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File #: 3552/151468

June 29, 2012

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

RECEIVED
2012 JUN 29 PM 3:49
PA PUC
SECRETARY'S BUREAU

RE: Pennsylvania Public Utility Commission, et al. v. Peoples Natural Gas Company LLC; Docket No. R-2012-2292082 et al.

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

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the original and three (3) copies of the Joint Petition for Settlement of Rate Investigation Pursuant to 66 Pa. C.S. § 1307(f) ("Settlement") of Peoples Natural Gas Company LLC, the Bureau of Investigation & Enforcement of the Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, and the Pennsylvania Independent Oil & Gas Association. The only other active parties to the proceeding, Dominion Retail, Inc. and Interstate Gas Supply, Inc., have indicated that they neither support nor oppose the Settlement.

A CD-Rom of the filing is also enclosed for your convenience. Copies of the Settlement are being served on the Presiding Officer, Administrative Law Judge Mary D. Long, and on all parties, active and inactive, as indicated on the enclosed Certificate of Service.

Rosemary Chiavetta
June 29, 2012
Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "David P. Zambito", with a long horizontal line extending to the right.

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

DPZ/kmg
Enclosures

cc: Honorable Mary D. Long (*via Electronic Mail and Overnight Delivery*) (*PDF/Word Versions*)
Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2012-2292082
Office of Small Business Advocate,	:	C-2012-2297858
Office of Consumer Advocate,	:	C-2012-2296788
Raymond E. Anderson,	:	C-2012-2298575
Steven J. Swencki, and	:	C-2012-2299156
James Weber,	:	C-2012-2300419
	:	
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)**

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TO ADMINISTRATIVE LAW JUDGE MARY D. LONG:

INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples”), the Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and Pennsylvania Independent Oil & Gas Association (“PIOGA”), 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 of, and the Commission approve, this Settlement as set forth below without modification. In support of this Settlement, the Joint Petitioners state the following:

BACKGROUND

1. Peoples is a Commission-regulated 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: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

¹ Intervenors Dominion Retail, Inc. and Interstate Gas Supply, Inc. (“Dominion/IGS”) have indicated that they neither support nor oppose the Settlement.

2. On March 2, 2012, Peoples filed with the Commission at Docket No. R-2012-2292082: (1) the materials that the Commission's regulations at 52 Pa. Code §§ 53.64(c) and 53.65 require to be filed 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 March 12, 2012, I&E filed a Notice of Appearance.

4. On March 27, 2012, the Commission issued a Notice of an Initial Prehearing Conference to be held on April 5, 2012 at 10:00am before the ALJ.

5. On March 28, 2012, the ALJ issued a Prehearing Conference Order, which directed the parties to prepare and distribute prehearing conference memoranda.

6. On March 30, 2012, OSBA filed a Notice of Appearance and Formal Complaint. The Formal Complaint was docketed by the Commission at Docket No. C-2012-2297858.

7. On April 2, 2012, Peoples filed with the Commission Supplement No. 19 to Peoples Tariff Gas - PA PUC No. 44 ("Supplement No. 19"), to become effective for service rendered on and after October 1, 2012. Peoples' filing also included Peoples' written direct testimony and supporting exhibits.² Supplement No. 19 was docketed by the Commission at Docket No. R-2012-2292082 and assigned to the ALJ for hearing and recommended decision.³

8. On April 3, 2012, OCA filed a Notice of Appearance and Formal Complaint. The Formal Complaint was docketed by the Commission at Docket No. C-2012-2296788.

9. On April 4, 2012, PIOGA filed a Petition to Intervene.

² 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 Jeffrey S. Nehr; and, Peoples Statement No. 4, Direct Testimony of Lynda W. Petrichevich.

³ Peoples' complete April 2, 2012 filing is hereinafter referred to as the "2012 Definitive Filing."

10. On April 4, 2012, Peoples, OCA, I&E, OSBA, and PIOGA filed Prehearing Conference Memoranda as directed by the ALJ.

11. An initial prehearing conference was held on April 5, 2012 before the ALJ. A litigation schedule and discovery rule modifications were established at the initial prehearing conference, which were subsequently memorialized in the ALJ's Prehearing Order, dated April 10, 2012. The Prehearing Order also granted the intervention of PIOGA.

12. On April 9, 2012, Peoples filed an unopposed Motion for Protective Order. The ALJ granted the Motion and issued a Protective Order on April 11, 2012 for the protection of "Proprietary" and "Highly Confidential" materials.

13. On April 11, 2012, Dominion/IGS filed a petition to intervene. By letter dated April 12, 2012, Peoples indicated its non-opposition to Dominion/IGS's intervention. By Interim Order dated April 13, 2012, the ALJ granted the intervention of Dominion/IGS.

14. By Interim Order, dated May 9, 2012, the ALJ consolidated the formal complaints of Raymond E. Anderson (Docket No. C-2012-2298575), Steven J. Swencki (Docket No. C-2012-2299156), and James Weber (Docket No. C-2012-2300419) with Docket No. R-2012-2292082 and placed Messrs. Anderson, Swencki, and Weber on a limited service list.

15. The Joint Petitioners undertook formal and informal discovery prior and subsequent to the initial prehearing conference.

16. I&E, OCA, OSBA, and PIOGA served written direct testimony, including supporting exhibits, on May 16, 2012.⁴

⁴ The following written direct testimony was served by parties other than Peoples: I&E Statement No. 1, Direct Testimony of Joseph Kubas; I&E Statement No. 2, Direct Testimony of Christine Wilson; OCA Statement No. 1, Direct Testimony of Jerome D. Mierzwa; OSBA Statement No. 1, Direct Testimony of Brian Kalcic; and, PIOGA Statement No. 1, Direct Testimony of James Brant.

17. The Joint Petitioners held several settlement conferences. As a result of those conferences and the efforts of the Joint Petitioners 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 rebuttal testimony and before the first day scheduled for evidentiary hearings.

18. At the evidentiary hearing held as scheduled on June 14, 2012, the following evidence was admitted into the evidentiary record: Peoples' March 2, 2012 Prefiling; the 2012 Definitive Filing; and, the written direct testimony, including supporting exhibits, of Peoples, I&E, OCA, OSBA, and PIOGA.

19. The Settlement agreed to by the Joint Petitioners is as follows:

SETTLEMENT

Approval of the 2012 Definitive Filing as Modified

20. The 2012 Definitive Filing is approved except to the extent that it is modified by this Settlement.

Least Cost Fuel Procurement Policy - Reconciliation Period

21. Each of the seven specific findings set forth in Sections 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, 2011 through January 31, 2012 and, as a result, the natural gas costs that Peoples incurred over the 12-month period of February 1, 2011 through January 31, 2012 were incurred under a "least cost fuel procurement policy, consistent with [Peoples'] obligation to provide safe, adequate and reliable service to its customers."

Least Cost Fuel Procurement Policy - Projected Period

22. Each of the seven specific findings set forth in Sections 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, 2012 through September 30, 2013 and, as a result, the natural gas costs that Peoples will incur over the 20-month period of February 1, 2012 through September 30, 2013 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.”

23. It is understood and expressly agreed that the Commission’s findings and conclusions relating to the projected 20-month period of February 1, 2012 through September 30, 2013, 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, 2012 through September 30, 2013 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.”

Natural Gas Supply Rates as of October 1, 2012

24. The Joint Petitioners agree that, on October 1, 2012, Peoples shall, in lieu of Supplement No. 19, place into effect the form of tariff supplement attached hereto as **Appendix A**, which reflects changes to the natural gas rates set forth in Supplement No. 19 as detailed in **Appendix B** and the retainage rates set forth in Paragraph 26 below (regarding “Retainage

Levels”).⁵ It is recognized and acknowledged that the natural gas supply rates set forth in the form of tariff supplement attached hereto as **Appendix A**: (1) may be superseded by Peoples’ October 1, 2012 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, 2012 through September 30, 2013.

Retainage Waivers

25. The Joint Petitioners agree that the retainage rates related to the individual customers identified in **Peoples Exhibit No. 34 (HIGHLY CONFIDENTIAL)** should be approved by the Commission.

26. For all customers that currently receive a full or partial waiver of retainage and whose contracts expire between October 1, 2012 and September 30, 2013:

(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 2013 1307(f) proceeding to determine the appropriate levels of retainage waivers to be effective October 1, 2013. 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

⁵ Peoples currently has a base rate case pending at Docket No. R-2012-2285985. As a result, Peoples’ Tariff Gas – PA PUC No. 44 may be superseded by Peoples’ Tariff Gas - PA PUC No. 45 (“Tariff No. 45”). If the instant Settlement is approved, the form of tariff supplement attached hereto as **Appendix A** may be implemented and updated, effective October 1, 2012, via a new tariff supplement to Tariff No. 45 depending on the outcome of the base rate case.

\$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.

Retainage Levels

27. Effective October 1, 2012, the tariffed retainage rate under Rate GS-T will be decreased from 8.6% to 8.0% and the tariffed retainage rate under Rate T will be decreased from 7.2% to 6.9%. 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. Each Joint Petitioner reserves the right to present alternative retainage calculation methods in any future proceeding.

Lost and Unaccounted-For Gas

28. Peoples has reduced its system-wide rate for UFG, storage losses, and Company-used gas from 7.9% for the 12 months ended July 31, 2010 to 7.4% for the twelve months ended July 31, 2011.

29. Peoples used reasonable efforts to implement its “2011 Unaccounted-For-Gas Plan and Report” (“UFG Plan”) (a complete copy of which was attached to the Joint Petition for Approval of Settlement in Peoples’ 2011-1307(f) Proceeding at Docket No. R-2011-2228694 (“2011 Settlement”).

30. Peoples achieved the target range set forth in the 2011 Settlement for UFG (excluding storage migration losses) for the 12 months ended July 31, 2011 of 4.92% (low end) and 5.92% (high end). Peoples actual UFG (excluding storage migration losses) was 5.17%, which was below the midpoint target of 5.42%.

