684,805	1,451,104	1,748,440	1,648,827	1,035,604	510,250	346,126	184,287	152,818	8,602,173
9	274,055	375,653	690,260	888,180	1,629,137	1,969,546	1,816,566	1,211,909	631,769	478,405	298,600	304,906	10,568,986
10	1,197,525	1,323,284	1,470,223	1,438,416	1,728,836	2,052,966	1,850,081	1,706,875	1,475,123	1,520,859	1,362,041	1,160,850	18,287,078
11	28,713	(31,118)	194,292	51,894	119,329	(7,127)	(105,843)	(2,907)	(69,611)	(18,027)	(2,971)	1,689	(8,687)
12	0	0	0	0	0	0	0	0	0	0	0	0	0
13	1,657,122	1,853,814	2,847,863	3,063,295	4,928,406	5,763,826	5,209,630	3,951,481	2,547,551	2,164,365	1,841,937	1,620,265	37,449,550
14	197,905	136,281	725	0	0	0	132,885	183,856	148,057	454,139	503,093	699,266	2,456,207
15	29,028	30,022	1,207	48,742	57,480	120,064	111,230	32,252	38,501	1,104	2,332	1,631	235,182
16	226,933	166,303	2,432	48,742	57,480	120,064	244,115	276,609	186,958	453,243	505,630	700,897	2,991,406
17	1,452,149	1,200,619	623,785	256,254	3,522	35,521	1,635	45,060	259,137	1,302,642	1,847,302	1,373,842	8,401,468
18	4,083,841	4,000,381	5,469,340	5,671,991	9,942,122	11,549,189	10,693,833	7,731,741	4,650,595	4,944,199	5,022,304	4,453,208	78,215,443
19	Total Requirements 69,813,975												
20	Supply: Mcf												
21	10,562	10,851	32,408	41,653	84,464	100,357	80,000	65,308	33,891	17,327	4,698	4,673	486,192
22	3,746,095	3,759,092	4,117,627	4,351,684	4,126,961	4,151,616	4,002,197	3,867,064	4,267,602	3,979,679	4,122,391	3,949,872	48,441,879
23	658,504	523,177	1,311,946	1,584,368	4,539,242	5,344,815	4,407,627	1,836,687	631,317	1,217,828	1,063,853	681,032	23,800,297
24	63,236	71,374	130,552	194,777	1,697,100	2,691,582	2,672,948	1,437,342	313,186	81,116	67,901	67,915	9,488,099
25	4,478,387	4,364,494	5,592,413	6,172,481	10,447,767	12,288,371	11,162,772	7,206,401	5,245,996	5,295,950	5,257,843	4,703,492	82,216,467
26	(392,546)	(363,613)	(123,073)	(500,490)	(505,645)	(739,182)	(468,938)	525,340	(595,401)	(351,751)	(235,439)	(230,284)	(4,001,024)
27	Total Supply 73,814,959												
28	Variance -5,426												

UFG	-5,426
Company User/Losses	-2,506
Total	-7,932

Peoples Natural Gas Company LLC

Summary of Gas Used or Lost

Exhibit 2

	12 Mths End July 2010	% of Total
	<u>Volumes (Mcf)</u>	<u>Throughput (Mcf)</u>
Gas Lost - Storage Operations	764,000	1.04%
Gas Used Gathering - Compression / Dehy	700,425	0.95%
Gas Used - Storage Compression	323,039	0.44%
Gas Used - Vehicles and Bldgs	48,512	0.07%
Gas Used - Pipeline Work	<u>7,896</u>	<u>0.01%</u>
Total	1,843,872	2.50%

Peoples Natural Gas Company LLC

Temperature Compensation Study

Exhibit 3

	<u>PNG 2003</u>	<u>MMCF</u>	<u>Monthly %</u>	<u>Degrees F</u>	<u>T. Factor</u>	<u>MMCF Corrected</u>
Jul		4,924	6.1%	67.06	0.9866	4,858
Aug		5,004	6.2%	68.19	0.9845	4,926
Sept		4,701	5.8%	64.96	0.9906	4,657
Oct		5,725	7.1%	53.30	1.0131	5,800
Nov		6,337	7.8%	46.95	1.0257	6,500
Dec		9,646	11.9%	41.58	1.0367	10,000
Jan		12,174	15.0%	38.48	1.0432	12,700
Feb		10,248	12.6%	37.60	1.0450	10,709
Mar		7,358	9.1%	40.09	1.0398	7,651
Apr		5,405	6.7%	46.70	1.0262	5,547
May		4,999	6.2%	53.13	1.0134	5,066
Jun		4,633	5.7%	61.37	0.9974	4,621
Total		81,154	100%	51.62	1.0169	83,035
						1.0232

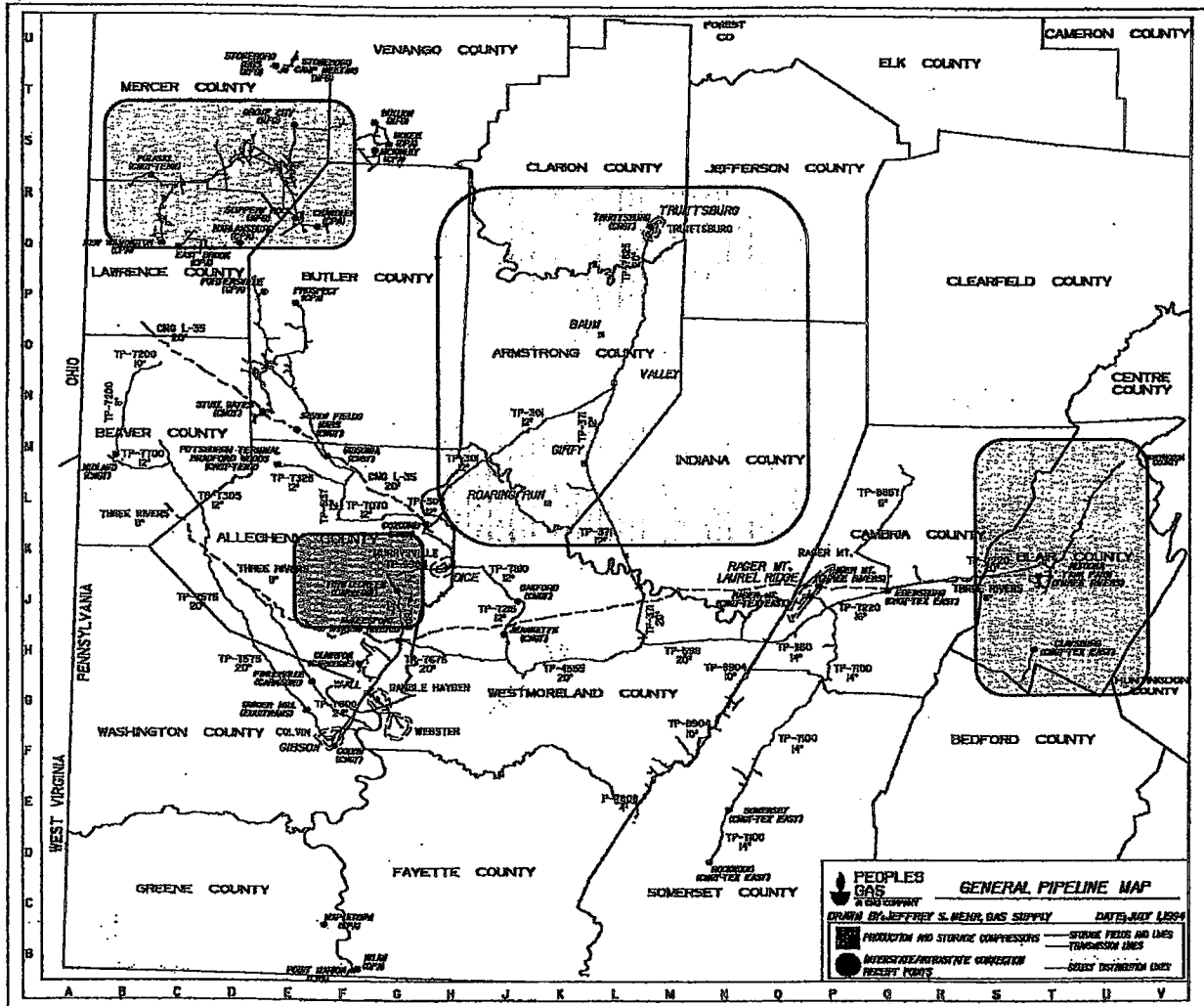
T. Factor obtained from Dresser Roots Meter Temperature Correcting Factors Table.

Peoples Natural Gas Company LLC

Exhibit 4

Quantified Gas Lost by Measurement Error

Description	Estimated Meter Count	Estimated Annual Mcf
Non-Temperature Compensated Diaphragm Meters	197,948	599,384
Non-Temperature Compensated Rotary Meters	2,975	10,000
Non-Registering Meters	250	46,386
Total		655,769
Percent UFG		0.89%



Pilot UFG Study Operating Area	Customer System/Type	Customer	Annual Mcf	Percent
		Count Ending 12/31/2010	Ending 12/31/2010	Annual Mcf
Northern	CCS Residential	153,451	14,580,117	22.3%
Groves City	CCS Commercial	14,553	7,451,486	11.4%
Altoona	CCS Industrial	11	86,642	0.1%
SBS	SBS Commercial	30	1,000,540	1.5%
	SBS Industrial	61	8,963,991	13.7%
	Total	168,106	32,082,776	49.2%
Total Peoples	Total	357,094	65,238,999	

Peoples Natural Gas Company LLC
 UFG Recommendation Summary

Exhibit 6

	Status: New, In-Progress, Ongoing	Completion Timeframe	Activity	Cost Estimate (\$)	Incremental?	Capital Expense	Estimated Impact
A	New	2011		\$0.1 to \$0.2 M	Yes	Expense	H
B							
B							
B.1	New	Q4 2011; 2012	3 pts	\$0.5 - \$0.75 M	Yes	Capital	H
B.2	New	2011	0 pts		Yes	Capital	L
B.3	New	2011/2012	1 pt	\$0.2 M - \$0.25 M	Yes	Capital	TBD
B.4	New	2011 (site)/2012	4 pts	\$0.4 M - \$1.0 M	Yes	Capital	TBD
C							
C							
C.1	New	Q4 2011 - high level; 2012 detailed		\$0.1 M	Y	Expense	M
C.1a	New			\$0	Y - New PM	Expense	L
C.1b	New	Q3 2011		\$0	Y - New PM	Expense	M
C.1c	New			\$0	Y - New PM	Expense	M
C.2a	New	Q4 2011	472	\$0.2 M	Y - 2 FTEs + veh	Expense	H
	New	Q4 2011	2	\$0.1 M	Y - 2 provers	Capital	H
C.2b	In-progress	Q4 2011		\$0	Y - New PM	Expense	H
C.3	In-progress	Q4 2011	200	\$0.4 M	Y	Capital	H
C.4	New	Q4 2011		\$0	Y - New PM	Expense	H
C.5	In-progress	Ongoing; 15,000/yr; 2025	15000	\$3.0 to \$4.0 M	N	Capital	H
C.6	In-progress	Q2 2011	45	\$0.1 M - \$0.4 M	Y	Capital	M
C.7	Ongoing	Annual		\$0	N	Expense	L
C.8	New / Ongoing			\$0	N	Expense	M
D.1	Ongoing	I			N	Capital	L
D.2	Ongoing	Q1 2012		\$0	N	Expense	L
D.3	Ongoing	Q4 2011		\$0	N	Expense	L

PNG Storage Meter Analysis

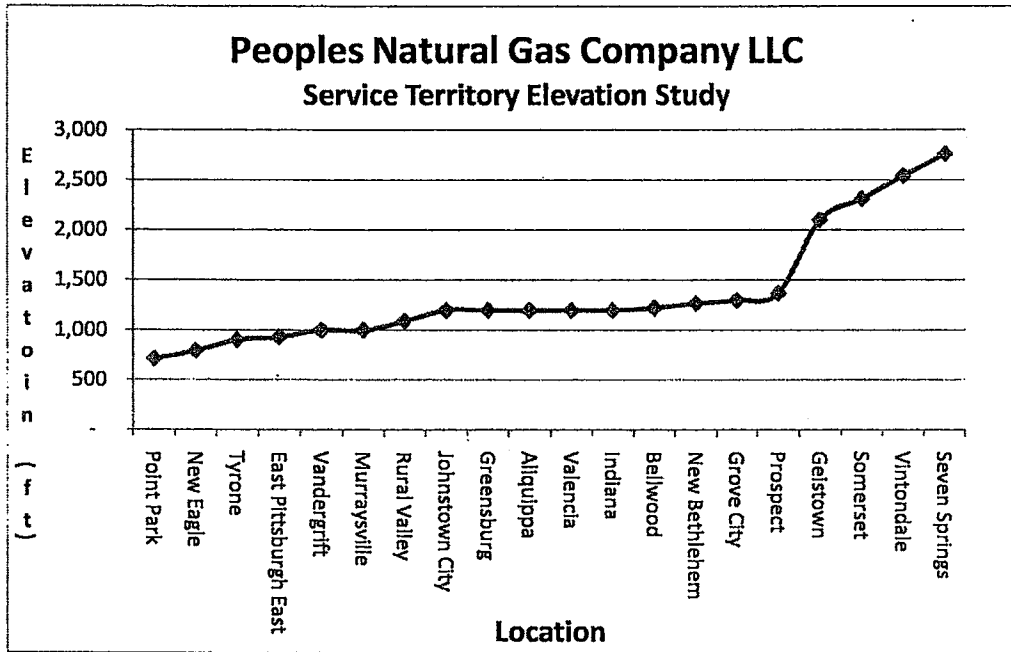
Exhibit 7

Summary

Volumes in MMscfd

Station	Meter Data			Injection		Withdraw	
	No. of Meters	Meter Size	Meter Type	Min	Max	Min	Max
Rager Dice	3	8	Turbine	3,016,800	345,456,000	2,052,000	240,408,000
	3	8	Turbine	1,958,400	498,456,000	1,958,400	240,408,000
Gamble Hayden Webster	1	6	Ultrasonic	736,400	72,232,000	736,400	72,232,000
	1	6	Ultrasonic	736,400	72,232,000	736,400	72,232,000
Truittsburg	1	8	Ultrasonic	1,208,600	125,033,400	1,208,600	125,033,400

Conclusion: Storage Measurement Meters are sized well within the operating range of our requirements.