31. Peoples shall use reasonable efforts to continue to implement its UFG Plan and to implement its “2012 UFG Initiatives” as set forth on pages 21 through 31 of the Direct Testimony of Jeffrey Nehr, Peoples’ Manager, Gas Measurement (Peoples Statement No. 3, pp. 21-31), attached hereto as **Appendix C**. To the extent that Peoples does not continue to implement any material commitment of the UFG Plan, as modified by the 2012 UFG Initiatives, or the 2012 UFG Initiatives, Peoples shall bear the burden of proving by a preponderance of the evidence in its 2013 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 Plan (a copy of which was included with the 2011 Settlement), as modified by the 2012 UFG Initiatives, and the specific action items set forth in the 2012 UFG Initiatives.

32. Peoples shall, in conjunction with its 2013 1307(f) filing, report on the success of the UFG Plan, as modified by the 2012 UFG Initiatives, and the 2012 UFG Initiatives, and Peoples shall propose “2013 UFG Initiatives” to address any deficiencies or other circumstances that are inhibiting the reduction of UFG.

33. Peoples shall use reasonable efforts to achieve the UFG target ranges set forth in **Appendix D** (which are consistent with the target ranges agreed to in the 2011 Settlement). 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 D** are reasonable.

34. Nothing in Paragraphs 31 through 33 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.

Evaluation of Design Day Requirements and Capacity Portfolio

35. In anticipation of the March 31, 2014 expiration of Peoples' contracts with Dominion Transmission, Inc. ("DTI"), for services under FTNN, FTNN-GSS and GSS, Peoples agrees to examine its projected design day requirements and its projected gas supply and capacity portfolio. The results of this examination will be used as the basis to determine the level of capacity to be reflected in the service contracts with DTI for the periods after March 31, 2014. The results of this examination will be reviewed with members of Peoples' Operational and Capacity Council ("OCC") no later than December 31, 2012 and Peoples will report on the status of the process in its direct testimony filed in conjunction with its 2013 1307(f) proceeding.

Evaluation of Hedging Program

36. Peoples agrees to examine its hedging program and will report on the status of its examination in its direct testimony filed in conjunction with its 2013 1307(f) proceeding.

Operational and Capacity Council Meeting Schedule

37. Peoples shall schedule and hold OCC meetings semiannually, in March and September of each year, rather than quarterly.

NP-1 Pool Access to On- System Storage Capacity Used for Banking, Balancing and Advancing Service

38. Peoples shall make available to NP-1 pools for the storage injection season beginning April 2013, 1.70 Bcf of on-system storage capacity used by Peoples to provide Banking, Balancing and Advancing Service.

Recovery of Other Gas Costs Through the 1307(f) Mechanism

39. Effective October 1, 2012, Peoples will begin to recover certain costs incurred solely for the purpose of procuring gas supplies and performing gas hedging activities on behalf of 1307(f) customers. These additional costs shall only include: (a) market reports that are used to support daily and monthly physical deal pricing and swap settlements and information on FERC matters; and, (b) internet-based or other related services that provide real-time pricing information in support of daily economic gas purchase decision making and forward pricing information in support of the Peoples' hedging program. Peoples will not seek to recover these same costs through its non-gas base rates.

Method of Calculating E-Factor

40. Peoples will include the Demand and Commodity “E1” (or Current) Over or Under Recoveries in its Demand and Commodity C-factors in its quarterly 1307(f) filings, on a going-forward basis, starting with 1307(f) year commencing October 1, 2012. A sample quarterly 1307(f) calculation is attached hereto as **Appendix E**.

41. Beginning October 1, 2012, Peoples will separately present the Demand C-factor and Demand E-factor costs in its 1307(f) rate calculation and the Demand E-factor will be included in Rider D, Application of the Gas Cost Adjustment Charge. A sample annual 1307(f) calculation is attached hereto as **Appendix F**.

THE PUBLIC INTEREST

42. 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 testimony (including accompanying exhibits) by each of the Joint Petitioners.

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

44. 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.

CONDITIONS OF SETTLEMENT

45. 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.

46. 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.

47. 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.

48. 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.

49. 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 Joint Petitioners may have

advanced and without prejudice to the position any of the Joint Petitioners 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 Joint Petitioners 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.

50. 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.

51. Attached as **Appendices G** through **K** are Statements in Support submitted by Peoples, I&E, OCA, OSBA, and PIOGA setting forth the bases upon which they believe the Settlement is in the public interest. Attached as **Appendix L** is a notice from Dominion/IGS indicating that they neither support nor oppose the Settlement.

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,



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Date: 6/29/12

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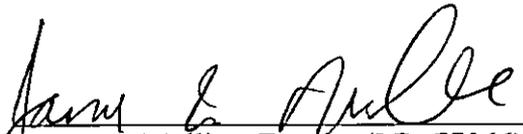
For Peoples Natural Gas Company LLC



Richard A. Kanaskie, Deputy Chief Prosecutor (I.D. 80409)
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For Bureau of Investigation & Enforcement



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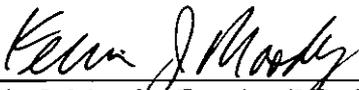
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For Office of Small Business Advocate



Kevin J. Moody, Esquire (I.D. 34367)
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Date: 6/29/12

For Pennsylvania Independent Oil & Gas Association

A

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JUN 29 2012

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PEOPLES NATURAL GAS COMPANY LLC

**RATES AND RULES
GOVERNING THE
FURNISHING OF
NATURAL GAS SERVICE
TO RETAIL
GAS CUSTOMERS**

Annual 1307(f) – 2012 Gas Cost Filing

ISSUED: April 2, 2012
BY: Morgan K. O'Brien
President
375 North Shore Drive, Suite 600
Pittsburgh, PA 15212

EFFECTIVE: October 1, 2012

NOTICE

This tariff makes changes to existing rates.
(See page 2)

LIST OF CHANGES

	<u>Present Base Rates</u>	<u>Proposed Base Rates</u>	<u>Increase (Decrease) \$/Mcf</u>
<u>Rate RS, CS-L</u>			
Capacity Charge	\$0.4290	\$0.4764	\$0.0474
Gas Cost Adjustment Charge	\$0.7314	\$0.0951	(\$0.6363)
Commodity Charge	\$2.9745	\$3.6861	\$0.7116
<u>Rate CS-S</u>			
Capacity Charge	\$0.4014	\$0.4488	\$0.0474
Gas Cost Adjustment Charge	\$0.7314	\$0.0951	(\$0.6363)
Commodity Charge	\$2.9745	\$3.6861	\$0.7116
<u>Rate GS-T</u>			
BB&A Charge	\$0.1594	\$0.1614	\$0.0020
<u>Rate T</u>			
BB&A Charge	\$0.0367	\$0.0347	(\$0.0020)
<u>Rate GS-SB</u>			
Capacity Charge – Rate RS & CS-L	\$0.4290	\$0.4764	\$0.0474
Capacity Charge CS-S	\$0.4014	\$0.4488	\$0.0474
<u>Rate IS/SB</u>			
Capacity Charge - Sales	\$0.4290	\$0.4764	\$0.0474
Capacity Charge - Standby	\$0.4290	\$0.4764	\$0.0474
Gas Cost Adjustment Charge	\$0.7314	\$0.0951	(\$0.6363)
Commodity Charge	\$2.9745	\$3.6861	\$0.7116
<u>Rider E</u>			
Residential Ratepayers (Rate RS)	\$0.1481	\$0.1525	\$0.0044
Commercial Ratepayers (Rate CS-S)	\$0.0304	\$0.0313	\$0.0009
Commercial & Industrial Ratepayers (CS-L & IS/SB)	\$0.0306	\$0.0315	\$0.0009

Page 43 Change to retainage percentage.
Page 55 Change to retainage percentage.

RATE RS
RESIDENTIAL SERVICE**AVAILABILITY**

This rate is available to residential ratepayers (other than those that the Company determines shall acquire service under Rate GS-SB) located throughout the territory described in the "Description of Territory" in this tariff and shall be applied to consumption for each month determined in accordance with Rule 10.

This rate will be used for provision of supplier of last resort service to residential ratepayers.

RATE TABLE

Customer Charge per meter per month	\$13.75	
Ratepayer Trust Rate Credit (Rider H) per meter per month	<u>(\$1.50)</u>	
Total Customer Charge per Month	\$12.25	
Delivery Charge per Mcf	\$3.2837	
Universal Service (Rider F) per MCF	\$0.2391	
Ratepayer Trust Rate Credit (Rider H) per MCF	<u>(\$0.1197)</u>	
Total Delivery Charge per MCF	\$3.4031	
Capacity Charge per Mcf	\$0.4764	(I)
Merchant Function Charge per Mcf	<u>\$0.0171</u>	(I)
Total Capacity Charge per Mcf	\$0.4935	
Gas Cost Adjustment Charge per Mcf	\$0.0951	(D)
Merchant Function Charge per Mcf	<u>\$0.0034</u>	(D)
Total Gas Cost Adjustment Charge per Mcf	\$0.0985	
Natural Gas Supply Charge per Mcf	\$3.6861	(I)
Merchant Function Charge per Mcf	<u>\$0.1320</u>	(I)
Total Commodity Charge per Mcf	\$3.8181	

MINIMUM MONTHLY BILL

The minimum monthly bill per meter shall be the customer charge per ratepayer per month. In the event of an emergency curtailment in the delivery of gas by the Company to a ratepayer pursuant to Rule 17, or complete or partial suspension of operation by the ratepayer due to fire, flood, explosion, or other similar acts of God, the minimum monthly bill may be reduced in direct proportion to the ratio of the number of days of curtailed service or complete or substantial suspension of operation to the number of days in the billing period.

SURCHARGES

All applicable riders to this tariff.

LATE-PAYMENT CHARGE

A late-payment charge of 1.50 percent per month will be made for failure to make payment in full, for all charges billed by the Company, within five days after the due date shown on the bill. This charge is to be calculated on the overdue portion of the bill, excluding any unpaid late-payment charges.

RULES AND REGULATIONS

The Company's Rules and Regulations in effect from time to time, where not inconsistent with any specific provision hereof, are a part of this rate schedule.

WAIVER

The Company reserves the right to waive the customer charge per meter for additional meters. An example of when such waiver may occur is when the Company determines that such meters have been installed principally and primarily for the Company's convenience and not due to the ratepayer's load characteristics.