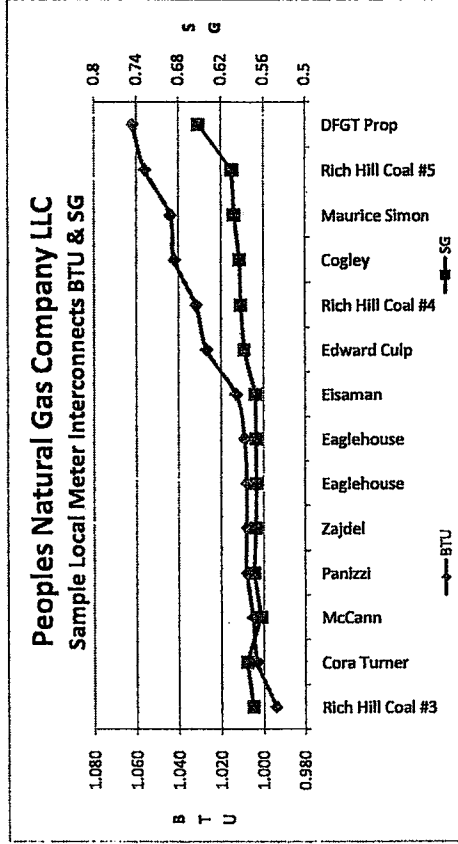
Division	Site	Elevation	Patmosphere	% Error
Pitt Street	Point Park	710	14.29	0.45%
Southern	New Eagle	793	14.29	0.45%
Altoona	Tyrone	904	14.16	0.98%
Pitt Street	East Pittsburgh East	930	14.16	0.98%
Northern	Vandergrift	1,000	14.16	0.98%
Northern	Murrysville	1,000	14.16	0.98%
Northern	Rural Valley	1,090	14.16	0.98%
Johnstown	Johnstown City	1,200	14.04	1.48%
Central	Greensburg	1,200	14.04	1.48%
Hopewell	Aliquippa	1,200	14.04	1.48%
Gibsonia	Valencia	1,200	14.04	1.48%
Northern	Indiana	1,200	14.04	1.48%
Altoona	Bellwood	1,223	14.04	1.48%
Northern	New Bethlehem	1,268	14.04	1.48%
Grove City	Grove City	1,300	14.04	1.48%
Gibsonia	Prospect	1,369	14.04	1.48%
Johnstown	Geistown	2,100	13.66	3.03%
Johnstown	Somerset	2,312	13.41	4.06%
Johnstown	Vintondale	2,540	13.41	4.06%
Central	Seven Springs	2,762	13.16	5.08%

Peoples Natural Gas Company LLC
2010 Actions (UFG Mitigation Measures)

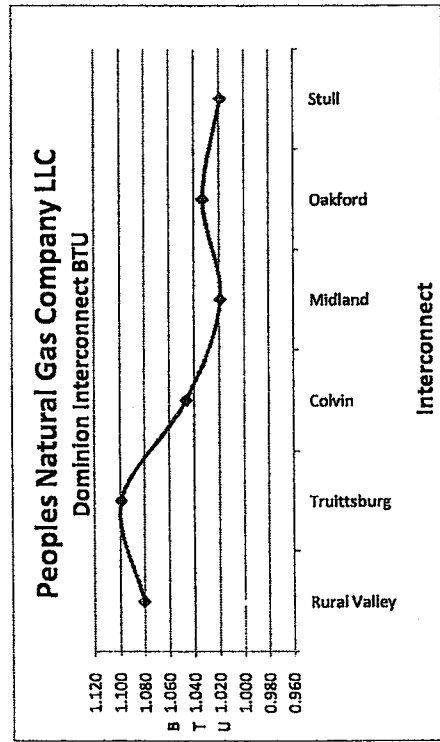
Exhibit 9

Peoples Needs to Review	Status: New Progress: Ongoing	Results	Estimated Volume Impact	Estimated Impact (M/M)
A Gathering Study - Analysis	Ongoing	Requires Additional Measurement	N/A	H
B Transmission Study - Analysis	Ongoing	Requires Additional Measurement	N/A	L
C.1.a Rotary Meter - Temperature Compensation	Ongoing	Replaced 77, Remaining 2975 Meters	10,000 Mcf	L
C.1.b Diaphragm Meter - Temperature Compensation	Ongoing	Replaced 14,439, Remaining 197,948 Meters	600,000 Mcf	H
C.1.c Turbine Meter - Sizing Evaluation	Ongoing	Examined 226, Replaced 66, Remaining 64 Meters	N/A	M
C.1.d Non-Registering Meters	Ongoing	Reported 250 Meters	46,000 Mcf	M
C.2.a MOA Meter Calibrations	Annual	Calibrated 4000 Meters	N/A	M
C.2.b Integrator Certification	Annual	7 Integrators Certified	N/A	L
C.2.d Independent Integrator Audit	Annual	Completed, No Audit Actions	N/A	L
C.2.e Producer Site Audit	Annual	Inspected 597 Producer Meter Sites	N/A	L
C.2.f Producer Volume Audits	New	Updated Tolerance to Reduce Exceptions	N/A	M
C.2.g Producer Audit Meters	New	Installed 20 Audit Meters In-line with Producer Meter	N/A	M
C.3 Upgraded Storage Measurement at Truittsburg and Webster Storage	In-Progress	Installed Ultrasonic Meters at 2 Storage Facilities	N/A	H
C.4 Witness Testing - Interstate Pipeline Interconnect Meter Calibrations	Annual	Witness Tested 14 Interconnect Meters	0	L
D.1 Standardized Construction Blow-Down Reporting	Ongoing	Updated Blow-Down Calculation and Reporting	N/A	M
D.2 Review of Fuel Meters	Ongoing	Reviewed Measurement and Reporting	N/A	L
E.1 Leak Surveillance - Gathering	Ongoing	Leak Surveyed 401 Miles, Repaired 408 Leaks, Replaced 22795 feet of Pipe	N/A	H

Local Meter Interconnects



Peoples Natural Gas Company LLC
Dominion Interconnect BTU Study



Well	Receipt/Delivery	BTU	SG	Super		Adjustment
				Receipt	Compressibility	
Rich Hill Coal #3	Receipt	0.994	0.575	0.99794	0.21%	
Cora Turner	Receipt	1.003	0.5838	0.99788	0.21%	
McCann	Receipt	1.005	0.5637	0.99794	0.21%	
Panizzi	Receipt	1.008	0.5732	0.99778	0.22%	
Zajdel	Receipt	1.008	0.5708	0.99789	0.21%	
Eaglehouse	Receipt	1.008	0.5698	0.9979	0.21%	
Eaglehouse	Receipt	1.009	0.5707	0.99789	0.21%	
Eisaman	Receipt	1.013	0.5713	0.99788	0.21%	
Edward Culp	Receipt	1.027	0.5879	0.99778	0.22%	
Rich Hill Coal #4	Receipt	1.032	0.5926	0.99775	0.23%	
Cogley	Receipt	1.042	0.5943	0.9977	0.23%	
Maurice Simon	Receipt	1.044	0.6018	0.99769	0.23%	
Rich Hill Coal #5	Receipt	1.056	0.6045	0.99763	0.24%	
DFGT Prop	Receipt	1.062	0.6526	0.99735	0.27%	

Interconnect	Receipt/Delivery	Location	BTU
Rural Valley	Delivery	Armstrong Co, PA	1.080
Truittsburg	Delivery	Clarion Co, PA	1.099
Colvin	Receipt	Washington Co, PA	1.046
Midland	Receipt	Beaver Co, PA	1.019
Oakford	Receipt	Allegheny Co, PA	1.033
Stull	Receipt	Butler Co, PA	1.019

Segmentation Meter Installation

Week

Days	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56
1	Engineers utilize pipeline models to define area for segmentation isolation																																																							
1.a	Identify pipelines used for customer reports																																																							
1.b	Identify existing supply points																																																							
1.c	Identify new measurement required for isolation																																																							
2	Request customer reports for segment - 3 year historical usage by month																																																							
2.a	Evaluate customer data																																																							
2.b	Recommend to proceed with segmentation																																																							
3	Request supply reports for segmentation - 3 year historical by month																																																							
3.a	Evaluate supply data																																																							
3.b	Recommend to proceed with segmentation																																																							
4	Engineers design new measurement station																																																							
4.a	Obtain SCADA flow and pressure information																																																							
4.b	Define the meter kind and size based on SCADA information																																																							
4.c	Design measurement facility																																																							
4.d	Obtain meter site, if needed																																																							
4.e	Order material																																																							
5	Construction builds measurement station																																																							
5.a	Land preparation																																																							
5.b	Set meter skid																																																							
5.c	Shut-down and purge pipeline																																																							
5.d	Cut pipeline tie-in meter skid																																																							
5.e	Prepare pipeline and meter for service																																																							
6	Engineers validate station matches design																																																							
6.a	Obtain material specifications																																																							
6.b	Obtain pressure tests																																																							
7	Operations commissions measurement																																																							
7.a	Calibrate measurement equipment																																																							
7.b	Turn inline pipeline and meter																																																							
Total Timeline	211																																																							
8	Build system balance (Inlets/outlets) in measurement system																																																							
8.a	Tie the customer data to system balance																																																							
8.b	Tie supply data to system balance																																																							
8.c	Gather seasonal measurement for new meters																																																							
8.d	Report UFG results																																																							
Total Timeline	180																																																							
Segmentation Meter Installation	211																																																							

TAB

B

1 A. Peoples' actual LUFG for the total combined systems which include gathering,
2 distribution, and transmission for the past three years is:

3 **Total System LUFG (Excluding Storage Migration Losses)**

4

5	<u>12 Months Ended July 31</u>	<u>LUFG Percentage</u>
6	2008	5.32%
7	2009	6.47%
8	2010	5.42%

9 Peoples proposes to establish a LUFG target for year one (12 months ending July
10 31, 2011) of 5.42%. This represents the latest results for the most recent period ending
11 July 31, 2010. Peoples also proposes to set a LUFG target level for each of the
12 subsequent three years based on a 5% annual reduction in the three year average LUFG
13 percentage. Further, in the order from Peoples' 2009 1307(f) case, the Commission
14 stated that it anticipated that Peoples will submit its proposed targets as a range of
15 expected LUFG results. Consistent with this direction, Peoples is proposing that a range
16 equal to the target LUFG level plus or minus 0.5% be established for the combined
17 systems which include gathering, distribution, and transmission pipelines. In summary,
18 Peoples' proposed initial LUFG targets are:

<u>12 Months Ended July 31</u>	<u>Low End Range</u>	<u>Target</u>	<u>High End Range</u>
2011	4.92%	5.42%	5.92%
2012	4.65%	5.15%	5.65%
2013	4.39%	4.89%	5.39%
2014	4.15%	4.65%	5.15%

19 Peoples also recognizes storage losses attributed to storage migration. Some gas
20 injected into the storage fields migrates out of the reservoirs and is lost into neighboring

TAB

C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2011-2228694
Office of Consumer Advocate,	:	C-2011-2234616
Office of Small Business Advocate,	:	C-2011-2232327
Robert Marutiak,	:	C-2011-2239458
James H. Bittel,	:	C-2011-2243343
Norman A. Sindler,	:	C-2011-2245586
	:	
Complainants,	:	
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC,	:	
	:	
Respondent.	:	

**STATEMENT OF PEOPLES NATURAL GAS COMPANY LLC
IN SUPPORT OF THE JOINT PETITION FOR APPROVAL OF
SETTLEMENT OF RATE INVESTIGATION
PURSUANT TO 66 Pa. C.S. § 1307(f)**

TO ADMINISTRATIVE LAW JUDGE MARY D. LONG:

Peoples Natural Gas Company LLC (“Peoples” or the “Company”) hereby files this Statement in Support of Joint Petition For Approval of Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) (“Settlement”) entered into by Peoples, the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and Dominion Retail, Inc. (“Dominion”) (hereinafter, collectively “Joint Petitioners”) in the above-captioned purchased gas cost proceeding.¹ Peoples respectfully requests that Administrative Law Judge

¹ The Pennsylvania Independent Oil & Gas Association (“PIOGA”) is not a party to the Settlement but has indicated that it does not object to the Settlement.

Mary D. Long recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including whether Peoples' historic natural gas costs were and projected natural gas costs will be incurred under a least cost fuel procurement policy. The Settlement is in the best interests of Peoples, its customers, and the Joint Petitioners and is otherwise in the public interest. It should accordingly be approved.

As an initial matter, the fact that the Settlement is unopposed is, in and of itself, strong evidence that the Settlement is reasonable and in the public interest. Moreover, the Settlement was achieved only after a comprehensive investigation of Peoples' natural gas procurement policies and operations. In addition to informal discovery, Peoples responded to numerous formal discovery requests (many of which had multiple subparts). The active parties served testimony and accompanying exhibits supporting their respective positions, which testimony and exhibits were subsequently admitted into the record by stipulation of the active parties. The active parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

Finally, the active parties in this proceeding, as well as their experts and counsel, have considerable experience in purchased gas cost proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus on the settled issues.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners. For these reasons and the reasons set forth below, the Settlement is just and reasonable and Peoples' 2011 1307(f) Filing, as modified by the Settlement, should be approved.

I. INTRODUCTION

Peoples is a “public utility” and a “natural gas distribution company” (“NGDC”) as those terms are defined in Sections 102 and 2202 of the Code, 66 Pa. C.S. §§ 102, 2202. Peoples provides natural gas transmission, distribution, and supplier of last resort services to approximately 360,000 customers throughout its certificated territory, which includes all or a portion of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

On March 2, 2011, Peoples filed with the 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 April 1, 2011, Peoples filed with the Commission Supplement No. 130 to Peoples Tariff Gas - Pa. P.U.C. No. 43 (“Supplement No. 130”), to become effective for service rendered on and after October 1, 2011. Peoples’ filing also included Peoples’ written direct testimony and supporting exhibits. Supplement No. 130 was docketed by the Commission at Docket No. R-2011-228694 and was assigned to the ALJ.

The Joint Petitioners held numerous settlement conferences and exchanged numerous settlement proposals and counter-proposals. As a result of the conferences and the efforts of the Joint Petitioners to examine the issues raised, a Settlement in Principle of all issues was achieved prior to the date scheduled for surrebuttal testimony. A hearing was held before the ALJ on June 2, 2011 to admit the active parties’ respective testimonies and exhibits into the record.

The Settlement addresses and resolves: Peoples' least cost fuel procurement for the reconciliation and projected periods; Peoples' natural gas supply rates as of October 1, 2011; Peoples' retainage waivers and levels; and, Peoples' levels of lost and unaccounted for gas ("UFG"). The Settlement provides for Peoples' recovery of natural gas costs that are just and reasonable, as demonstrated by the testimony and exhibits of the various parties.

II. COMMISSION POLICY FAVORS SETTLEMENT

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991).

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST.

The Settlement reflects a carefully balanced compromise of the interests of all of the Joint Petitioners. The fact that parties with such diverse interests, including Peoples, OTS, OCA, OSBA and a natural gas supplier, have reached an agreement in this proceeding clearly demonstrates that the Settlement is in the public interest and should be approved.

A. Section 1318 Requirements

In the Settlement, the Joint Petitioners have represented that the record in this proceeding is sufficient to form the basis for the findings that the Commission is required to make pursuant

to Section 1318 of the Public Utility Code. (Settlement ¶¶ 15-19.) Section 1318 contains seven specific sub-findings that the Commission must make in support of a conclusion that Peoples is pursuing a least cost fuel procurement policy. Peoples submits that the record amply supports the required findings on each of the seven issues.

Preliminarily, it should be noted that this is Peoples' twenty-sixth (26) 1307(f) proceeding. In each of the previous 1307(f) proceedings, and the "GCR-5" case that preceded the 1307(f) amendments to the Public Utility Code, the Commission entered an order endorsing Peoples' gas procurement practices after having examined those practices in detail. While previous decisions of the Commission do not control the outcome of this proceeding, they do provide a historical context within which Peoples' present gas cost recovery should be evaluated. The record in this case demonstrates that Peoples has maintained the gas procurement policy approved by the Commission in prior proceedings, and has enhanced and adapted the policy to take advantage of opportunities and address market changes that have developed during the past year.

B. FERC Proceedings

Section 1318(a)(1) requires the Commission to find that Peoples has represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission ("FERC"). This finding is supported by the testimony of Anthony Caldro, Peoples' Regulatory Advisor, who explained Peoples' past, present, and future policy governing participation in FERC proceedings, and who provided specific examples of the manner in which Peoples has applied that policy in recent past and plans to apply that policy in the foreseeable future. (Peoples Statement No. 2, pp. 2-4; Peoples' Exhibit No. 16.)

Peoples is concerned with minimizing the price and assuring adequate availability of its gas supplies in order to provide reasonably priced, reliable service to its residential, commercial,

and industrial ratepayers. Peoples' policy is to monitor and participate in various FERC proceedings that may materially affect the price and availability of gas supply to Peoples. (Peoples Statement No. 2, p. 2.) The Commission has reviewed and approved this policy in previous 1307(f) proceedings.

Peoples' Exhibit No. 16, provides a detailed identification and explanation of all of the various FERC proceedings involving Peoples' interstate pipeline providers and other FERC proceedings that Peoples monitored and participated in over the last year. As explained in detail in Peoples Exhibit No. 16, Peoples actively participated in rate/tariff, certificate, and other FERC proceedings involving the following: Dominion Transmission, Inc.; Equitrans, L.P.; National Fuel Gas Supply Corporation; Tennessee Gas Pipeline Company; and, Texas Eastern Transmission, L.P. Peoples also participated in numerous FERC rulemaking proceedings and policy statement proceedings. Finally, Peoples has actively participated in the certificate proceeding seeking FERC approval for Peoples' affiliate, Rager Mountain Storage Company LLC, to lease additional interstate storage capacity to be created at Peoples' Rager Mountain Storage Facility. (Peoples Exhibit No. 16.)

Participation in these proceedings has helped Peoples minimize the costs to be borne by its customers for interstate pipeline services, and to maximize the flexibility of the services available. This uncontested evidence supports a finding and determination that Peoples has fully and vigorously represented the interests of its ratepayers before FERC.

C. Gas Procurement Policy

Sections 1318(a)(2), (3), (4) and Sections 1318(b)(1), (2), and (3) of the Public Utility Code require that the Commission make six specific findings regarding Peoples' gas procurement policy. The required findings include: a finding of prudence in negotiating or renegotiating of gas supply contracts (Section 1318(a)(2)); a finding of prudence concerning

efforts to obtain lower cost gas supplies, including the use of gas transportation (Section 1318(a)(3)); a finding that gas supplies have not imprudently been withheld from the market (Section 1318(a)(4)); a finding that fully and vigorous attempts have been made to obtain less costly gas supplies from nonaffiliated interests (Section 1318(b)(1)); a finding that each contract for the purchase of gas from an affiliated interest is consistent with a least cost fuel procurement policy (Section 1318(b)(2)); and, a finding that affiliated interests have not imprudently withheld gas from the market (Section 1318(b)(3)). Each of these findings is amply supported by the uncontested evidence in this case.

D. Gas Supply Mix

Peoples' gas supply witness, Mr. Jon H. Skoog, explained the Company's gas procurement policy, its historical and projected sources of gas supply, and the use of that supply to satisfy historical and projected gas requirements. (Peoples Statement No. 1, *passim*.) As explained by Mr. Skoog, Peoples' policy is to manage gas procurement activities so that it incurs the lowest overall gas costs consistent with the provisions of reliable service over the long term. Peoples pursues that policy within the limitations of its existing facilities and its existing contracts. (Peoples Statement No. 1, p. 3.) Peoples' gas supply mix during the 1307(f)-2011 Reconciliation Period and the 1307(f)-2011 Projected Period is and will be comprised of gas from three general sources: local purchases; the spot market; and, long-term interstate producer/marketer contracts. (Peoples Statement No. 1, pp. 14-15.)

Peoples has based its peak day gas supply for the projected period (as well as the relevant portion of the reconciliation period) on a projected design day requirement of 671,000 Mcf. (Peoples Statement No. 1, p. 9; Peoples Exhibit No. 1.) On February 26, 2009, Peoples reviewed its mandatory assignment of capacity rules with suppliers and other members of the Operational and Capacity Council ("OCC") at a meeting prompted by the Commission's September 11, 2008

Order in the SEARCH proceeding at Docket No. M-2009-2082042. No suppliers or any other participant voiced concerns about Peoples' transportation programs or the method by which capacity is assigned on Peoples' system. (Peoples Statement No. 1, pp. 10-12.)

Peoples has pursued its goal of low cost reliable service through a combination of local and interstate assets and supplies. The local supplies are gas produced in Pennsylvania and purchased by Peoples from Pennsylvania producers. (Peoples Statement No. 1, pp. 38-45.) Peoples' interstate assets are comprised of a portfolio of transportation and storage services for which Peoples has contracted with various FERC-regulated pipelines. Those interstate assets provide Peoples with access to a variety of locations at which it can receive gas supplies that are produced upstream from Peoples' system. Peoples' interstate supplies are gas that it purchases from suppliers upstream of Peoples' system for delivery into various receipt points of the interstate pipelines and occasionally purchases on a delivered-to-the-city gate basis. (Peoples Statement No. 1, pp. 17-38.)

Generally, Peoples' procurement policy is to acquire supplies to satisfy total projected system requirements by using its least costly source of supply first, to the extent that it is operationally feasible to do so. (Peoples Statement No. 1, pp. 6-7.) Under current conditions, Peoples plans to turn first to local production, and then to purchases from interstate producers and marketers for the balance. (Peoples Statement No. 1, pp. 38.) Peoples explained that it has and will continue to work diligently to increase the level of local gas supplies, including limited quantities of Marcellus Shale production. (Peoples Statement No. 1, pp. 38-45.) Historically, local gas utilized for Peoples' system supply has been favorably priced in comparison to interstate supplies and, thus, increased local supply would benefit 1307(f) customers. Peoples will continue to work with the local producers to achieve increased well production to the benefit

of 1307(f) customers and the producers who want to get more gas to market. (Peoples Statement No. 1, p. 40.)

The record evidence developed in this case clearly supports a finding and determination that Peoples' supply portfolio has been formulated in conformance with the statutory standard, consistent with Peoples' obligation to provide safe, adequate and reliable service to its customers, and that the terms of the Settlement are reasonable and in the public interest.

E. Hedging

In this proceeding, Peoples proposed to continue its existing gas price hedging strategy previously approved in the Company's last two consecutive 1307(f) proceedings. (Peoples Statement No. 1, pp. 48-53; Peoples Exhibit No. 13.) The intent of hedging is to reduce the exposure of Peoples' customers to gas price volatility. Because hedging can protect natural gas customers from price volatility, it may result in lower gas costs. (Peoples Statement No. 1, p. 50.) Peoples submits that its hedging program results to date and the record in this case supports the continuation of hedging as part of Peoples' gas procurement plan, and that the Company's proposal to continue the plan is reasonable. No party contested this issue and, therefore, it should be approved.

F. Negotiation of Contracts

Mr. Skoog described the contractual changes that Peoples has undertaken during the 1307(f)-2011 reconciliation period and that have taken effect during that timeframe or will take effect during the 1307(f)-2011 projected period. He also described the OCC meetings that we convened in relation to those capacity contracts. (Peoples Statement No. 1, pp. 17-35, 58-59.) His testimony clearly establishes that Peoples has acted prudently in negotiating or renegotiating favorable gas supply contracts as required by Section 1318(a)(2) of the Public Utility Code. No party contested this evidence.

For example, Mr. Skoog explained that Dominion Transmission, Inc. (“DTI”) has provided and continues to provide Peoples with three kinds of services: no-notice transportation service under DTI’s Rate FTNN; storage service under DTI’s Rate GSS; and, transportation service that supports the storage service under DTI’s Rate FTNN-GSS, all under rates set by the FERC. (Peoples Statement No. 1, p. 18.) In Peoples’ 1307(f)-2010 proceeding, Peoples described the various service arrangements that would be in effect between Peoples and DTI over what is now the 1307(f)-2011 reconciliation period. Peoples also described the reasons why Peoples entered into those service arrangements and the costs associated with them. In its final order in that proceeding, the Commission approved rates for the collection of Peoples’ natural gas costs that included the costs associated with the DTI service arrangements over what is now the 1307(f)-2011 reconciliation period. These same contracts and contract quantities are in place for the 1307(f) -2011 projected periods. (Peoples Statement No. 1, pp. 20-21.)