RATE CS-S
COMMERCIAL and NGDC SERVICE – SMALL

AVAILABILITY

This rate is available to commercial and NGDC ratepayers consuming less than 1,000 Mcf annually (other than those that the Company determines shall acquire service under Rate GS-SB or those that use natural gas as a motor vehicle fuel), located throughout the territory described in the "Description of Territory" in this tariff and shall be applied to consumption for each month determined in accordance with Rule 10.

This rate will be used for provision of supplier of last resort service to all commercial and NGDC ratepayers.

RATE TABLE

Customer Charge per meter per month:

For ratepayers with annual consumption less than 500 Mcf	\$13.75	
Ratepayer Trust Credit (Rider H) per meter per month	(\$1.04)	
Total Customer Charge per meter per month	<u>\$12.71</u>	

For ratepayers with annual consumption equal to or greater than 500 Mcf but less than 1,000 Mcf	\$24.00	
Ratepayer Trust Credit (Rider H) per meter per month	(\$1.04)	
Total Customer Charge per meter per month	<u>\$22.96</u>	

Delivery Charge per Mcf	\$2.4242	
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Capacity Charge (Rider B) per Mcf	\$0.4488	(I)
Merchant Function Charge (Rider E) per Mcf	<u>\$0.0033</u>	(I)
Total Capacity Charge per Mcf	\$0.4521	

Gas Cost Adjustment Charge (Rider B) per Mcf	\$0.0951	(D)
Merchant Function Charge (Rider E) per Mcf	<u>\$0.0007</u>	(D)
Total Gas Cost Adjustment Charge per Mcf	\$0.0958	

Natural Gas Supply Charge (Rider B) per Mcf	\$3.6861	(I)
Merchant Function Charge (Rider E) per Mcf	<u>\$0.0273</u>	(I)
Total Natural Gas Supply Charge per Mcf	\$3.7134	

MARKET BASED COMMODITY CHARGE ADJUSTMENT (CCA)

This adjustment will be applicable to Non-Priority One ratepayers that previously had been receiving transportation service from the Company for at least twelve consecutive months and transfers to service under this rate schedule. Once applied, the CCA will be applicable for twelve consecutive months of service under this rate schedule. The Gas Cost Adjustment Charge shall not be applicable if the CCA is being charged.

The CCA shall be determined monthly and shall equal the difference between the Company's city gate price and the currently effective commodity charge under this rate schedule. The CCA shall never be less than zero. The Company's city gate price shall be based on the first of the month Dominion Transmission Inc. Appalachia Index price as published in *Inside FERC's Gas Market Report* plus applicable Dominion Transmission, Inc. transportation charges and retainage.

RATE CS-L
COMMERCIAL and NGDC SERVICE - LARGE

AVAILABILITY

This rate is available to commercial and NGDC ratepayers consuming 1,000 Mcf or greater annually (other than those that the Company determines shall acquire service under Rate GS-SB or those that use natural gas as a motor vehicle fuel), located throughout the territory described in the "Description of Territory" in this tariff, and shall be applied to consumption for each month determined in accordance with Rule 10.

The Company shall determine the annual consumption of each CS-L ratepayer in order to assess the appropriate customer charge. This rate will be used for provision of supplier of last resort service to commercial and NGDC ratepayers.

RATE TABLE

Customer Charge per meter per month:

For ratepayers with annual consumption equal to or greater than 1,000 Mcf but less than 2,500 Mcf	\$45.00	
Ratepayer Trust Rate Credit (Rider H) per meter per month	(\$18.65)	
Total Customer Charge per month	\$26.35	
For ratepayers with annual consumption equal to or greater than 2,500 Mcf but less than 25,000 Mcf	\$69.00	
Ratepayer Trust Rate Credit (Rider H) per meter per month	(\$28.60)	
Total Customer Charge per month	\$40.40	
For ratepayers with annual consumption equal to or greater than 25,000 Mcf	\$443.00	
Ratepayer Trust Rate Credit (Rider H) per meter per month	(\$179.46)	
Total Customer Charge per month	\$263.54	
Delivery Charge per Mcf	\$2.5322	
Ratepayer Trust Rate Credit (Rider H) per MCF	(\$0.0872)	
Total Delivery charge per MCF	\$2.4450	
Capacity Charge (Rider B) per Mcf	\$0.4764	(I)
Merchant Function Charge (Rider E) per Mcf	\$0.0035	(I)
Total Capacity Charge per Mcf	\$0.4799	
Gas Cost Adjustment Charge (Rider B) per Mcf	\$0.0951	(D)
Merchant Function Charge (Rider E) per Mcf	\$0.0007	(D)
Total Gas Cost Adjustment Charge per Mcf	\$0.0958	
Natural Gas Supply Charge (Rider B) per Mcf	\$3.6861	(I)
Merchant Function Charge (Rider E) per Mcf	\$0.0273	(I)
Total Natural Gas Supply Charge per Mcf	\$3.7134	

MARKET BASED COMMODITY CHARGE ADJUSTMENT (CCA)

This adjustment will be applicable to Non-Priority One ratepayers that previously had been receiving transportation service from the Company for at least twelve consecutive months and transfers to service under this rate schedule. Once applied, the CCA will be applicable for twelve consecutive months of service under this rate schedule. The Gas Cost Adjustment Charge shall not be applicable if the CCA is being charged.

The CCA shall be determined monthly and shall equal the difference between the Company's city gate price and the currently effective commodity charge under this rate schedule. The CCA shall never be less than zero. The Company's city gate price shall be based on the first of the month Dominion Transmission Inc. Appalachia Index price as published in *Inside FERC's Gas Market Report* plus applicable Dominion Transmission, Inc. transportation charges and retainage.

ISSUED: April 2, 2012

EFFECTIVE: October 1, 2012

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (continued)

- (8) Unless otherwise agreed under paragraph (16) below, the Company will arrange its utilization of available capacity by endeavoring to fairly accommodate, to the extent practicable, the interests of its retail and transportation ratepayers.
- a. Available System Capacity for Transportation Service: Capacity for the transportation of ratepayer-owned gas is available on the Company's system to the same extent as capacity is available for the general system supplies that the Company acquires for its retail ratepayers, except where operational constraints may require otherwise. Those operational constraints can include the safety of persons or property and the displacement of locally produced or purchased retail gas supplies and conditions required under Rate ST & ST-SW.
 - b. Actual Unavailability of or Restrictions on Capacity: In the event that capacity on the Company's system either is unavailable for the transportation of ratepayer-owned gas or is available but restricted, the Company will provide its transportation ratepayer or the ratepayer's designated representative with a written explanation of why capacity is unavailable or restricted and the steps examined by the Company to alleviate the unavailability or restriction. Where capacity is restricted, the Company will allocate capacity to its transportation ratepayers without regard to the sources of the ratepayers' natural gas supplies.
 - c. Anticipated Unavailability of or Restrictions on Capacity: Whenever the Company anticipates that an extraordinary activity or occurrence will make capacity either unavailable or available but restricted, the Company will provide written notice to Pennsylvania producers, as early as possible, of the specific portions of the Company's system on which capacity may be unavailable or available but restricted and of the length of time that the unavailability or restriction likely will last.
- (9) As soon as practical after the ratepayer learns of any disruption or interruption in its supply of gas, the ratepayer shall notify the Company.
- (10) The measurements at the point of receipt and delivery shall be the responsibility of the Company. All quantities of gas received, transported, and delivered shall be expressed in terms of "Mcf." If the ratepayer's gas is received by the Company in Btus, the Company will divide the number of Btus by 1.030, or such other factor as the Company may determine appropriate, to determine the Mcf of gas received by the Company for transportation.
- (11) The Company shall retain 8.0 percent as gas used in Company operations and for unaccounted-for gas of the (D) total volume of gas received into its system on behalf of the ratepayer under Transportation Agreements that have been or are entered into pursuant to this rate, except in the following circumstances, where the Company may exercise its discretion to waive retainage in conjunction with a positive cost/benefit analysis:
- 1) If ratepayer can obtain alternate transportation service via direct bypass;
 - 2) If ratepayer receives transportation service through Company-owned facilities which do not produce the retainage percentage set forth in this rate schedule;
 - 3) If ratepayer has a competitive offer from a non-PUC-jurisdictional entity;
 - 4) If ratepayer can demonstrate economic development or job retention considerations are present; or
 - 5) If ratepayer has a bona fide competitive offer from an alternative energy source.

As used in this rate schedule, "alternative energy source" shall not include natural gas service from other Natural Gas Distribution Companies.

- (12) Ratepayer-owned gas received into the gathering system by the Company will be available as nominated by the ratepayer or his agent in the current month. Nominations will be accepted if determined to be reasonable by the Company. Reconciliation of the actual volumes to nominated volumes will be made in the first month available.

(continued)

RATE GS-T
GENERAL SERVICE - TRANSPORTATION**RULES AND DELIVERY TERMS** (continued)(13) Monthly Balancing Provisions

The Company will bank for one month following the month that the ratepayer's gas is available for the ratepayer's use, up to 3.5 percent of the volumes delivered on the ratepayer's behalf (net of the payback of advanced gas). Banked gas shall precede current deliveries of gas through the ratepayer's meter during the month following the banking period. The Company will balance ratepayer's daily deliveries with ratepayer's actual daily consumption during the month. The Company will advance up to 3.5 percent of the volumes received on the ratepayer's behalf in any month. The first gas received on the ratepayer's behalf in the succeeding month will be deemed the payback of advanced gas.

Negative Monthly Imbalance - A negative imbalance fee will be assessed on consumption by the ratepayer in excess of gas deliveries plus gas advanced, storage withdrawals, and any contracted for standby service. The negative imbalance volume will be sold by the Company at a price (which will include the applicable customer delivery charge and surcharges) including the highest monthly price of gas purchased by the Company, excluding the value of gas withdrawn from storage, plus the firm transportation charges to bring the gas to the Company's system, adjusted for shrinkage on Dominion Transmission, Inc. and the Company and multiplied by the applicable Price Multiplier set forth below. Volumes sold by the Company are subject to applicable taxes. The Company may waive these restrictions if its actions cause the ratepayer to exceed the 3.5 percent tolerance level.