In an effort to gain access to potentially lower cost gas supplies, Peoples pursued and was able to obtain a small shift of its receipt point capacity to DTI’s interconnect with the Rockies Express Pipeline (“REX”). DTI completed its interconnection with the REX pipeline at REX’s Clarington, Ohio terminus that was constructed to transport substantial volumes of gas from the Rocky Mountain production region to eastern gas markets. As Peoples explained in previous 1307(f) proceedings, DTI had offered to permit its existing customers to shift contractual FTNN firm receipt point capacity to Clarington subject to customer agreement to extend the term of that portion of the FTNN agreement to ten years starting coincident with the in-service date of the project and to payment of a demand surcharge designed to fund the project. Peoples discussed the point shift with members of the OCC, none of whom objected to the receipt point shift. The project became in service on November 1, 2010, and Peoples successfully shifted 5,190 Dths of

the DTI Rate Schedule FTNN service receipt point capacity from Comwell, West Virginia to Clarington, Ohio. (Peoples Statement No. 1, pp. 19-20.)

Texas Eastern Transmission Corporation (“TETCO”) provides Peoples with firm transportation service under rates set by the FERC. Peoples requires deliveries of gas at Ebensburg, Claysburg and Rockwood, in the eastern portion of its service territory. TETCO is the only pipeline that physically interconnects with those three receipt points. Peoples has contracted for firm delivered-to-Peoples supply arrangements to meet its needs from the TETCO system at the Rockwood delivery point. TETCO also provides an operational balancing agreement that helps Peoples to manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 1, p. 22.) In Peoples’ 1307(f)-2010 proceeding, Peoples described the various service arrangements that would be in effect between Peoples and TETCO over what is now the 1307(f)-2011 reconciliation period. Peoples also described the reasons why Peoples entered into those service arrangements and the costs associated with them. In its final order in that proceeding, the Commission approved rates for the collection of Peoples’ natural gas costs that included the costs associated with the TETCO service arrangements over what is now the 1307(f)-2011 reconciliation period. These same contracts and contract quantities are in place for the 1307(f) -2011 projected periods. (Peoples Statement No. 1, pp. 23-24.)

Tennessee Gas Pipeline (“Tennessee”) provided firm transportation service to Peoples under rates approved by the FERC. The Peoples receipt points served by Tennessee were at Pittsburgh Terminal and Pulaski. Tennessee is the only pipeline that physically interconnects

with those two receipt points.² (Peoples Statement No. 1, p. 25.) Peoples began a winter-only service arrangement with Tennessee in October 2006 and Peoples renewed the winter-only service each year through March 31, 2010. From February 1, 2010 through March 31, 2010 of the 1307(f) reconciliation period, Tennessee provided firm transportation service to Peoples. (Peoples Statement No. 1, p. 26.)

In September 2010, Peoples issued a request for proposal for a firm delivered gas supply contract as a replacement for the winter-only Tennessee transport service contract. At the same time, Peoples requested a discounted transportation service offer from Tennessee as a transportation option. After analyzing the different firm delivered supply and transportation options, Peoples decided to not use the Tennessee transportation option for the November 1, 2010 through March 31, 2011 period. Instead, Peoples entered into a lower cost firm delivered supply deal for the same period with New Jersey Natural Resources Energy Services (“NJR”). This was presented to the OCC during the December 15, 2010 meeting and no members raised any issues with this approach. Peoples expects to enter into the same type of arrangement on Tennessee for the period November 1, 2011 through March 31, 2012. (Peoples Statement No. 1, p. 26.)

National Fuel Gas Supply Corporation (“NFGS”) provides Peoples with storage service and firm transportation service under rates approved by the FERC. Peoples uses NFGS’ services primarily to serve the isolated Grove City area of its service territory. Like its other storage assets, Peoples uses its storage service from NFGS as a way to reduce natural gas costs, by buying supplies when they generally are cheaper during the summer months and injecting them

² Tennessee also provides Peoples with transportation service into the system of Columbia Gas of Pennsylvania (“CPA”), another Pennsylvania natural gas distribution company. Peoples has an exchange agreement under which CPA delivers gas into the Grove City area of Peoples’ service territory an area that is not physically integrated with the rest of Peoples’ system. Peoples’ agreement with Tennessee to deliver gas to CPA effectively upholds Peoples’ end of the exchange agreement with CPA. (Peoples Statement No. 1, p. 25.)

into storage, and to enhance reliability, by withdrawing the volumes from storage during the winter when demand is highest. Peoples uses its firm transportation service from NFGS both to support the NFGS storage service and for deliveries from other supply sources. (Peoples Statement No. 1, p. 29.) Peoples' contracts with NFGS automatically renew on April 1 of each year. Because of Peoples' need for the NFGS capacity to meet its system load requirements, Peoples has not given NFGS notice of termination. As a result, the NFGS contracts will be in effect throughout the 1307(f)-2011 projected period. (Peoples Statement No. 1, p. 30.)

T. W. Phillips Gas and Oil Company ("Phillips") provides supply service, on an as-needed basis, in Saxonburg, an area that became part of Peoples' service territory in 1979 and that has become more and more interconnected with the rest of the service territory over time.³ Peoples now has five receipt points with Phillips through which supplies can be received during colder than normal weather and whenever Peoples performs repairs on nearby distribution lines. Peoples has a written contract governing the terms of service with Phillips. It provides that the service will be in accordance with Phillips' Commission-approved tariff. The written agreement was in effect for the 1307(f)-2011 reconciliation period and it will be in effect throughout the 1307(f)-2011 projected period. (Peoples Statement No. 1, pp. 32-33.)

During the 2009-2010 winter period, Peoples entered into gas supply arrangements with BP Energy ("BP") as a replacement for other winter-only delivered supply arrangements which themselves had replaced TETCO Zone M2 firm transportation capacity that was not renewed upon its March 31, 2007 expiration. The arrangements provided for delivery of firm gas supply to Peoples' TETCO M2 gate stations on a day-to-day basis throughout the 2009-2010 winter

³ Phillips was acquired on May 24, 2011 by SteelRiver Infrastructure Fund North America LP ("SteelRiver"), the ultimate parent company of Peoples, and its name was changed to Peoples TWP LLC. Nevertheless, under the terms of the approved settlement at Docket No. A-2010-2210326, the two companies will continue to be operated as separate utilities.

period. Under those arrangements, BP provided up to 5,000 Dth/day on an as-needed basis to Peoples. During 2010, Peoples reevaluated its need for firm supply to its TETCO M2 points and confirmed that the current supply arrangement of up to 5,000 Dth/day would be appropriate. In accordance with that determination, Peoples again contracted, during the 2010-2011 winter period, with BP for service up to 5,000 Dth/day on an as-needed basis to Peoples. Based on a continuing need for firm access to such supplies, Peoples expects to enter into a similar arrangement for the 2011-2012 winter period. (Peoples Statement No. 1, pp. 34-35.)

Finally, it should be noted that all of Peoples' contracts are subject to renegotiation. For some of them, Peoples either has no incentive to renegotiate or has no need to renegotiate. Most of the older gas purchase contracts contain fixed prices that are below the current market price, so Peoples has no incentive to renegotiate. The newer gas purchase contracts contain prices that are capped at a market price or that vary with a market price. As approved by the Commission in its 1307(f)-2005 proceeding, Peoples has the ability to release contracts at low flow meter stations at which less than 10 Mcf/day of gas is measured over a consecutive twelve-month period. Peoples will continue to evaluate these contracts on an ongoing basis. Peoples evaluates its portfolio of local contracts on an ongoing basis in an attempt to assure that it is paying the lowest price possible. (Peoples Statement No. 1, p. 58.)

The uncontested record evidence demonstrates that Peoples' detailed examination of contract renegotiation options, and cost savings that will result from the new contracts it has undertaken, were undertaken prudently and consistent with Section 1318(a)(2) of the Public Utility Code. (Peoples Statement No. 1, pp. 17-35.)

G. Supply Acquisition/Withholding/Affiliate Transactions

The uncontested record evidence supports the other five "prudence" findings. Peoples is acting prudently to obtain lower cost gas suppliers through various means, including the use of

transportation arrangements, on an ongoing basis, as required by Section 1318(a)(3) of the Public Utility Code. (Peoples Statement No. 1, pp. 38-48.) Peoples is not imprudently withholding gas supplies from the market and, therefore, complies with Section 1318(a)(4) of the Public Utility Code. (Peoples Statement No. 1, pp. 57-58.) Peoples previously implemented a policy of neutrality with respect to purchases from affiliated interests, as required by Sections 1318(b)(1) and (b)(2) of the Public Utility Code. In this regard, it should be noted that, as of February 1, 2010, Peoples is no longer affiliated with Dominion Resources, Inc. and its affiliates. (Peoples Statement No. 1, pp. 57.) Finally, where Peoples has purchased from affiliated interests, those affiliated interests did not withhold gas from the market in a manner inconsistent with a least cost fuel procurement policy, as required by Section 1318(b)(3) of the Public Utility Code. (Peoples Statement No. 1, pp. 57-58.)

H. Natural Gas Supply Rates as of October 1, 2011

The rates that Peoples proposes to place into effect on October 1, 2010, are clearly supported by record evidence. Peoples explained in detail the development of the natural gas supply rates that Peoples proposes to place into effect on October 1, 2010, utilizing cost projections, sales projections, and the reconciliation process. Peoples' testimony provides full support for the rates and their underlying calculations. (Peoples Statement No. 2, pp. 4-18; Peoples Exhibit Nos. 2, 3, 5-12, and 17-19.)

Accordingly, under the terms of the Settlement, the Joint Petitioners agree that, on October 1, 2011, Peoples may place into effect the natural gas rates set forth in Supplement No. 130, as adjusted for "Retainage Levels" as set forth in Paragraph 22 of the Settlement and as discussed below.⁴ It is recognized and acknowledged that the natural gas supply rates set forth in

⁴ By Order entered June 9, 2011, the Commission approved a base rate case settlement for Peoples at Docket No. R-2010-2201702 and, as a result, Peoples' Tariff Gas – PA PUC No. 44

Supplement No. 130: (1) may be superseded by Peoples' October 1, 2011 quarterly recalculation of its natural gas cost recovery levels, in accordance with the Commission's regulation at 52 Pa. Code § 53.64(i)(5); and, (2) will be updated to reflect the latest NYMEX prices for the projected portion of the 20-month period of February 1, 2011 through September 30, 2012. (Settlement ¶ 19.)

I. Retainage Levels

Peoples requires transportation customers to deliver to the Peoples' system slightly more gas than is used by the customer and "retains" the difference between deliveries and consumption to compensate for lost and unaccounted-for gas ("UFG"), company use gas, and storage losses. This process is referred to as "retainage." Retainage is usually stated as a percentage of gas delivered into the distribution system. As explained by OTS, retainage is important because a retainage rate that is excessive will cause transportation customers to overpay for UFG, company use gas, and storage losses. Conversely, a retainage rate that is too low will harm 1307(f) customers by causing them to pay for the cost of the UFG, company use gas, and storage losses that should be paid by transportation customers. (OTS Statement No. 1, p. 3.) In its original filing, Peoples proposed to continue the current level of tariffed retainage levels for all classes of customers.

OTS, OCA, and OSBA presented testimony on Peoples' retainage levels, each proposing adjustments based on different methodologies for the calculation of Peoples' retainage rates. (OTS Statement No. 1, pp. 5-7; OCA Statement No. 1, pp. 9-12; OSBA Statement No. 1, pp. 1-5.) In response, Peoples proposed that the retainage rate be increased for Rate Schedule GS-T

("Tariff No. 44") became effective on June 10, 2011. Accordingly, if the instant Settlement is approved, Supplement No. 130 will be implemented and updated, effective October 1, 2011, via a new tariff supplement to Tariff No. 44.

customers from the current level of 7.8% to 8.6% and for Rate Schedule T customers from the current level of 5.6% to 7.2%. Peoples explained in detail the methodology used to calculate the retainage rates. (Peoples Statement No. 4-R, pp. 7-8; Peoples Exhibit No. 24.)

Although Peoples' annual UFG level has decreased during the 12 months ended July 31, 2010, the settled-upon retainage rates reflect the current three-year average for UFG, company use gas, and storage losses.⁵ Effective October 1, 2011, the tariffed retainage rate under Rate Schedule GS-T will be increased from 7.8% to 8.6% and the tariffed retainage rate under Rate Schedule T will be increased from 5.6% to 7.2%. (Settlement ¶ 22.) All five principal parties on retainage level issues are joining in this Settlement, as it presents a resolution that is fair to the various classes of ratepayers.⁶ The Settlement reflects an acceptable compromise of these competing litigation positions and should be adopted without modification.