Positive Monthly Imbalance - If the ratepayer fails to use at least 96.5 percent of the volumes delivered to the Company on ratepayer's account in any month, then the Company may buy the gas which has remained in the bank longer than the banking period or in excess of the amount used and banked in the month from the ratepayer, (unless the ratepayer is eligible to store gas under Rate ST or Rate ST-SW conditions of availability and elects to store the gas.) The positive imbalance volume will be purchased by the Company at a price using the lowest monthly price of gas purchased by the Company, excluding the value of gas withdrawn from storage, plus the firm transportation charges to bring the gas to the Company's system, adjusted for shrinkage on Dominion Transmission, Inc. and multiplied by the applicable Price Multiplier set forth below.

<u>Monthly Imbalance Percentage</u>	<u>Negative Imbalance Price Multiplier</u>	<u>Positive Imbalance Price Multiplier</u>
Over 3.5% up to and including 10%	1.1	0.9
Over 10%	1.2	0.8

A banking, balancing, and advancing (BB&A) charge will be assessed against each Mcf of transportation at \$0.1614 per Mcf. This rate will be recalculated in each of the Company's annual 1307(f) gas cost proceedings. (I) The BB&A charge will not be assessed if (1) the ratepayer is already paying the standby charge under Rate Schedule GS-SB on the same volumes or (2) if the ratepayer or pool can balance its supply and deliveries on a daily basis in a manner satisfactory to the Company.

RATE GS-SB
GENERAL SERVICE - STANDBY SERVICE

AVAILABILITY

This service is available to transportation service ratepayers served under Rate GS-T and/or ratepayers who need or use the Company as backup service to service from an alternate supplier.

RULES AND DELIVERY TERMS**Priority-One Transportation Ratepayers**

Priority One ratepayers must pay for standby service through a transportation standby charge applicable to all volumes transported under Rate Schedule GS-T. Backup service for Priority-One ratepayers shall be provided pursuant to the applicable retail rate schedules.

Non-Priority-One Transportation Ratepayers

The ratepayer may execute a Standby Contract for a specified monthly volume. The term of the Standby Contract will be a minimum period of not less than one year. Ratepayers that execute a Standby Contract will pay for standby service through a capacity charge applicable to contracted for monthly volumes and through a standby commodity charge applicable to all standby volumes actually purchased under Rate Schedule GS-SB.

Back-up Standby Service

If a ratepayer is using the Company as back-up service to service from an alternative supplier, the Company shall charge the ratepayer the standby service fees set forth in the rate table below. The Company reserves the right to determine when and the level to which a ratepayer is using the Company as a backup supplier. In situations where the alternative supply is from local well production and before the Company provides backup standby service under the terms of this rate schedule, the Company shall have the right to inspect the pipeline and related facilities of the ratepayer and require that the ratepayer install, at its own expense, any necessary equipment to protect the integrity and safe operation of the Company's system.

RATE TABLE**Capacity Charges Applicable under the Rate Schedule:**

RS Capacity Charge per Mcf	\$0.4764	(l)
Merchant Function Charge per Mcf	<u>\$0.0171</u>	(l)
Total RS Capacity Charge per Mcf	\$0.4935	
CS-S Capacity Charge per Mcf	\$0.4488	(l)
Merchant Function Charge per Mcf	<u>\$0.0033</u>	(l)
Total CS-S Capacity Charge per Mcf	\$0.4521	
CS-L Capacity Charge per Mcf	\$0.4764	(l)
Merchant Function Charge per Mcf	<u>\$0.0035</u>	(l)
Total CS-L Capacity Charge per Mcf	\$0.4799	

Standby Charges for Priority One Transportation Ratepayers

For ratepayers that pay the capacity charge, the Company may release pipeline capacity, the terms of which will be pursuant to the capacity-release terms of the Company's Supplier tariff and this rate schedule.

Priority-One ratepayers who take service under this rate schedule, or their agents, must take assignment of a pro-rata or other agreed upon share of the pipeline and storage capacity and Pennsylvania produced gas supplies ("assigned capacity") that would otherwise be utilized by the Company to meet the ratepayer's service requirements. Assigned capacity shall be subject to recall pursuant to the conditions described in the Company's Supplier Tariff, in which case the Company will provide for the delivery of necessary gas supplies pursuant to the terms of this rate schedule. More specific terms with respect to capacity assignment requirements may be set forth in the Company's Supplier Tariff and in its contracts with Priority One NGSs. However, such additional terms with respect to capacity assignment requirements shall be subject to review in the Company's annual Section 1307(f) proceeding.

**RATE IS/SB
INDUSTRIAL SERVICE/STANDBY****AVAILABILITY**

This rate is available to industrial ratepayers that choose to purchase gas supplies from the Company (supplier of last resort service), industrial ratepayers served under Rate T that choose to enter into a standby contract with the Company and industrial ratepayers that use the Company as backup service to service from an alternate supplier.

SUPPLIER OF LAST RESORT SERVICE

The Company shall determine the annual consumption of each industrial ratepayer in order to assess the appropriate customer charge.

RATE TABLE

Customer Charge per ratepayer per month:

For ratepayers with annual consumption less than 25,000 Mcf	\$69.00	
Ratepayer Trust Rate Credit (Rider H) per ratepayer per month	<u>(\$49.45)</u>	
Total Customer Charge per ratepayer per month	\$19.55	
For ratepayers with annual consumption equal to or greater than 25,000 Mcf but less than 50,000 Mcf	\$443.00	
Ratepayer Trust Rate credit (Rider H) per ratepayer per month	<u>(\$310.30)</u>	
Total Customer Charge per ratepayer per month	\$132.70	
For ratepayers with annual consumption equal to or greater than 50,000 Mcf but less than 100,000 Mcf	\$545.00	
Ratepayer Trust Rate Credit (Rider H) per ratepayer per month	<u>(\$390.56)</u>	
Total Customer Charge per ratepayer per month	\$154.44	
For ratepayers with annual consumption equal to or greater than 100,000 Mcf but less than 200,000 Mcf	\$1,144.00	
Ratepayer Trust Rate Credit (Rider H) per ratepayer per month	<u>(\$819.82)</u>	
Total Customer Charge per ratepayer per month	\$324.18	
For ratepayers with annual consumption equal to or greater than 200,000 Mcf	\$2,009.00	
Ratepayer Trust Rate Credit (Rider H) per ratepayer per month	<u>(\$1,439.69)</u>	
Total Customer Charge per ratepayer per month	\$569.31	

Delivery Charges:

Delivery Charge per Mcf	\$1.8505	
Ratepayer Trust Rate Credit (Rider H) per MCF	<u>(\$0.0878)</u>	
Total Delivery Charge per MCF	\$1.7627	

Capacity Charge (Rider B) – Supplier of Last Resort Service per Mcf	\$0.4764	(I)
Merchant Function Charge (Rider E) per Mcf	\$0.0035	(I)
Total Capacity Charge per Mcf	\$0.4799	

Gas Cost Adjustment Charge (Rider B) per Mcf	\$0.0951	(D)
Merchant Function Charge (Rider E) per Mcf	\$0.0007	(D)
Total Gas Cost Adjustment Charge per Mcf	\$0.0958	

Natural Gas Supply Charge (Rider B) per Mcf	\$3.6861	(I)
Merchant Function Charge (Rider E) per Mcf	\$0.0273	(I)
Total Natural Gas Supply Charge per Mcf	\$3.7134	

MARKET BASED COMMODITY CHARGE ADJUSTMENT (CCA)

This adjustment will be applicable to Non-Priority One ratepayers that previously had been receiving transportation service from the Company for at least twelve consecutive months and transfers to service under this rate schedule. Once applied, the CCA will be applicable for twelve consecutive months of service under this rate schedule. The Gas Cost Adjustment Charge shall not be applicable if the CCA is being charged.

The CCA shall be determined monthly and shall equal the difference between the Company's city gate price and the currently effective commodity charge under this rate schedule. The CCA shall never be less than zero. The Company's city gate price shall be based on the first of the month Dominion Transmission Inc. Appalachia Index price as published in *Inside FERC's Gas Market Report* plus applicable Dominion Transmission, Inc. transportation charges and retainage.

RATE T
TRANSPORTATION SERVICE - INDUSTRIAL

RULES AND DELIVERY TERMS (continued)

- (9) As soon as practicable after the ratepayer learns of any disruption or interruption in its supply of gas, the ratepayer shall notify the Company.
- (10) The measurements at the point of receipt and delivery shall be the responsibility of the Company. All quantities of gas received, transported, and delivered shall be expressed in terms of "Mcf." If the ratepayer's gas is received by the Company in mmBtu's, the Company will divide the number of mmBtu's by 1.030, or such other factor as the Company may determine appropriate, to determine the Mcf of gas received by the Company for transportation.
- (11) The Company shall retain 6.9 percent as gas used in Company operations and for unaccounted-for gas of the (D) total volume of gas received into its system on behalf of the ratepayer under Transportation Agreements that have been or are entered into pursuant to this rate, except in the following circumstances, where the Company may exercise its discretion to waive retainage in conjunction with a positive cost/benefit analysis:
- 1) If ratepayer can obtain alternate transportation service via direct bypass;
 - 2) If ratepayer receives transportation service through Company-owned facilities which do not produce the retainage percentage set forth in this rate schedule;
 - 3) If ratepayer has a competitive offer from a non-PUC-jurisdictional entity;
 - 4) If ratepayer can demonstrate economic development or job retention considerations are present; or
 - 5) If ratepayer has a bona fide competitive offer from an alternative energy source.

As used in this rate schedule, "alternative energy source" shall not include natural gas service from other Natural Gas Distribution Companies.

- (12) Ratepayer-owned gas received into the gathering system by the Company will be available as nominated by the ratepayer or his agent in the current month. Nominations will be accepted if determined to be reasonable by the Company. Reconciliation of actual volumes to nominated volumes will be made in the first month available.
- (13) Monthly Balancing Provisions
- The Company will bank for one month following the month that the ratepayer's gas is available for the ratepayer's use, up to 3.5 percent of the volumes delivered on the ratepayer's behalf (net of the payback of advanced gas). Banked gas shall precede current deliveries of gas through the ratepayer's meter during the month following the banking period. The Company will balance ratepayer's daily deliveries with ratepayer's actual daily consumption during the month. The Company will advance up to 3.5 percent of the volumes received on the ratepayer's behalf in any month. The first gas received on the ratepayer's behalf in the succeeding month will be deemed the payback of advanced gas.