J. Retainage Waivers

In the Settlement of Peoples' 1307(f)-2010 proceeding, Peoples agreed that for all customers that currently receive a full or partial waiver of retainage, and whose contracts expire between October 1, 2010 and September 30, 2011, Peoples will perform and file updated net benefit tests in the context of the 1307(f)-2011 proceeding to determine the appropriate levels of retainage waivers to become effective October 1, 2011. (Peoples Statement No. 4, pp 11-12.)

⁵ The retainage rates set in Peoples' 1307(f)-2010 proceeding were also the result of a settlement compromise rather than a definitive methodology. (Peoples' Statement No. 4-R, p. 8.) The active parties in the instant proceeding attempted to calculate accurate retainage rates and then elected to settle upon the rates reflected in the Settlement after considering the positions of the other parties.

⁶ It should be noted that, on the high end, OCA proposed retainage rates of 9.0% for Rate Schedule GS-T and 7.4% for Rate Schedule T. (OCA Statement No. 1, pp. 9-12, Table 4.) On the low end, OTS proposed retainage rates of 8.5% for Rate GS-T and 6.3% for Rate T. The Settlement retainage rates reflect a reasonable compromise of the various positions. (OTS Statement No. 1, pp. 5-7.)

Peoples presented testimony explaining its net benefit test that it uses to determine if continuation of the waiver of gas retainage is justified. (Peoples Statement No. 4, pp. 12-14.)

The contracts of five customers that currently receive a full or partial waiver of retainage expired or will expire between October 1, 2010 and September 30, 2011. Peoples performed its net benefit test for two of the five customers that met the requirements for full or partial waiver of retainage, and concluded that a positive ratepayer net benefit will continue to exist for these two competitively-situated transportation customers.⁷ Therefore, Peoples will continue a gas retainage waiver for the duration of these two customers new contracts. (Peoples Statement No. 4, pp. 15-16; Peoples Exhibit No. 22 [HIGHLY CONFIDENTIAL].)

OCA initially disagreed with the results of Peoples' net benefit tests included in Peoples Exhibit No. 22 [HIGHLY CONFIDENTIAL]. OCA contended that Peoples applied an incorrect temperature correction to its system-wide retainage rate. (OCA Statement No. 1, pp. 14-15.) On rebuttal, Peoples revised its net benefit tests to incorporate a system-wide temperature correction adjustment and to include a measure of margin recovery related to Peoples' Production Enhancement Services fees. With these adjustments, Peoples demonstrated that the net benefit tests had been satisfied and the retainage waivers were justified for the two affected customers. (Peoples Statement No. 4-R, pp. 8-11.) Accordingly, under the terms of the Settlement, the Joint Petitioners agree that the retainage waivers related to the individual customers identified in Peoples Exhibit No. 22 [HIGHLY CONFIDENTIAL] should be approved by the Commission. (Settlement ¶ 20.)

The Joint Petitioners further agreed that, for all customers that currently receive a full or partial waiver of retainage and whose contracts expire between October 1, 2011 and September

⁷ Three of the five customers for whom net benefits tests were required no longer qualify. (Peoples Statement No. 4, pp. 14-15.)

30, 2012, Peoples will perform and file updated net benefit tests in the context of its 2012 1307(f) proceeding to determine the appropriate levels of retainage waivers to be effective October 1, 2012. Effective with the new contracts for these customers, Peoples will apply a minimum retainage charge for any customer with a transportation margin greater than \$0.38/Mcf. Peoples also has agreed to contact such customers in order to obtain any engineering analyses possessed by them for purposes of analyzing future retainage waivers. Finally, Peoples has agreed to perform the necessary bypass engineering analyses to assist with its evaluation of retainage waivers for such customers. (Settlement ¶ 21.)

The only parties taking a position on this issue agree that the terms of the Settlement are acceptable and in the public interest. The Settlement reflects a reasonable compromise of these competing litigation positions and is supported by record evidence of a substantial nature.

K. Lost and Unaccounted For Gas

As part of the settlement agreement approved by the Commission in Docket No. A-2008-2063737 (*i.e.* the acquisition of Peoples by PNG Companies LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP), Peoples agreed that it would conduct a review of its prior efforts to reduce UFG and examine alternative additional measures to reduce UFG, including costs to implement such measures and potential cost savings that might be derived from implementing additional measures to reduce UFG. Peoples also agreed that it would present a report to OSBA, OTS and OCA with regard to the results of such investigation no later than the filing of Peoples' 1307(f)-2011 proceeding. In the final order issued in Peoples' 1307(f)-2010 case at Docket No. R-2010-2155608, the Commission directed that the report be submitted as part of Peoples' 2011 1307(f) filing. The Commission also directed Peoples to set UFG mitigation measures and UFG target ranges for its gathering system, storage system, and

transmission and distribution system for the February 1, 2011 to September 30, 2012 projected period and two subsequent years following the projected period. (Peoples Statement No. 3, p. 3.)

In this proceeding, Peoples submitted its “2011 Unaccounted-For-Gas Plan and Report” (“UFG Report”) (a complete copy of which is attached to the Settlement as Appendix A). (Peoples Exhibit No. 20.) The UFG Report was been prepared in accordance with Peoples’ settlement obligations and the Commission’s directives listed above. The UFG Report contains a history of the UFG reduction actions that Peoples has already undertaken, discusses possible causes and the potential future actions to mitigate UFG, and recommends action plans for future UFG reductions. (Peoples Exhibit No. 20.)

Peoples is committed to finding effective ways to reduce UFG on an ongoing basis and, as a result, has proposed that the Company’s UFG mitigation efforts be focused in five main action items. These action items consist of phased projects that will allow Peoples to change course based on data analysis and are based on an objective of determining the “root cause” so that the UFG reduction activities can be repeated on a wider scale. (Peoples Statement No. 3, pp. 5-8.)

Regarding the Commission’s directive to establish specific UFG targets ranges by system, Peoples concluded that, due to the integrated nature of Peoples’ gathering and distribution and transmission systems and the absence of adequate measurement to segregate these systems, the Company is not able to reliably attribute UFG by gathering and distribution and transmission functions. Moreover, it would be economically imprudent to make the investment necessary to track UFG in this manner (approximately \$24 million, plus significant annual operation and maintenance expenses). The money would be better spent on projects designed to reduce UFG, as opposed to measuring it by function. For these reasons, Peoples

proposed to not set specific UFG target ranges for its gathering system and its distribution and transmission system. However, Peoples did propose UFG target ranges for on-system storage, but believes that it is important to point out that storage losses are beyond the control of Peoples due to the migratory nature of gas stored underground. (Peoples Statement No. 3, pp. 8-12.)

In response to the Commission's directive to set UFG target ranges, Peoples explained that it is reasonable to establish specific UFG target ranges and to track UFG levels, but rather than doing it by pipeline function -- that is, gathering, and distribution/transmission -- UFG targets should be set for and tracked by discrete operating areas of the system for which the Company can obtain measurement into and out of that area. (Peoples Statement No. 3, p. 11.) The UFG Report recommends a segmentation project which will entail the installation of additional measurement at strategic points in well-defined operating areas in order to isolate, quantify, and track UFG. This project will provide Peoples with current on-going measurement that will define the segment-specific supply and requirements and allow the Company to calculate both monthly segment system balances and UFG levels for specific operating areas. Peoples explained that it is reasonable to establish UFG target ranges by segmented system once the required measurement is in place to define segment-specific supply and requirements that would allow the Company to calculate a monthly UFG balance by segment. (Peoples Statement No. 3, pp. 12-14.)

As explained above, the Commission required Peoples to establish UFG target ranges to cover the projected period of February 1, 2011 to September 30, 2012, and two subsequent years following the projected period. In order to comply with the Commission's Order, Peoples has established in this proceeding total combined system UFG target ranges for the twelve-month periods ending July 31, 2011; July 31, 2012; July 31, 2013; and July 31, 2014. (Peoples

Statement No. 3, pp. 15-17.) OCA argued that Peoples' obligations with regard to the UFG target ranges should be defined. (OCA Statement No. 1, p. 8.)

To resolve this issue, the Joint Petitioners agreed that Peoples shall use reasonable efforts to implement its UFG Report (Peoples Exhibit No. 20) (attached to the Settlement as Appendix A). To the extent that Peoples does not implement any material commitment of the UFG Report, Peoples shall bear the burden of proving by a preponderance of the evidence in its 2012 1307(f) proceeding that it was not in the public interest to implement such material commitment. (Settlement ¶ 23.) The Joint Petitioners further agreed that in conjunction with its 2012 1307(f) filing, Peoples shall report on the success of the UFG Report and update the UFG Report to address any deficiencies. (Settlement ¶ 24.) Finally, the Joint Petitioners agreed that Peoples shall use reasonable efforts to achieve the UFG target ranges set forth on page 16 of Peoples Statement No. 3 (attached to the Settlement as Appendix B). To the extent that Peoples does not achieve a UFG target range, Peoples shall bear the burden of proving by a preponderance of the evidence that it made reasonable efforts to achieve such UFG target range. (Settlement ¶ 25.)

The five principal parties on UFG issues are joining in this Settlement, as it presents a fair and reasonable resolution. The Settlement reflects an acceptable compromise of competing litigation positions and is consistent with the Commission's desire to improve the UFG statistics of its regulated natural gas distribution companies.

L. Sharing Mechanisms

In the 2009 1307(f) proceeding, Peoples agreed to replace its then-existing capacity release sharing mechanism with the mechanism proposed by OSBA, with all Non-Priority I capacity release revenues to be shared 75%/25% (customer/company), effectively eliminating the previous existing \$200,000 threshold element. Peoples also agreed to extend this program for a two-year period that will end September 30, 2011. The Commission approved these

agreements in its Order in Peoples' 1307(f)-2009 case. In this proceeding, Peoples proposes to continue the existing capacity release mechanism that requires a 75%/25% (customer/company) sharing for an additional two-year period ending September 30, 2013. (Peoples Statement No. 1, pp. 54-55.) No party contested this issue and, therefore, it should be approved.

In the settlement of Peoples' 1307(f)-2009 proceeding, Peoples agreed to continue its sharing mechanism for off-system sales and park/loans that utilize off-system assets paid for by 1307(f) customers wherein customers will receive 75% and Peoples will receive 25% of these revenues for a two-year period that will end September 30, 2011. In this proceeding, Peoples' proposes to continue the sharing mechanism for off-system sales and park/loans that utilize off-system assets paid for by 1307(f) customers wherein customers will receive 75% and Peoples will receive 25% of these revenues for another two-year period that will end September 30, 2013. (Peoples Statement No. 1, pp. 55-56.) No party contested this issue and, therefore, it should be approved.

M. Miscellaneous Uncontested Items

To the extent that Peoples presented evidence to support its 1307(f) and 1318 statutory obligations, and where no party contested the evidence presented by Peoples regarding such items, the Joint Petitioners have stated that they do not oppose the Company's filings as to those issues. (Settlement ¶¶ 15-19.) On that basis, Peoples submits that the Commission should approve Peoples' filings as to those uncontested issues.

This Settlement was achieved by the Joint Petitioners after an extensive investigation of Peoples' filing, including extensive informal and formal discovery and the service of written direct and rebuttal testimony (including accompanying exhibits) by a number of the parties. Acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings. The Settlement provides for the recovery of natural gas costs

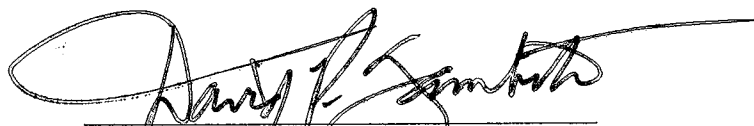
that are just and reasonable given the positions advanced in the testimony and exhibits of the various parties.

IV. CONCLUSION

Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement is the result of detailed examination of Peoples' natural gas procurement policies through numerous discovery responses, multiple rounds of testimony and accompanying exhibits, and extensive settlement negotiations. A fair and reasonable compromise has been achieved in this case, as is evident by the fact that all active parties, including Peoples, OTS, OCA, OSBA, an active natural gas supplier (Dominion), and a natural gas producers' association (PIOGA) have agreed, or do not oppose, to the resolution of the issues in this proceeding. Peoples fully supports this Settlement and respectfully requests that the Honorable Administrative Law Judge Mary D. Long recommend approval of, and the Commission approve, the Settlement in its entirety, without modification.

WHEREFORE, Peoples Natural Gas Company LLC respectfully requests that the Honorable Administrative Law Judge Mary D. Long recommend approval of, and the Pennsylvania Public Utility Commission approve by final order, the Settlement, including all terms, conditions and findings set forth therein without modification, and that the Pennsylvania Public Utility Commission's final order also terminate the proceeding and close the above-captioned dockets.

Respectfully submitted,



Michael W. Gang, Esquire (I.D. 25670)
David P. Zambito, Esquire (I.D. 80017)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Telephone: (717) 612-6052
Facsimile: (717) 731-1985
E-mail: mgang@postschell.com
E-mail: dzambito@postschell.com

William H. Roberts II, Esquire (I.D. 54724)
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212
Telephone: (412) 208-6527
Facsimile: (412) 208-6575
E-mail: william.h.roberts@peoples-gas.com

Date: June 29, 2011

For Peoples Natural Gas Company LLC

TAB

D

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility
Commission, *et al.***

v.

Peoples Natural Gas Company, LLC

:
:
:
:
:
:
:

Docket No. R-2011-2228694

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF
JOINT PETITION FOR APPROVAL OF
SETTLEMENT OF RATE INVESTIGATION
PURSUANT TO 66 Pa. C.S. § 1307(f)**

TO ADMINISTRATIVE LAW JUDGE MARY D. LONG:

The Office of Trial Staff (“OTS”), by and through its Prosecutor, Richard A. Kanaskie, hereby respectfully submits that the terms and conditions of the foregoing *Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa. C.S. § 1307(f)* (“Joint Petition” or “Settlement”) are in the public interest and represent a just, reasonable and equitable balance of the interests of Peoples Natural Gas Company LLC (“Peoples” or “Company”) and its customers. The parties to this Settlement (“Joint Petitioners”) have participated in extensive Discovery and have conducted numerous telephonic settlement conferences. As a result, OTS, Peoples and the other active parties have agreed upon the

terms as delineated in the foregoing Joint Petition. The request for approval of the Settlement is based upon the OTS conclusion that the Settlement meets all criteria for approval and is in the public interest as supported by the following factors:

BACKGROUND

1. On April 1, 2011, Peoples filed Supplement No. 130 to Tariff Gas - Pa. P.U.C. No. 43 (“Supplement No. 130”) with the Pennsylvania Public Utility Commission (“Commission”). This filing was made pursuant to Title 66 Pa. C.S. §1307(f) which establishes a procedure for recovery of prudently incurred purchased gas costs (“PGC”) by certain public utilities.

The Company’s proposed rates are offered to produce sufficient revenue to recover gas costs based on its projections through September 30, 2012. The proposed rates impact the Capacity Charge, the Gas Cost Adjustment Charge and the Commodity Charge. Also included are any reconciliation costs or credits from the prior period.

The filing was assigned to the Office of Administrative Law Judge (“OALJ”) for investigation and scheduling of Evidentiary Hearings to consider the lawfulness, justness and reasonableness of the PGC the Company seeks to recover from its customers.

2. OTS filed its Notice of Appearance on March 24, 2011. This Notice was preceded by the Formal Complaint of the Office of Small Business Advocate (“OSBA”) dated March 22, 2011. In addition, the Office of Consumer Advocate (“OCA”) filed a Formal Complaint and Public Statement on April 5, 2011. Furthermore, The Pennsylvania Independent Oil & Gas Association (“PIOGA”) filed a Petition to Intervene

on April 15, 2011. Dominion Retail, Inc. (“Dominion”) filed its Petition to Intervene on May 2, 2011. Finally, three (3) Formal Complaints were received from Company ratepayers.

3. The OALJ assigned this proceeding to Administrative Law Judge (“ALJ”) Mary D. Long.

4. A Prehearing Conference was held on April 18, 2011, at which time a procedural schedule was developed. The schedule included filing dates for Testimony, Briefs and Reply Briefs as well as dates for Evidentiary Hearings to be conducted in Harrisburg.

5. OTS submitted the Direct Testimony and accompanying Exhibit of Joseph Kubas on May 9, 2011. In addition, initial and/or responsive testimonies from OCA, OSBA, PIOGA, Dominion and the Company were submitted in a timely manner.

6. In accordance with the Commission’s policy favoring settlements over costly and time consuming litigation, OTS, Peoples and all other active parties were successful in achieving an agreement as to the disposition of the issues presented in this proceeding. The resulting Settlement was based on thorough Discovery, formal and informal, as well as extensive meetings and discussions.

DISCUSSION

7. The Joint Petition satisfies the legal standard for approval thereby supporting its adoption. “The prime determinant in the consideration of a proposed

Settlement is whether or not it is in the public interest.”¹ The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”² The Joint Petition in the instant proceeding protects the public interest in that a review of the testimony submitted by the active parties indicates that compromises are evident throughout the Settlement. The terms and conditions of the Settlement Agreement begin on page five (5) of the Joint Petition and the credible record evidence presented in this proceeding supports the adoption of each provision.

8. As discussed in Averments fifteen (15) and sixteen (16), the Settlement includes the agreement that the natural gas costs incurred by Peoples during the historic period were done so under adherence to a least cost fuel procurement policy. The OTS analysis in this proceeding³ confirms this representation.

A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies to PGC customers.

9. Averments seventeen (17) and eighteen (18) of the Settlement also provide that the natural gas costs that Peoples expects to incur in the upcoming period will be based

1 *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

2 *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

3 OTS relied on the original filing, responses to Data Requests and discussions with the Company in its review.

on the Company's adherence to its established least cost fuel procurement policy. The Company's diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills.

A least cost procurement policy benefits ratepayers on an annual basis as it ensures that the Company is diligently obtaining gas on a reliable basis for its customers at the most advantageous prices possible. This statutory policy must be adhered to and OTS is of the opinion that People's practices reflect this requirement. The Company's average costs reported to the Commission in its quarterly filings demonstrates the continued prudence of its purchasing practices.

10. The OTS review of the Company's annual PGC filing includes an analysis of its claimed E-Factor to ensure that it was done in accordance with established Commission practices. The E-Factor in this proceeding represents the under-collection and corresponding interest associated with the under-collection of revenue based on the cost of purchased gas.

The proper calculation of the E- Factor protects ratepayers by ensuring that the rates are adjusted appropriately to reflect the impact that these charges have on purchased gas costs. OTS is satisfied that the Company's E-Factor calculations are appropriate and accurate and conform to proper regulatory practices.

11. In addition, the Company's projected gas costs ("C-Factor") are also planned in accordance with established Commission practices as determined by the OTS review. This adherence to accepted regulatory principles aids ratepayers in that the Company's

purchased gas practices are being accomplished with the balanced interests of the Company and its ratepayers being considered. The actual implementation of the Company's plan will be reviewed in next year's PGC proceeding.

OTS opines that the C-Factor is calculated properly and, as a result, ratepayers are protected in that Peoples does not gain any unwarranted financial advantage through its gas purchasing practices.

12. As identified in Averment nineteen (19), the Settlement provides that Peoples may place into effect the natural gas supply rates as proposed and identified in Supplement No. 130. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The OTS analysis in this proceeding supports that these rates are just and reasonable and are based on sound regulatory practices.

13. OTS and the active parties to this proceeding are in agreement that the Company will adhere to the purchasing plan as established by the data and calculations provided in Peoples testimony and associated exhibits. The purchasing plan provides reasonable protections for ratepayers and should be adopted.

14. The Settlement does not propose any adjustments to the Company's claimed PGC based on reported Lost and Unaccounted for Gas ("LUFG"). As the recovery of LUFG is allowed as a legitimate expense, the Office of Trial Staff continues to monitor the overall level of the Company's claimed LUFG. OTS is encouraged by the improvement to the Company's experienced levels as presented in this year's filing. The 5.42% achieved by Peoples for the historic test year is a marked improvement over last year.

However, OTS continues to maintain that calculated LUF_G should be done on a three-year average to account for yearly fluctuations.

A reasonable amount of LUF_G is expected in a natural gas distribution system. As the costs associated with this gas are recovered from ratepayers through the PGC it is necessary to take appropriate measures to control this expense. Establishing a level of LUF_G based on a three-year average is an equitable measurement methodology as the measurement period “is short enough to disregard any irrelevant older data and long enough to smooth out any monthly anomalies and reflects the levels of LUF_G, storage losses and Company use gas that are most relevant at this time.”⁴

The measures implemented as a result of prior Peoples’ proceedings and the development of an Unaccounted-For-Gas Plan and Report will protect ratepayers by ensuring that proper measures are placed into practice to reduce the amount of LUF_G. Continued strict review of the efficacy of the Company’s mitigation efforts will be undertaken to ensure that ratepayers will be protected from unnecessary costs in the Company’s claim for recovery in subsequent PGC proceedings.

15. The Settlement Agreement provides that the Retainage percentage applied to Transportation Customers will be increased effective October 1, 2011 from its current level of 7.8% to 8.6% for rate GS-T. The Retainage percentage for Rate T will increase from 5.6% to 7.2%. The adjustments to the current Retainage rates are necessary to reflect the changes in the Company’s methodology used to evaluate and report LUF_G and Company

4 OTS Statement No. 1, p. 5.

Use gas (“CU”). “Retainage refers to the gas necessary to compensate the Company for LUGF and gas used by the Company. It is usually stated as a percentage of gas delivered into the distribution system.”⁵ The establishment of the proper Retainage level is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas that corresponds to the system wide reported LUGF and CU. This practice of establishing proper Retainage percentages eliminates the unwarranted shifting of responsibility for LUGF and CU between retail and transport customers. Proper Retainage levels equalize the responsibilities of the rate classifications and protect all ratepayers by ensuring equitable contributions to LUGF and CU.

The increase in the Company’s Retainage percentage for this year is based on its actual historical experience and subsequently protects 1307(f) customers from overpaying and providing a subsidy to transportation classifications. The Retainage percentage applied to Peoples’ Transportation customers in this proceeding represents the appropriate level of responsibility for the payment of LUGF charges and it represents an adjustment to the initial proposal by the Company that the current Retainage charges should not increase. The overall Retainage Charge to be assigned is 8.2% and represents the three-year average of LUGF, including storage losses and CU gas. The application of 8.6% and 7.2% to classes GS-T and T is based on a compromise of the positions offered by the parties in this proceeding and the result is supported by the Company’s actual historical performance averaged from the last three years. As noted above, the establishment of the proper

5 OTS Statement No. 1, p. 3.

Retainage percentage is based on the determined, and approved, level of LUFG, including storage losses, and CU. Adjustments to only the Retainage percentages will require one group of customers to subsidize another. For example, if the Retainage percentage is reduced without a finding that the levels of LUFG and CU allowed for recovery are to be reduced, then 1307(f) customers will subsidize transportation customers through higher rates. In other words, the Retainage percentage must reflect the approved level of LUFG and CU. If the allowable LUFG and CU level is reduced, an adjustment to the Retainage percentage will be necessary to prevent transportation customers from overpaying. The underlying LUFG and CU determination establishes the appropriate Retainage level. Only when the appropriate levels of LUFG and CU are determined can the Retainage percentage be established.

16. Although not specifically identified in the Settlement document, it is important to note that resolution of this year's 1307(f) proceeding allows the Company to continue to retain a portion of the proceeds derived from Off-System Sales/Parks/Loans and Capacity Releases. This Sharing-Mechanism provision is the subject of an existing agreement and is used as an incentive for the Company to maximize the benefit available to customers from these programs. The mechanism offered as an incentive is the retention of 25% of the revenue associated with these programs. The remaining 75% will be applied to purchased gas costs as a means of reducing the overall PGC rate. Even though it was not a contested issue in this year's proceeding, it is necessary to identify this provision as it impacts the rates born by customers. OTS continues its position that a reasonable sharing

mechanism that serves as an incentive for increased performance can be beneficial to ratepayers. Although the proposed sharing mechanism impacts the net cost of purchased gas, OTS is placated by the fact that maximization of these programs will generate additional revenue to offset the cost of purchased gas. A reasonable sharing mechanism for Peoples benefits ratepayers beyond the detrimental impact to net purchased gas costs. Under current conditions and based on the other provisions of this Settlement, OTS maintains that continuation of the sharing mechanism is reasonable. Continuing the sharing mechanism in the existing ratio for a limited period provides sufficient incentive to the Company to maximize the potential of this asset while simultaneously benefiting customers by flowing this additional revenue back through the PGC thereby lowering the overall cost of purchased gas. The benefits of the program can be evaluated at the expiration of the existing agreement and its continuation can be discussed in subsequent proceedings.

17. The remaining issues raised in the OTS Prehearing Memo have been satisfactorily resolved through Discovery and settlement discussions with the Company and other interested parties. OTS is satisfied that no further action is necessary and considers its investigation of this PGC filing complete.

18. The Company's PGC practices adequately protect its ratepayers as its annual filings include provisions deemed appropriate in protecting the public interest. Provisions agreed to in last year's proceeding have been implemented and policies are in place to protect the Company's ratepayers from the impact of purchased gas on rates borne by the consumer.

CONCLUSION

19. Based upon OTS' analysis of the filing, acceptance of this proposed settlement is in the public interest as the provisions adequately protect the interests of the signatories to this Agreement in this proceeding.

20. Resolution of these issues by settlement rather than litigation will avoid the substantial time, expense and uncertainty involved in continuing to formally pursue them in this proceeding. Expenses associated with this proceeding are recoverable from ratepayers so measures designed to limit expenses are in the public interest and should be considered when reviewing the Settlement.