Negative Monthly Imbalance - A negative imbalance fee will be assessed on consumption by the ratepayer in excess of gas deliveries plus gas advanced, storage withdrawals, and any contracted for standby service. The negative imbalance volume will be sold by the Company at a price (which will include the applicable customer delivery charge and surcharges) including the highest monthly price of gas purchased by the Company, excluding the value of gas withdrawn from storage, plus the firm transportation charges to bring the gas to the Company's system, adjusted for shrinkage on Dominion Transmission, Inc. and the Company and multiplied by the applicable Price Multiplier set forth below. Volumes sold by the Company are subject to applicable taxes. The Company may waive these restrictions if its actions cause the ratepayer to exceed the 3.5 percent tolerance level.

(continued)

RATE T
TRANSPORTATION SERVICE - INDUSTRIAL

RULES AND DELIVERY TERMS (continued)

Positive Monthly Imbalance - If the ratepayer fails to use at least 96.5 percent of the volumes delivered to the Company on ratepayer's account in any month, then the Company may buy the gas which has remained in the bank longer than the banking period or in excess of the amount used and banked in the month from the ratepayer, (unless the ratepayer is eligible to store gas under Rate ST or Rate ST-SW conditions of availability and elects to store the gas.) *The positive imbalance volume will be purchased by the Company at a price using the lowest monthly price of gas purchased by the Company, excluding the value of gas withdrawn from storage, plus the firm transportation charges to bring the gas to the Company's system, adjusted for shrinkage on Dominion Transmission, Inc. and multiplied by the applicable Price Multiplier set forth below.*

<u>Monthly Imbalance Percentage</u>	<u>Negative Imbalance Price Multiplier</u>	<u>Positive Imbalance Price Multiplier</u>
Over 3.5% up to and including 10%	1.1	0.9
Over 10%	1.2	0.8

A banking, balancing, and advancing (BB&A) charge will be assessed against each Mcf of transportation at \$0.0347 per Mcf. This rate will be recalculated in each of the Company's annual 1307(f) gas cost proceedings. (D) The BB&A charge will not be assessed if (1) the ratepayer is already paying the standby charge under Rate Schedule IS-SB on the same volumes or (2) if the ratepayer or pool can balance its supply and deliveries on a daily basis in a manner satisfactory to the Company.

- (14) Backup service is available to ratepayers under this rate schedule only under Rate IS/SB, unless the ratepayer qualifies for service under Rate CER or unless otherwise agreed under paragraph (16) below.
- (15) The Company reserves the right, as a condition of service under this rate schedule, to require any customer requesting service under this rate schedule to install and bear the costs of enhanced metering capability. The Company also reserves the right to require installation of such metering capability, at the ratepayer's expense, as a condition of continuation of service under this rate schedule.
- (16) When the ratepayer purchasing service under this rate is using natural gas for generating power, ratepayer and the Company shall enter into a separate (operating) agreement by which the ratepayer and the Company will agree to, among other things, set limits on hourly or daily consumption; require provision of notice of ratepayer's specific plans concerning intent to consume natural gas, the volume that will be used, the time period of which such consumption will occur, and when usage will end; establish criteria for interruption of all or part of ratepayer's planned consumption, whether through transportation or retail service; establish penalties for failure of ratepayer to adhere to agreed-upon usage levels or to interrupt consumption as agreed upon by the parties; and agree upon the availability of retail service. In negotiating the rate for provision of transportation service under Rate T with a ratepayer using natural gas to generate power, the parties may agree to establish fixed levels of minimum daily, monthly, or annual consumption for which ratepayer shall pay the negotiated rate regardless of actual consumption.
- (17) The Company will from time to time make pipeline capacity available for release to transportation ratepayers. Each release transaction will be made in accordance with and subject to applicable pipeline tariff requirements and necessary regulatory requirements

RIDER B

RECOVERY OF PURCHASED GAS COSTS (1307(f) RATES)COMPUTATION OF PURCHASED GAS COSTS

The purchased gas cost rates for Residential, Commercial, and Industrial Service ratepayers shall be computed to the nearest one-hundredth cent (0.01¢) in accordance with the formula set forth below:

$$\begin{aligned} \text{Demand} &= \frac{\text{DC} - \text{BB\&A} - \text{DOU}}{\text{S} + \text{SBAC} + \text{SBC}} \\ \text{Commodity} &= \frac{\text{CC} - \text{R}}{\text{S} + \text{SBR}} \\ \text{Over/Under Collection} &= \frac{\text{E}}{\text{S} + \text{SBR} + \text{MR}} \end{aligned}$$

(For definitions of "DC", "CC", "E", "S", "SBC", "SBAC", "R", "BB&A", and "DOU" refer to Section II under this rider).

The purchased gas cost rates are as follows:

RS, CS-L, IS, NGPV

Capacity Charge - Demand	\$0.4764 per Mcf	(I)
Gas Cost Adjustment Charge - (Over)/Under Collection	\$0.0951 per Mcf	(D)
Natural Gas Supply Charge - Commodity	\$3.6861 per Mcf	(I)
GS-SB Capacity Charge Priority One	\$0.4764 per Mcf	(I)

CS-S

Capacity Charge - Demand	\$0.4488 per Mcf	(I)
Gas Cost Adjustment Charge - (Over)/Under Collection	\$0.0951 per Mcf	(D)
Natural Gas Supply Charge - Commodity	\$3.6861 per Mcf	(I)
GS-SB Capacity Charge Priority One	\$0.4488 per Mcf	(I)

(continued)

RIDER E

MERCHANT FUNCTION CHARGE (MFC)

The Merchant Function Charge (MFC) shall be added to the gas cost charges set forth in sales rate schedules Rate RS, Rate CS-S, Rate CS-L and Rate IS/SB. The gas cost charges include the Capacity Charge, Gas Cost Adjustment Charge and Commodity Charge.

The MFC shall be updated quarterly effective with each 1307(f) rate change. The write-off factor used to calculate the quarterly MFC shall only be determined in a base rate case filing.

For residential customers receiving sales service under Rate RS, the MFC shall equal the write-off factor of 3.58% times the gas cost charges as set forth in Peoples' Rider B. The current MFC applicable to Rate RS customers is:

Capacity Charge per Mcf	\$0.0171	(I)
Gas Cost Adjustment Charge per Mcf	\$0.0034	(D)
Commodity Charge per Mcf	<u>\$0.1320</u>	(I)
Total Rate RS MFC per Mcf	\$0.1525	

For commercial customers receiving sales service under Rate CS-S, the MFC shall equal the write-off factor of 0.74% times the gas cost charges as set forth in Peoples' Rider B. The current MFC applicable to Rate CS-S ratepayers is:

Capacity Charge per Mcf	\$0.0033	(I)
Gas Cost Adjustment Charge per Mcf	\$0.0007	(D)
Commodity Charge per Mcf	<u>\$0.0273</u>	(I)
Total Rate CS-S MFC per Mcf	\$0.0313	

For commercial and industrial customers receiving sales service under Rate CS-L and Rate IS/SB, the MFC shall equal the write-off factor of 0.74% times the gas cost charges as set forth in Peoples' Rider B. The current MFC applicable to Rate CS-L and Rate IS/SB ratepayers is:

Capacity Charge per Mcf	\$0.0035	(I)
Gas Cost Adjustment Charge per Mcf	\$0.0007	(D)
Commodity Charge per Mcf	<u>\$0.0273</u>	(I)
Total Rate CS-L and IS/SB MFC per Mcf	\$0.0315	

B

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

APPENDIX B

While responding to data requests submitted during the discovery process, Peoples determined that changes in the calculations of the Capacity Charge, Gas Cost Adjustment Charge, the associated Merchant Function Charge and the BB&A Charge were necessary. Additionally, the Settlement Base Rates shown below reflect all other aspects of the Settlement. These changes are reflected in Appendix A to the Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa. C.S. Section 1307(f).

	Proposed	Corrected	Settlement	Increase/ (Decrease)
	Base Rates	Base Rates	Base Rates	\$/Mcf
Rate RS, CS-L				
Capacity Charge	\$ 0.5330	\$ 0.5298	\$ 0.4764	\$ (0.0566)
Gas Cost Adjustment Charge	\$ 0.0256	\$ 0.0259	\$ 0.0951	\$ 0.0695
Commodity Charge	\$ 3.6861	\$ -	\$ 3.6861	\$ -
Rate CS-S				
Capacity Charge	\$ 0.5054	\$ 0.5022	\$ 0.4488	\$ (0.0566)
Gas Cost Adjustment Charge	\$ 0.0256	\$ 0.0259	\$ 0.0951	\$ 0.0695
Commodity Charge	\$ 3.6861	\$ -	\$ 3.6861	\$ -
Rate GS-T				
BB&A Charge	\$ 0.1617	\$ 0.1614	\$ 0.1614	\$ (0.0003)
Rate T				
BB&A Charge	\$ 0.0305	\$ 0.0347	\$ 0.0347	\$ 0.0042
Rate GS-SB				
Capacity Charge – Rate RS & CS-L	\$ 0.5330	\$ 0.5298	\$ 0.4764	\$ (0.0566)
Capacity Charge CS-S	\$ 0.5054	\$ 0.5022	\$ 0.4488	\$ (0.0566)
Rate IS/SB				
Capacity Charge - Sales	\$ 0.5330	\$ 0.5298	\$ 0.4764	\$ (0.0566)
Capacity Charge - Standby	\$ 0.5330	\$ 0.5298	\$ 0.4764	\$ (0.0566)
Gas Cost Adjustment Charge	\$ 0.0256	\$ 0.0259	\$ 0.0951	\$ 0.0695
Commodity Charge	\$ 3.6861	\$ -	\$ 3.6861	\$ -
Rider E				
Residential (Rate RS)	\$ 0.1520	\$ 0.1519	\$ 0.1525	\$ 0.0005
Commercial Small (Rate CS-S)	\$ 0.0312	\$ -	\$ 0.0313	\$ 0.0001
Commercial Large & Industrial (CS-L & IS/SB)	\$ 0.0314	\$ -	\$ 0.0315	\$ 0.0001

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1 immediate and meaningful UFG reductions, it allowed us to focus our commitment on
2 achieving long-term UFG reductions while addressing and improving UFG on our
3 gathering pipelines. We also plan on using these UFG models to monitor our actions to
4 determine if they are achieving the expected improvements or the need to alter our
5 activities.