21. OTS further submits that acceptance of the foregoing Settlement will negate the need for the preparation of extensive Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the filing of possible appeals on the issues contained herein. The avoidance of further rate case expense by settlement of numerous issues in this PGC proceeding serves the interests of Peoples, the active parties and Peoples' customers.

22. The Settlement is conditioned upon the presiding ALJ's Recommendation and the subsequent Commission approval of all the terms and conditions contained therein. In the event the ALJ does not recommend, or the Commission fails to grant, such inclusive approval or otherwise modifies the terms and conditions of the Settlement, support may be withdrawn by OTS, Peoples or any other signatory as provided therein.

23. OTS' agreement to settle the issues presented in this agreement is made without any admission or prejudice to any position that OTS might adopt during

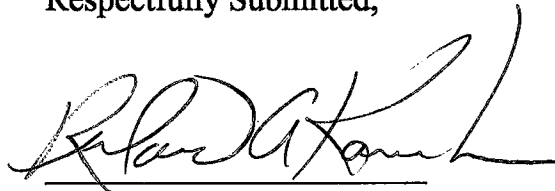
subsequent litigation in the event the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

24. If the ALJ recommends that the Commission adopt the Settlement as proposed, OTS has agreed to waive the filing of Exceptions with respect to the issues contained herein. However, OTS has not waived its rights to file Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJ in her Recommended Decision. OTS has also reserved the right to file Reply Exceptions to any Exceptions that may be filed by Peoples, the active parties or any Formal Complainant on any matter.

25. The Office of Trial Staff is satisfied that the provisions and data contained in the Company's annual filing accurately reflect the Company's purchased gas costs and its practices adequately protect the public interest.

WHEREFORE, the Commission's Office of Trial Staff represents that it supports the Settlement as being in the public interest and respectfully requests that Administrative Law Judge Mary D. Long recommend, and the Commission subsequently approve, the foregoing Settlement Agreement, including all terms and conditions contained therein.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Richard A. Kanaskie", written over a horizontal line.

Richard A. Kanaskie
Senior Prosecutor
PA Attorney I.D. #80409

Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1976

Dated June 29, 2011

TAB

E

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

THE PEOPLES NATURAL GAS
COMPANY

:
:
:
:
:
:

Docket No. R-2011-2228694

OFFICE OF CONSUMER ADVOCATE
STATEMENT IN SUPPORT

The Office of Consumer Advocate (OCA) is one of the signatories to the Joint Petition For Approval Of Settlement Of Rate Investigation Pursuant To 66 Pa. C.S. § 1307(f) (Joint Petition or Settlement) filed in the above-referenced proceeding. The OCA submits that the terms and conditions of the proposed Settlement are in the public interest. The OCA requests Commission approval the Settlement without modification for the following reasons.

I. INTRODUCTION AND BACKGROUND

The background described at pages 2-4 of the Joint Petition is accurate. The OCA would add the following regarding its participation. In accord with the statutory mandate of Sections 1307(f), 1317, and 1318 of the Public Utility Code, the OCA reviewed Peoples' purchasing policies and practices for its natural gas supply for the

12-month period ending January 31, 2011. This analysis included an evaluation of numerous issues associated with Peoples' historic and projected purchasing practices and policies, including, but not limited to:

- (1) Whether Peoples has properly estimated its gas costs to be incurred during the interim and prospective periods covered by the Company's filing.
- (2) Whether the gas supply mix proposed by Peoples and the costs produced by such mix are optimal and in the best interest of Peoples' customers.
- (3) Whether Peoples properly provided for the optimal mix of demand entitlements, storage, and local production on its system in order to meet its system requirements at the least cost.
- (4) Whether Peoples' projected sales for the 1307(f) period are accurate and otherwise consistent with the standards set forth in Act 74, the Commission's rules and regulations, and FERC Orders 636 and 637.
- (5) Whether Peoples properly reported all refunds and attendant interests that it has or will receive from suppliers.
- (6) Whether the Peoples' proposed allocations of purchased gas costs and refunds are unduly discriminatory.
- (7) Whether Peoples collected unauthorized overrun revenues that should be credited to PGC customers.
- (8) Whether projected design day demands of each customer class are accurate.
- (9) Whether the Peoples' forecast for capacity release strategy and revenues is reasonable when viewed against its actual experience and industry practice.
- (10) Whether Peoples' standby sales, unbundled storage service, and balancing service provided to transportation customers negatively affects purchased gas costs.
- (11) Whether Peoples' PGC customers are affected by its capacity release and assignment procedures.

- (12) Technical issues pertaining to the gas cost recovery mechanism, including computation of quarterly adjustments to purchased gas costs, treatment of supplier refunds, provision of carrying costs associated with gas in storage, interest on gas cost over-collections, and proper computation of the E-Factor and migration riders.

While conducting its analysis of Peoples' proposed PGC rates, the OCA also engaged in discovery to investigate matters related to proposed PGC rates. In addition to discovery, the OCA timely served the direct and rebuttal testimony of its expert witness Jerome D. Mierzwa detailing the recommendations of the OCA. Throughout these proceedings, the OCA participated in settlement discussions with Peoples and other parties. These discussions eventually culminated in the terms and conditions set forth in the Joint Petition.

II. TERMS AND CONDITIONS OF JOINT SETTLEMENT PETITION

The terms and conditions of the Joint Petition are in the public interest and satisfactorily address issues raised in the OCA analysis of the Peoples' filing. The OCA submits that the Joint Petition, taken as a whole, is a reasonable compromise in consideration of likely litigation outcomes before the Commission. Therefore, the OCA submits that the Joint Petition is in the public interest and supports Commission approval of the Joint Petition without modification.

While the Joint Petition does not reach all the recommendations proposed by the OCA, the OCA recognizes that settlement is a product of compromise. The Commission encourages settlement; to do so it must recognize the balance of compromises struck by settling parties. The OCA does not address all issues addressed by the Joint Petition in this Statement in Support; the OCA does not oppose terms and

conditions not expressly addressed herein. The OCA urges the Commission to weigh the Settlement as a whole. The OCA also looks to each Party to discuss how the Settlement terms and conditions address their respective issues and how those parts of the Settlement support the public interest standard required for Commission approval of the Joint Petition.

In addition to the PGC analysis outlined above, OCA witness Mr. Mierzwa provided six recommendations in his direct testimony. The OCA will discuss in detail how the terms and conditions of the Joint Settlement resolve these issues to the satisfaction of the OCA and are otherwise in the public interest.

1. Peoples' purchased gas cost rate is consistent with a least cost fuel procurement policy.

The OCA submits that Peoples' has shown that its proposed PGC rates satisfy the twelve issues discussed above. Therefore, the OCA believes that its gas purchases over the period in question are consistent with a least cost fuel procurement policy. The OCA also submits that Peoples' proposed PGC rates are accurate and in accord with applicable provisions of the Public Utility Code and the regulations of the Commission. Based on all this, the OCA submits that the Commission should approve Peoples' proposed PGC rates as described in paragraphs 15 through 18 of the Joint Petition.

2. The Joint Settlement provides a reasonable resolution to OCA concerns about the recovery of lost and unaccounted for gas costs (LUFG) above Peoples' projected LUFG targets.

In testimony, the OCA provided a brief history of Peoples' efforts to reduce its LUFG. OCA Dir. at 4-7. The culmination of these efforts resulted in the target LUFG reductions Peoples proposed in this proceeding. OCA Dir. at 7. In his direct testimony,

Mr. Mierzwa pointed out that while Peoples had proposed modest targeted reductions, Peoples did not offer any substantive penalty for a failure to reach the targets it developed. OCA Dir. at 8. To remedy this, Mr. Mierzwa recommended a disallowance of LUFG costs above the targets developed by Peoples. OCA Dir at 8.

The Joint Petition addresses and resolves these issues in paragraphs 22 through 25 by providing for a reasonable approach to evaluating Peoples' progress in LUFG reduction in its 2012 PGC proceeding. The Settlement requires that Peoples work to achieve the material commitments that it has set for itself in the 2011 Unaccounted-For-Gas Plan and Report. Joint Petition at ¶¶ 22; Appendix A. In addition, the Joint Petition establishes LUFG target ranges for Peoples and establishes that Peoples must justify any shortfall as being in the public interest. Joint Petition at ¶ 24.

While OCA recommended a bright-line disallowance in litigation, the OCA submits that the Joint Petition is a reasonable compromise in light of the evidence presented by the parties and likely litigation outcomes. The OCA submits that this aspect of the Settlement is in the public interest, and that this supports Commission approval of the Settlement without modification.

3. The Joint Petition provides a satisfactory resolution to the OCA concerns with retainage charges.

In testimony, Mr. Mierzwa explained that a portion of the gas delivered to an NGDC is lost or otherwise unaccounted-for before it reaches the NGDC's customers, and a portion is used in company operations ("company-use"). For sales customers, these losses are recovered through PGC rates. For transportation customers, these losses are recovered through retainage charges. Residential and commercial

transportation customers are currently assessed a retainage charge of 7.8%, while industrial customers are assessed a retainage charge of 5.6%. OCA Dir. at 9. Mr. Mierzwa explained that this difference in retainage charges was due to the fact that the meters for many residential and commercial customers were not temperature compensating and that this contributed to LUFG. OCA Dir. at 10. Mr. Mierzwa testified that based on 2010 data, the weighted average retainage rate assessed to transportation customers was 6.72%, while Peoples' recent LUFG and company-use experience was 8.2%. Because the weighted average retainage rate paid by transportation customers was lower than Peoples' actual LUFG and company-use experience, costs were inappropriately shifted to PGC customers. OCA Dir. at 10. To remedy this, Mr. Mierzwa recommended that Peoples increase its retainage costs across-the-board; residential and commercial customers moving from 7.8% to 9% and industrial customers moving from 5.6% to 7.4%. OCA Dir. at 11. These increases would result in transportation customers being assessed a weighted average retainage rate of 8.2%, which was consistent with Peoples' recent LUFG and company-use experience. The Joint Settlement resolves this issue to the satisfaction of the OCA. Specifically, the Joint Petition provides that Peoples will increase its tariffed retainage rate under Rate GS-T (residential and commercial) from 7.8% to 8.6%, and the Rate T (industrial) from 5.6% to 7.2%. Joint Petition at ¶ 21. The OCA believes these increases are a reasonable resolution of this issue. The OCA submits that this aspect of the Settlement is in the public interest and supports Commission approval of the Settlement without modification.

4. The Joint Petition provides a satisfactory resolution of the OCA concerns with the net benefits test for calculating retainage waiver eligibility.

In testimony, Mr. Mierzwa criticized Peoples for not demonstrating the reasonableness of the retainage waivers presented for evaluation in this proceeding, and recommended that the Commission correct Peoples' methodology and prevent Peoples from recovering any excess costs from PGC customers. OCA Dir at 14. He based this recommendation on the fact that Peoples' net benefits test, used to calculate waiver eligibility, overstated the reduction that an applicant's temperature compensating meter has on Peoples' LUGF. OCA Dir. at 14.

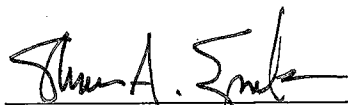
The Joint Settlement provides a reasonable resolution to OCA concerns with Peoples' retainage waiver practices by enhancing the accuracy of the procedures Peoples uses to conduct its net benefits test. Joint Petition at ¶ 20. Specifically, the Joint Petition provides that Peoples will use a then-current system-wide retainage rate to perform the net benefits test for those customers requesting to renew their retainage discount between October 1, 2011 and September 30, 2012. In addition, the Joint Petition provides that Peoples will apply a minimum retainage charge based on calculations provided in the Joint Petition. Joint Petition at ¶ 20(b). The Joint Petition also provides that Peoples will seek to review and confirm the engineering analysis used by the customer to justify its retainage discount. Joint Petition at ¶ 20 (c) and (d).

The OCA submits that this is a reasonable outcome of these issues in light of the evidence presented by the parties and likely litigation outcomes. The OCA submits that this aspect of the Settlement is in the public interest and supports Commission approval of the Settlement without modification.

III. CONCLUSION

For the foregoing reasons, the OCA respectfully requests that the Administrative Law Judge and the Public Utility Commission approve the terms and conditions of the Joint Petition without modification as being in the public interest.

Respectfully Submitted,



James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066
E-Mail: JMullins@paoca.org
Shaun A. Sparks
Assistant Consumer Advocate
PA Attorney I.D. # 87372
E-Mail: SSparks@paoca.org

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

June 29, 2011
144808

TAB

F

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2011-2228694
	:	
THE PEOPLES NATURAL GAS COMPANY	:	

**STATEMENT OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF SETTLEMENT**

I. Introduction

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

Pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. §1307(f), Peoples Natural Gas Company (“Peoples” or the “Company”) submitted pre-filed supporting information concerning its 2011 Purchased Gas Cost (“PGC”) Rate on March 2, 2011. The Company made its final 2011 Gas Cost Rate (“GCR”) filing on April 1, 2011.

II. Summary of the OSBA’s Principal Concerns

On March 22, 2011, the OSBA filed a formal Complaint in this proceeding. In its Complaint, the OSBA identified several issues of concern, primarily regarding whether the Company’s proposed purchased gas cost (“PGC”) rates are consistent with a least

cost fuel procurement policy. Additionally, the OSBA wanted to ensure that the resulting rates and charges were not excessive, unjust, unreasonable, or discriminatory to small business customers, or otherwise contrary to Commission regulation or policy.

The OSBA filed the direct and rebuttal testimony of Brian Kalcic and participated in the negotiations which have led to the Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa. C.S. §1307(f) (“Settlement”). In Mr. Kalcic’s testimony, Peoples’ retainage rates were a primary focus. Because of certain agreements in the Settlement regarding retainage, the OSBA is a signatory to the Settlement.

III. Settlement

A. Increased Retainage Rates

Peoples did not propose any changes to its current retainage rates.

In his Direct Testimony for the OSBA, Mr. Kalcic pointed out that Peoples’ current retainage rates are too low, because they do not include storage-related lost and unaccounted for gas (“LUFG”) and gas for Company use (“CU”). This results in a subsidy from sales customers to transportation customers. Specifically, Mr. Kalcic testified:

Q. What is the overall level of LUFG and CU on Peoples’ system?

A. Table 1 below shows Peoples’ three-year average LUFG/CU rate for the period ending July 30, 2010. When storage losses are included, Peoples’ LUFG/CU rate for the latest three-year period is 8.24% (per column 1). If storage losses are excluded, the Company’s LUFG/CU rate averages 7.26% (per column 2).

Table 1

	2008-2010 (with storage) Mcf	2008-2010 (w/o storage) Mcf
	(1)	(2)
Total LUGF	12,578,903	12,578,903
Company Use	3,342,507	3,342,507
Storage Losses	<u>2,159,000</u>	<u>n.a.</u>
Subtotal	18,080,410	15,921,410
Tot. System Supplies	219,246,678	219,246,678
LUGF/CU Rate	8.24%	7.26%

Source: Peoples Exhibit No. 21.

Q. How do Peoples' current retainage rates compare to LUGF/CU rates shown in Table 1?

A. In order to evaluate Peoples' current retainage rates, one must first calculate a weighted average retainage rate for Peoples' system as a whole. Lines 1-3 of Schedule BK-1 (page 1 of 2) show that Peoples' current retainage rates produce a weighted average retainage rate of 7.18%, based on Peoples' forecast of each class' total gas supply requirements for the twelve (12) months ending September 30, 2012. This weighted average retainage rate of 7.18% is reasonably consistent with the Company's 2008-2010 LUGF/CU rate of 7.26%, *excluding storage losses*, reported in column 2 of Table 1.

At the same time, however, the Company's weighted average retainage rate of 7.18% is not sufficient to compensate for Peoples' LUGF/CU rate of 8.24% (per column 2 of Table 1), when storage losses are included.¹

Mr. Kalcic explained the cross-subsidy which results from Peoples' inadequate retainage rates, as follows:

Q. Mr. Kalcic, what are the consequences of establishing a retainage rate that does not reflect a utility's LUGF and CU levels?

A. There are two (2) cases to consider. On the one hand, if a utility's retainage rate exceeds its LUGF/CU rate, then the amount of gas needed to serve sales customers will be reduced by the excess retainage provided by transportation customers. Therefore, transportation customers will be subsidizing sales customers.

¹ OSBA Statement No. 1, Direct Testimony of Brian Kalcic at 3-4.

On the other hand, if a utility’s LUFG/CU rate exceeds its retainage rate, then NGSs will not be providing a sufficient amount of gas to serve their transportation customers. In that case, the utility will be required to purchase gas on behalf of transportation customers. Since the cost of such purchases will be recovered from sales customers (in the utility’s PGC rate), sales customers will be subsidizing transportation customers.²

In addition to the OSBA, both the Office of Consumer Advocate (“OCA”) and the Office of Trial Staff (“OTS”) advocated higher retainage rates. Table 2, below, compares the current retainage rates to the proposals by OSBA, OCA and OTS.

Table 2
Retainage Rate Proposals

	<i>Current Rates</i>	<i>OSBA Rates</i>	<i>OCA Rates</i>	<i>OTS Rates</i>
	(1)	(2)	(3)	(4)
Rate GS-T	7.80%	8.95%	9.00%	8.50%
Rate T	5.60%	6.44%	7.40%	6.30%

Source: OSBA Sch. BK-1, OCA Table 4 and OTS Exh. No. 1, Sch. 2.³

In the Settlement, Peoples agreed to increase its retainage rates. Table 3, below, shows the Settlement retainage rates.

Table 3
Retainage Rates – Settlement

<i>Settlement Rates</i>	
Rate GS-T	8.6%
Rate T	7.2%

² OSBA Statement No. 1, Direct Testimony of Brian Kalcic at 2-3.

³ OSBA Statement No. 2, Rebuttal Testimony of Brian Kalcic at 1. This table is labeled as “Table 1” in Mr. Kalcic’s Rebuttal Testimony.

⁴ Settlement at ¶21.

The Settlement retainage rates differ from Mr. Kalcic's proposal because the ratio between the retainage rate for class GS-T (Residential and GS transportation customers) and the retainage rate for class T (Industrial transportation customers) has been updated. According to Peoples' witness Lynda W. Petrichevich, this update is necessary because it reflects:

the average effect of non-temperature correcting meters over the three-year period through July 31, 2010, which is the same period used in this proceeding to calculate the system-wide retainage rate. The revised percentage represents the amount of non-TC [temperature-correction adjustment] error in the three-year average.⁵

The update reduced the subsidy from the GS-T class of customers to the T class of customers.⁶

B. Charging NGSs for Using Storage

In his Direct Testimony, Mr. Kalcic proposed that national gas suppliers ("NGSs") be charged a higher retainage rate if they use Peoples' storage facilities than if they do not. Specifically, Mr. Kalcic stated:

Q. Mr. Kalcic, does the proposed *Joint Petition for Approval of Settlement of All Issues* ("Settlement") in Peoples' base rate case at Docket No. R-2010-2201702 address the issue of NGS use of Peoples' storage system?

A. Yes, it does. Paragraph 53 of the proposed Settlement reads (in pertinent part) as follows:

Peoples will make available to NP-1 pool operators [NGSs], at no additional cost, seasonal injection, storage and withdrawal rights of up to 1.55 Bcf of on-system storage capacity used by Peoples to provide BB&A [Banking, Balancing & Advancing] services for NP-

⁵ Peoples' Statement No. 4-R, Rebuttal Testimony of Lynda W. Petrochevich at 10.

⁶ Peoples' Statement No. 4-R, Rebuttal Testimony of Lynda W. Petrochevich at 6.

1 customers ('BB&A Capacity'). The availability of such capacity shall be limited to on-system storage only and shall not include off-system pipeline storage capacity used by Peoples to provide BB&A services. BB&A Capacity will be offered to NP-1 pools beginning with the April 2012 storage injection season. The volume of BB&A Capacity made available to each NP-1 pool will be determined based on the percentage of annual customer volumes served by each NP-1 pool to total annual customer volumes served by all NP-1 pools. *Each NP-1 pool will have the option to accept or reject the BB&A Capacity prior to the April injection season.* [Emphasis supplied.]

* * *

Q. Mr. Kalcic, please assume that the Commission approves the proposed Settlement. In that event, would it be appropriate to adjust the Company's current retainage rates?

A. Yes, but only in the case where an NGS chooses to accept an allocation of Peoples' on-system storage capacity. In other words, if an NGS *declines* to accept an allocation of Peoples' on-system storage capacity, that NGS would be subject to the Company's existing retainage rates (which adequately recover Peoples' LUFG/CU rate of 7.26%, excluding storage losses).

However, if an NGS *accepts* an allocation of Peoples' on-system storage capacity, that NGS should bear its fair share of storage losses since storage facilities would be used directly on behalf of the NGS's customers. As previously discussed, Peoples' current retainage rates are not sufficient to cover Peoples' LUFG/CU rate when storage losses are included.⁷

In her Rebuttal Testimony, Ms. Petrichevich testified that all but one of Peoples' transportation customers already use and pay for the Company's storage facilities, thereby rendering Mr. Kalcic's proposed (storage-based) distinction in retainage rates unnecessary.⁸

⁷ OSBA Statement No. 1, Direct Testimony of Brian Kalcic at 5.

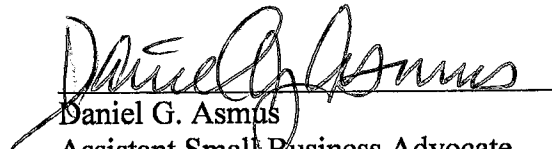
⁸ Peoples' Statement No. 4-R, Rebuttal Testimony of Lynda W. Petrochevich at 4-5.

C. Conclusion

As the OSBA's issues of principal concern were resolved through negotiations, signing the Settlement enables the OSBA to conserve its resources and avoid the uncertainties inherent in fully litigating the case.

WHEREFORE, the OSBA respectfully requests that the Commission approve the Settlement without modification.

Respectfully submitted,


Daniel G. Asmus
Assistant Small Business Advocate
Attorney I.D. 83789

For:

William R. Lloyd, Jr.
Small Business Advocate
Attorney I.D. 16452

Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
(717) 783-2525
(717) 783-2831 (fax)

Dated: June 29, 2011

TAB

G

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, <i>et al.</i>	:	
Complainants	:	
	:	
	:	
v.	:	Docket No. R-2011-2228694, <i>et al.</i>
	:	
Peoples Natural Gas Company, LLC,	:	
Respondent	:	

**DOMINION RETAIL’S STATEMENT IN SUPPORT
OF JOINT PETITION**

AND NOW, comes Dominion Retail, Inc. (“Dominion Retail”), by and through its counsel in the above-captioned matter, Hawke McKeon & Sniscak, LLP, and hereby offers the following Statement in Support of the Joint Petition for Approval of Settlement of Rate Investigation filed simultaneously herewith (“Joint Petition”). In support of the Joint Petition, Dominion Retail states and avers as follows:

1. On May 2nd Dominion Retail filed a Petition to Intervene in the above captioned matter, which was granted by presiding Administrative Law Judge Mary D. Long’s Second Interim Order dated May 6, 2011.
2. Dominion Retail’s stated position in this matter was to ensure that any result did not harm its interest in serving customers in the Peoples Natural Gas Company, LLC (“Peoples”) service territory.
3. Dominion Retail has had a ongoing concern with the level of lost and unaccounted for gas (“LUFG”) on the Peoples system, and the resulting retainage rates. Those retainage rates, which are levied against the deliveries of natural gas suppliers, such as Dominion Retail, require suppliers to deliver significantly more gas than its customers actually use, and are well above the average for Pennsylvania NGDCs.

4. Of particular concern to Dominion Retail is the fact that the retainage charges will increase this year despite the fact that experienced LUFG percentages showed slight reductions over the past year.

5. While not a perfect solution, the Joint Petition reasonably resolves the issue of Peoples' LUFG. Not only does the Joint Petition require Peoples to implement the Unaccounted For Gas Plan and Report for 2011 ("Plan"), it will require Peoples to meet or exceed certain specified target ranges of LUFG over the next several years, or bear the burden of showing why it could not do so. If reductions of the magnitude required by the Plan are actually achieved on a sustained basis, the LUFG issue will resolve over time. It should not be forgotten, however, that in the meantime, Natural Gas Suppliers and customers continue to bear the burden of Peoples' high LUFG levels. Accordingly, Dominion Retail urges the Commission to scrutinize carefully the implementation of the Plan and to actively monitor its progress.

WHEREFORE, because Dominion Retail believes that the settlement is a reasonable compromise of the issues presented in the case, it urges the Commission to adopt it without modification.

Respectfully submitted,



Todd S. Stewart
Attorney I.D. #75556
Hawke McKeon & Sniscak LLP
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105-1778
E-mail: tsstewart@hmslegal.com
Telephone: (717) 236-1300
Facsimile: (717) 236-4841
Counsel for Dominion Retail, Inc.

DATED: June 29, 2011

TAB

H

June 24, 2011

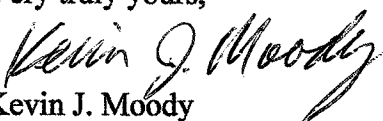
David P. Zambito, Esquire
Post & Schell PC
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

RE: Pa. P.U.C. *et al.* v. Peoples Natural Gas Company LLC
Docket No. R-2011-2228694
Proposed Settlement

Dear Mr. Zambito:

This letter confirms that the Pennsylvania Independent Oil and Gas Association ("PIOGA") does not oppose the settlement proposed in this proceeding.

Very truly yours,


Kevin J. Moody
General Counsel

KJM/jls
Enclosure

RECEIVED JUN 20 2011