6 **Peoples Exhibit No. 28** shows Peoples' actual total-system UFG and storage
7 migration losses for the most recent four-year period. **Peoples Exhibit No. 28** also
8 provides the target range for 2012 - 2014 as established in last years' 1307(f) case.
9 Peoples plans to achieve its 2012 UFG targets by focusing its 2012 UFG mitigation
0 measures on gathering system improvements including enhanced leak repair, upgrading
1 producer measurement and integration practices, eliminating idle producer interconnects,
2 and abandoning non-essential gathering pipelines.

3
4 **Q. PLEASE DESCRIBE THE 2012 UFG INITIATIVES.**

5 A. Peoples' pipeline system is complex with transmission, gathering, storage and
6 distribution assets. We recommend continuing analysis to determine the root cause of
7 UFG by continuing the segmentation program, updating completed models, reporting
8 from new gathering models, and adding segmentation to identify transmission UFG. As
9 stated previously, we have been able to estimate and quantify distribution UFG, gathering
0 UFG, and storage losses. In order to estimate UFG by all pipeline functions, we
1 recommend adding segmentation for select and representative transmission pipelines.

2 Next, we will focus on improvements to reduce UFG in our gathering system.
3 With regard to measurement, we will continue our program to install Peoples-owned and

1 -operated correctors on producer interconnect meters to improve measurement at the top
2 200 producer interconnects, which represent 50% of the local production received by
3 Peoples. We will also coordinate our efforts with PIOGA and integrator companies to
4 develop a program to reduce the number of chart recorders and chart estimates on our
5 system. We also plan to eliminate producer interconnects that have not been active for
6 the past 12 months and abandon non-essential gathering pipelines that do not impact
7 customer service. We will also examine our producer master/deduct allocation program,
8 as explained below, for possible changes to eliminate errors associated with allocations.

9 With regard to leakage, we will enhance leak repair by reducing the time from
10 discovery to repair and thereby reducing the gas loss during that period. This program
11 will also take a more analytical approach to leak repair by prioritizing leaks by operating
12 pressure to ensure that we focus on gas loss while still keeping safety as primary focus.
13 We will identify gathering pipelines with high leak frequency and prioritize them for the
14 Repair/Protect/Replace program or as part of the 2013 bare steel pipeline replacement
15 program.

16 We will also continue with improvements to customer measurement by updating
17 our temperature study, creating a pressure study, and evaluating the acceleration of our
18 meter compensation conversion program.

19 Finally, we will take corrective action to reduce gas loss on the segmented
20 systems that were identified as high UFG, as compared to the overall UFG.

21
22 **Q. PLEASE DESCRIBE THE 2012 SEGMENTATION INITIATIVES IN MORE**
23 **DETAIL.**

1 A. Peoples will continue to update our existing segmentation models and provide the results
2 in next year's 1307(f). Revisiting models allows us to monitor these systems to
3 determine if our actions to reduce UFG are effective. It will also allow us to change
4 course if the UFG is not impacted by our 2012 actions.

5 As previously identified, two gathering pipeline systems were segmented but, due
6 to timing and lack of reports of customer data, we do not have segmentation results
7 available. We plan on completing these models by December, 2012, which will allow us
8 to quantify an overall Northern District UFG and a Valley station to Truittsburg station
9 UFG. These models will allow us to further isolate and quantify UFG in gathering and
0 will either reinforce our efforts or place us on a new path.

1 We plan on adding segmentation on transmission pipeline by installing a meter at
2 the McKeesport station to isolate pipeline TP7600. This transmission pipeline is a main
3 conduit which takes receipts from our largest DTI interconnect at Colvin and redelivers
4 that supply to McKeesport and eventually to Pittsburgh. By isolating and segmenting this
5 transmission pipeline, Peoples will have a representative UFG for transmission.

6 These efforts will allow Peoples to better segment distribution, gathering, storage,
7 and transmission in order to address UFG by pipeline function. This will allow us to
8 report on a more accurate basis, the UFG associated only with our distribution system,
9 which, in turn, will provide for a more valid comparison of UFG levels with other natural
0 gas utilities that own and operate only distribution assets.

1
2 **Q. PLEASE DESCRIBE THE 2012 GATHERING LEAK INITIATIVES IN MORE**
3 **DETAIL.**

1 A. Peoples will deploy the best practices identified in our comparison with the Peoples TWP
2 UFG initiatives and implement an Enhanced Leak Repair Program. The plan will focus
3 on Northern District gathering, and Peoples will add another leak repair crew to find and
4 repair gathering system leaks. The program will establish targets of leaks repaired per
5 day, leak backlog reduction, and leak duration reduction, and these actions will be
6 monitored bimonthly to determine if performance expectations are met. We will
7 benchmark performance by using our 2011 leak repair statistics and set our target to
8 exceed that performance.

9 We will not, however, limit our gathering system leak repairs to only the Northern
10 District gathering area. Using best practices, we will also deploy a Leak Hot List
11 Program to identify and dispatch leak repair crews based primarily on safety and pipeline
12 pressure – which, in turn, will help to reduce UFG attributed to leaks across the Peoples’
13 system. This Hot List will be reviewed during our bimonthly meeting with Operations
14 Managers across all districts. Performance will be tracked by examining leaks dispatched
15 from the prior meeting versus leaks repaired on that dispatched list. A new Hot List will
16 be generated bi-monthly and monitored for results.

17 We will also use leak analysis to identify pipelines with high consequence
18 patterns and use this information to rank pipelines as candidates for
19 Repair/Protect/Replace or Bare Steel programs. Even with Enhanced Leak Repair and
20 Hot List Programs, we need to focus on aging infrastructure and judiciously manage
21 resources and costs to effectively implement pipeline improvements to reduce UFG. We
22 will rank pipelines by leaks to identify candidates for replacement versus leak repair.
23 Then work with planning and construction teams to adjust accordingly.

Q. DO YOU HAVE INFORMATION ON THE CONTRIBUTION OF LEAKS TO THE OVERALL UFG?

A. Yes, we can estimate gas lost through leaks by evaluating the characteristics of a leak when we conduct a leak repair. This estimate is based on leak size, pipeline pressure, and leak duration. Nevertheless, each component of this calculation is only an estimate and, therefore, may not be completely accurate. Specifically, the leak size is estimated at 1/8". We do not track actual leak size and would not have that information until the leak was repaired. Pipeline pressure is also estimated because it changes due to supply and demand fluctuations. Leak duration is accurate for the period contemplated in calculation, but it is also reasonable to assume that leak existed prior to finding it.

Attached Peoples Exhibit No. 29 estimates the gas lost attributed to leaks. It also is the basis for prioritizing leaks based on pipeline pressure. To achieve effective UFG reduction attributed to leaks, we need to drive down the time from leak recognition to leak repair.

Q. DO YOU HAVE INFORMATION ON LEAKS ON BARE STEEL OR CAST IRON PIPELINES?

A. Yes, we can summarize leaks on aging infrastructure such as Bare Steel and Cast Iron. As stated previously, we are currently executing a program to eliminate Cast Iron on the Peoples' system by the end of 2012. Then, in 2013, we will begin to replace approximately 2000 miles of Bare Steel pipelines with the intent to complete this project

over the next 20 years. This program is focused on public safety but our UFG program will benefit from removing at risk pipeline that contributes to high consequence leaks.

We will monitor and compare year over year leak statistics to determine the impact of the Cast Iron replacement program on leaks. We will then use this information to project the likely results of our Bare Steel replacement program.

Q. PLEASE SUMMARIZE THE 2012 PRODUCER MEASUREMENT INITIATIVES.

A. In 2011, we identified 200 producer interconnects that contribute more than 50% of the overall local production received by Peoples. Then, we began a program to install Peoples-owned and -operated correctors on 25 of those top 200 producer interconnects while maintaining the producer recording instrument. We are currently operating both instruments in parallel and comparing the results to determine the impact on UFG. We will continue this program in 2012 until all 200 interconnects have Peoples-owned and -operated correctors. This program will eliminate measurement error attributed to producer-operated recorder maintenance, meter reading, and integration for these 200 interconnects.

Comparing best practices with Peoples TWP and noting their success with managing UFG, we recognized that Peoples TWP does not have chart recorders on their 2500 producer interconnects. We plan to expand this program to reduce the amount of chart recorders measuring the remainder of the approximately 4000 producer interconnects on the Peoples' system.

Peoples Exhibit No. 30 shows the numbers and types of measurement recording devices on producer interconnects. As you can see, 97% of production measurement is

1 recorded by charts. We have also quantified the instances when chart integrators
2 estimated production volumes when chart recorders failed. These estimated volumes
3 represented 6.4% of the volumes received from producers in 2011 as demonstrated in
4 **Peoples Exhibit No. 22.**

5 Recognizing the potential errors associated with handling and processing charts,
6 Peoples plans to collaborate with PIOGA to develop a long-term program to reduce chart
7 recorders over a period of time.

8
9 **Q. PLEASE DESCRIBE THE 2012 INITIATIVES TO ADDRESS INACTIVE**
10 **PRODUCER INTERCONNECTS.**

11 A. We have identified 145 zero-flow and 309 inactive producer interconnects for which
12 there is a potential for gas loss. Peoples recently sent letters to the zero-flow producers
13 providing them with an opportunity to either rework production and commence flowing
14 gas or have their interconnect abandoned. That letter was sent on February 10, 2012 with
15 a 30-day response date. We are now implementing the program to disconnect producer
16 interconnects by cutting and capping the tie-in pipeline. We anticipate this program will
17 take 2 years to complete and will eliminate 454 points of interconnects where gas loss
18 can occur. We will monitor UFG using existing segmentation models to determine the
19 impact of this program.

20
21 **Q. PLEASE DESCRIBE ADDITIONAL BENEFITS OF REMOVING INACTIVE**
22 **PRODUCER INTERCONNECTS.**

1 A. When a producer interconnect is eliminated, we will also examine the gathering pipelines
2 downstream of the interconnect to determine if they are also candidates for abandonment.
3 If we determine that abandoning the pipeline does not create a detrimental impact to
4 serving customers, we will proceed with abandoning a gathering pipeline not in use and
5 thereby eliminate any gas loss associated with that pipeline.

6
7 **Q. HAS PEOPLES EVALUATED OTHER GATHERING LINES FOR POSSIBLE**
8 **ABANDONMENT?**

9 A. Yes. In 2011, Peoples identified 39 gathering pipelines in the Greene County Production
10 System that did not serve customers but provided a conduit for production feeding the
11 system.

12 During 2012, Peoples will provide affected producers who deliver gas into those
13 lines with the opportunity to purchase those gathering pipelines and relocate
14 measurement downstream to our mainline, in which cases, Peoples will continue
15 accepting production from those wells. If we do not receive interest in purchasing those
16 pipelines, we will proceed with the cancellation of those gas purchase agreements and
17 with abandonment of those pipelines. We anticipate reduction in leak-related UFG as a
18 result of removing nonessential gathering pipelines.

19
20 **Q. WILL THIS PROGRAM EXTEND BEYOND THE GREENE COUNTY**
21 **PRODUCTION SYSTEM?**

22 A. Yes, in 2012, we will expand our analysis to other gathering systems in our Southern
23 District and then expand our study to the Northern District to identify nonessential

1 gathering pipelines. Peoples Exhibit No. 31 identifies the pipelines contemplated for
2 abandonment/sale.

3
4 **Q. PLEASE DESCRIBE THE PRODUCER MEASUREMENT ALLOCATION**
5 **PROCESS AND PLANS FOR CHANGE.**

6 A. As stated previously, Peoples historically owned and operated company wells. Some of
7 that production had partnerships in which Peoples did not own 100% of the production
8 from those wells. Also, some of that production did not directly connect to the Peoples
9 gathering pipelines but was transported through other pipelines and then redelivered to
10 Peoples. As a result of these historical activities, Peoples implemented programs to
11 account for company-owned production through allocations of local gas volumes.

12 An allocation is a method of accounting for gas transported by others. The
13 interconnect meter known as the Master Meter was the balancing point for allocating
14 production volumes behind the Master Meter on third-party gathering. The meters
15 measuring production behind the Master Meter were known as Deduct Meters because
16 the volumes never add to the volume recorded at the Master Meter thus those meters get
17 reallocated to total the volume recorded at the Master Meter.

18 Even though Peoples sold the company-owned wells, it continued with this
19 production volume allocation program. We are evaluating the benefits and impact of
20 continuing this program and its effect on UFG. The future of this program will be
21 discussed with PIOGA and either revised to eliminate UFG or eliminate the program.

22
23 **Q. PLEASE DESCRIBE THE 2012 CUSTOMER MEASUREMENT INITIATIVES.**

1 A. We will continue our existing program to quantify the impact of temperature on non-
2 compensated meters. To improve upon the existing program, additional temperature
3 probes will be installed at strategic locations to record gas temperature measured across
4 the nine operating districts. The temperature study will be updated with the refined
5 readings and applied to determine the unaccounted for gas attributed to temperature.

6 As previously stated, we will also conduct a pressure study on representative low
7 pressure distribution systems. During the heating season, customer demand will vary and
8 create changes in pressure at residential meters. When pressure is greater than expected
9 at non-compensated meters, gas usage will be under measured. Since pressure at
10 regulating stations that serve low pressure distribution is set to ensure adequate pressure
11 to meet peak demand, we can reasonably assume that under measurement is occurring
12 under normal weather conditions. In 2012, Peoples will conduct a study by obtaining
13 pressure readings at residential meters during varying temperatures this winter. This
14 statistical study will confirm pressure readings during winter conditions and allow us to
15 estimate the unaccounted for gas attributed to this pressure effect.

16

17 **Q. PLEASE DESCRIBE THE 2012 STORAGE MEASUREMENT INITIATIVES.**

18 A. We plan on upgrading our measurement recording instruments at storage pools to ensure
19 that we obtain measurement when communication with those instruments fail. New
20 technology for measurement recording instruments includes the capability to store up to
21 45 days of information during outages when power or communication fails and we are
22 unable to connect with the SCADA system. Once service is restored, these devices, in

1 conjunction with the SCADA system, will retrieve historical data to bring this
2 information up-to-date in SCADA and the gas measurement systems.

3 We plan on piloting devices at non-critical sites for the next several months.
4 Once our evaluation is completed, we will implement these units at all of our storage
5 pools.

6
7 **Q. PLEASE DESCRIBE THE 2012 UFG BUDGET**

8 A. Attached Peoples Exhibit No. 32 contains a summary of planned capital and expense
9 expenditures for 2012. The budgeted activities are consistent with the testimony
10 provided.

11
12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes it does. I reserve the right to supplement my testimony as additional issues arise
14 during the course of this proceeding. Thank you.

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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

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

7

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

18

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

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**PEOPLES NATURAL GAS
QUARTERLY 1307(f) RATE CALCULATION
Effective: April 1, 2012**

APPENDIX E
1307(f)-2012 Settlement
Quarterly 1307(f)
April 1, 2012
PRO FORMA

<u>Line No.</u>	<u>Costs and Volumes</u>	<u>\$/Mcf Rates</u>
1	DC = Projected Demand Costs	\$19,606,357
2	MINUS: Projected BB&A Revenue Credits	\$2,320,482
3	MINUS: DOU = Demand E1 Over/(Under) Collection	<u>\$1,077,442</u>
4	Net Projected Demand Costs	\$16,208,433
5	S + SBAC = Projected Annual Sales and Standby Volumes (Mcf)	36,142,659
6	Projected Demand Cost of Gas per Mcf	\$0.4485
7	CC = Projected Commodity Costs from the January 2012 Quarterly	\$116,439,466
8	MINUS: R = Projected Capacity Release Credits	<u>(\$786,714)</u>
9	Net Projected Commodity Costs from the January 2012 Quarterly	\$115,652,752
10	Commodity Cost Charge based on Updated NYMEX Pricing (Sch. 7, page 3)	(\$1.1185)
11	MINUS: E1 Commodity Over/(Under) Collection	<u>(\$9,640,037)</u>
11	Total Projected Commodity Cost of Gas per Mcf	<u>\$3.3222</u>
12	C = Total Projected Cost of Gas per Mcf (line 6 + line 11)	\$3.7707
13	Commodity Over/(Under) Collection (w/o E1)	(\$10,640,169)
14	Demand Over/(Under) Collection (w/o E1)	<u>\$702,938</u>
	Total Over/(Under) Collection	<u>(\$9,937,231)</u>
14	S + MR = Projected Annual Sales and Migration Rider Volumes (Mcf)	27,726,122
15	MINUS: E = Commodity Over/(Under) Collection Rate per Mcf	(\$0.3584)
16	Overall Gas Cost Rate per Mcf for April through June 2012	<u>\$4.1291</u>
17	Change in Overall Gas Cost Rate from the January 2012 Quarterly 1307(f) Filing	<u>(\$1.0304)</u>

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**PA PUBLIC UTILITY COMMISSION
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PEOPLES NATURAL GAS
 ANNUAL 1307(f) RATE CALCULATION
 Effective: October 1, 2012

<u>Line No.</u>		<u>Costs and Volumes</u>	<u>\$/Mcf Rates</u>
1	DC = Projected Demand Costs	\$19,606,357	
2	MINUS: Projected BB&A Revenue Credits	\$2,331,381	
3	MINUS: DOU = Demand E1 Over/(Under) Collection	---	
4	Net Projected Demand Costs	\$17,274,976	
5	S + SBAC = Projected Annual Sales and Standby Volumes (Mcf)	36,263,815	
6	Projected Demand Cost of Gas per Mcf		\$0.4764
7	CC = Projected Commodity Costs	\$103,523,982	
8	MINUS: R = Projected Capacity Release Credits	\$256,956	
9	MINUS: E1 Commodity Over/(Under) Collection	---	
10	Net Projected Commodity Costs	\$103,267,026	
11	Projected Annual Sales Volumes (Mcf)	28,015,370	
12	Total Projected Commodity Cost of Gas per Mcf		<u>\$3.6861</u>
13	C = Total Projected Cost of Gas per Mcf (line 6 + line 11)		\$4.1625
14	Commodity Over/(Under) Collection (w/o E1)	(\$725,949)	
15	Demand Over/(Under) Collection (w/o E1)	<u>(\$1,938,090)</u>	
16	Total Over/(Under) Collection	(\$2,664,040)	
17	S + MR = Projected Annual Sales and Migration Rider Volumes (Mcf)	28,015,370	
18	MINUS: E = Demand & Commodity Over/(Under) Collection Rate per Mcf		<u>(\$0.0951)</u>
19	Overall Gas Cost Rate per Mcf for October 1, 2012		<u>\$4.2576</u>

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2012-2292082
Office of Small Business Advocate,	:	C-2012-2297858
Office of Consumer Advocate,	:	C-2012-2296788
Raymond E. Anderson,	:	C-2012-2298575
Steven J. Swencki, and	:	C-2012-2299156
James Weber,	:	C-2012-2300419
	:	
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 Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and the Pennsylvania Independent Oil & Gas Association (“PIOGA”) (hereinafter, collectively “Joint Petitioners”) in the above-captioned purchased gas cost proceeding.¹ Peoples respectfully requests that Administrative Law Judge Mary D. Long recommend approval of, and the

¹ Intervenors Dominion Retail, Inc. and Interstate Gas Supply, Inc. have indicated that they neither support nor oppose the Settlement.

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 interests of Peoples, its customers, and the other Joint Petitioners and is otherwise in the public interest. It should accordingly be approved without modification.

As an initial matter, the fact that the Settlement is unopposed by any of the active parties to the proceeding 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 at the evidentiary hearing held on June 14, 2012. 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' 2012 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, 2012, Peoples filed with the Commission at Docket No. R-2012-2292082: (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 2, 2012, Peoples filed with the Commission Supplement No. 130 to Peoples Tariff Gas - Pa. P.U.C. No. 44 (“Supplement No. 19”), to become effective for service rendered on and after October 1, 2012. Peoples’ filing also included Peoples’ written direct testimony and supporting exhibits. Supplement No. 19 was docketed by the Commission at Docket No. R-2012-2292082 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 rebuttal testimony. A hearing was held before the ALJ on June 14, 2012 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, 2012; 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, I&E, OCA, OSBA, and PIOGA, 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 ¶¶ 20-23.) 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-seventh 1307(f) proceeding. In each of the previous 1307(f) proceedings, and the "GCR-5" cases 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' Consultant, Rates and Regulatory Affairs, 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; 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 to 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 full 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. The Direct Testimony of Peoples' witness Jon H. Skoog sets forth, in a very detailed manner, Peoples' gas procurement policy and supply planning. (Peoples Statement No. 1.) The Direct Testimony of Peoples' witness Anthony Caldoro describes Peoples' efforts and activities in 2011 and 2012 with respect to FERC matters. (Peoples Statement No. 2.) The Direct Testimony of Peoples' witness Jeffrey S. Nehr details Peoples' on-going efforts to reduce unaccounted-for gas on its system. (Peoples Statement No. 3.) Finally, the Direct Testimony of Peoples' witness Lynda W. Petrichevich demonstrates that Peoples has acted prudently with regard to retainage levels and discounts and on-system storage capacity.

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)-2012 Reconciliation Period and the 1307(f)-2012 Projected Period is and will be comprised of gas

from three general sources: local purchases; the spot market; and, interstate producer/marketer contracts. (Peoples Statement No. 1, p. 17-18.)

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 659,000 Mcf. (Peoples Statement No. 1, p. 10; 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, p. 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. 41-45.) 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, p. 41.) 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 has worked 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. 41-42.)

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, and is consistent with Peoples' obligation to provide safe, adequate and reliable service to its customers. Accordingly, 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 by the Commission. (Peoples Statement No. 1, pp. 50-55; 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 but does not necessarily result in lower gas costs. (Peoples Statement No. 1, pp. 52-53.) Peoples submits that 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. Nevertheless, in response to concerns raised by I&E, Peoples has agreed to examine its hedging program and will report on the status of its examination in its direct testimony filed in conjunction with its 2013 1307(f) proceeding. (I&E Statement No. 1, pp. 3-4; Settlement ¶ 36).

F. Negotiation of Contracts

Mr. Skoog described the contractual changes that Peoples has undertaken during the 1307(f)-2012 reconciliation period and that have taken effect during that timeframe or will take effect during the 1307(f)-2012 projected period. He also described the OCC meetings that Peoples convened in relation to those capacity contracts. (Peoples Statement No. 1, pp. 17-38, 56-57.) 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. 20.) In Peoples' 1307(f)-2011 proceeding, Peoples described the various service arrangements that would be in effect between Peoples and DTI over what is now the 1307(f)-2012 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)-2012 reconciliation period. These same contracts and contract quantities are in place for the 1307(f)-2012 projected periods. (Peoples Statement No. 1, pp. 21, 23.)

In anticipation of the March 31, 2014 expiration of Peoples' contracts with DTI for services under FTNN, FTNN-GSS and GSS, Peoples, as part of the Settlement, has agreed to examine its projected design day requirements and its projected gas supply and capacity portfolio. The results of this examination will be used as the basis to determine the level of

capacity to be reflected in the capacity contracts with DTI for the periods after March 31, 2014. Peoples has further agreed to share the results of this examination with members of Peoples' OCC no later than December 31, 2012 and to report on the status of the process in its direct testimony filed in conjunction with its 2013 1307(f) proceeding.² (Settlement ¶ 35.)

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. From 2007 through 2010, Peoples contracted for firm delivered-to-Peoples supply arrangements to meet its needs from the TETCO system at the Rockwood delivery point, as further described below. Otherwise, Peoples purchases gas at upstream points on TETCO for delivery to Ebensburg, Claysburg, and Rockwood delivery points. 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. 24.)

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 station at Rockwood on a day-to-day basis throughout the 2009-2010 winter period. Under those arrangements, BP provided up to 5,000 Dth/day on an as-

² The Settlement also provides for a modification to the schedule of future OCC meetings. Specifically, the Joint Petitioners have agreed to semiannual (March/September) rather than quarterly OCC meetings. (Peoples Statement No. 3, p. 15; Settlement ¶ 37.) Among other things, the semiannual meetings would coincide nicely with the expiration of Peoples' long-term contracts and allow Peoples to discuss with interested parties the results of any analysis and solicit their input before a decision is reached. The timing also works well with the seasonal shift in operations between the spring/summer season and the fall/winter season. *Id.*

needed basis to Peoples. During 2010, Peoples reevaluated its need for firm supply to its TETCO M2 points and confirmed that the 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. For the 2011-2012 winter period, Peoples issued an RFP for delivered supply up to 3,000 Dth/day and compared those proposals to the cost of TETCO capacity paired with supply in the Gulf Coast. The capacity plus gas purchase was the cheaper option, which Peoples took, and based on a continuing need for firm access to such supplies, Peoples expects to enter into a similar arrangement for the 2012-2013 winter period. (Peoples Statement No. 1, pp. 36-37.)

In Peoples' 1307(f)-2011 proceeding, Peoples described the various service arrangements that would be in effect between Peoples and TETCO over what is now the 1307(f)-2012 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)-2012 reconciliation period. These same contracts and contract quantities are in place for the 1307(f) - 2012 projected periods. (Peoples Statement No. 1, pp. 25-26.)

Peoples also acquires gas via Tennessee Gas Pipeline ("Tennessee") at the Pittsburgh Terminal and Pulaski receipt points.³ (Peoples Statement No. 1, pp. 26-27.) In September 2010, Peoples issued a request for proposal for a firm delivered gas supply contract as a replacement for a Tennessee transport service contract. At the same time, Peoples requested a discounted

³ Peoples also uses Tennessee to deliver gas to 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. 27.)

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 entered into the same type of arrangement on Tennessee with NJR and Virginia Power Energy Marketing (“VPEM”) for the period November 1, 2011 through March 31, 2012. Peoples also entered into a firm-delivered supply arrangement with VPEM for the November 2012 through March 2013 period. (Peoples Statement No. 1, pp. 26-28.)

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 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. 30.) 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)-2012 projected period. (Peoples Statement No. 1, p. 31.)

Peoples TWP LLC (“Peoples TWP”) historically provided 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.⁴ Peoples now has five receipt points with Peoples TWP 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 Peoples TWP. It provides that the service will be in accordance with Peoples TWP’s Commission-approved tariff. The written agreement was in effect for the 1307(f)-2012 reconciliation period. (Peoples Statement No. 1, p. 33.) However, Peoples does not expect to incur any costs for this service over the 1307(f)-2012 projected period as the service arrangement with Peoples TWP has been superseded by a new exchange service agreement between Peoples and Peoples TWP. (Peoples Statement No. 1, pp. 35.)

As Peoples and Peoples TWP are now affiliated interests under the Public Utility Code, on September 28, 2012, Peoples TWP and Peoples requested Commission approval of an agreement to exchange gas. The agreement provides for an exchange of equivalent volumes between Peoples and Peoples TWP where the receipt of gas from the other party would provide for more efficient operation of the recipient’s system and will improve service reliability for both companies. Based upon discussions with Commission staff, Peoples and Peoples TWP filed an amended exchange agreement that includes various commitments made by Peoples and Peoples TWP. The agreement was approved by the Commission on March 15, 2012 at Docket No. G-2011-2265150. Consistent with the commitments approved by the Commission, Peoples and

⁴ Peoples TWP 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.

Peoples TWP each provided reports in conjunction with their 2012 1307(f) proceedings showing the daily and monthly volumes delivered at the interconnections subject to the exchange agreement. (Peoples Statement No. 1, pp. 35-36; Peoples Exhibit No. 10.)

Finally, it should be noted that all of Peoples' gas purchase 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, pp. 59-60.)

The uncontested record evidence demonstrates that Peoples' detailed examination of contract renegotiation options, and cost savings that will result from the new contracts that it has undertaken, were undertaken prudently and consistent with Section 1318(a)(2) of the Public Utility Code. (Peoples Statement No. 1, pp. 17-38.)

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, p. 59.) 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 May 23, 2011, Peoples and Peoples TWP became affiliated interests. Peoples and Peoples TWP had a supply agreement that remained in effect through December 31, 2011. As addressed *supra*, that supply agreement has been superseded by an exchange agreement, pursuant to which Peoples and Peoples TWP exchange certain gas supplies, but there is no purchase involved. (Peoples Statement No. 1, pp. 58-59.) Therefore, Peoples did not withhold gas from the market in a manner inconsistent with a least cost fuel procurement policy and, accordingly, complied with Section 1318(b)(3) of the Public Utility Code.

H. Natural Gas Supply Rates as of October 1, 2012

The rates that Peoples proposes to place into effect on October 1, 2012 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, 2012, 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, 2012, Peoples may place into effect the natural gas rates set forth in Supplement No. 19, as adjusted for "Retainage Levels" as set forth in Paragraph 27 of the Settlement and corrected in **Appendix B** of the Settlement.⁵ It is recognized and acknowledged that the natural

⁵ Peoples currently has a base rate case pending at Docket No. R-2012-2285985. As a result, Peoples' Tariff Gas – PA PUC No. 44 may be superseded by Peoples' Tariff Gas - PA PUC No. 45 ("Tariff No. 45"). If the instant Settlement is approved, the form of tariff supplement attached as **Appendix A** to the Settlement may be

gas supply rates set forth in Supplement No. 19: (1) may be superseded by Peoples' October 1, 2012 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, 2012 through September 30, 2013. (Settlement ¶ 24.)

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 I&E, 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. (I&E Statement No. 1, pp. 5-6.) In its original filing, Peoples proposed to lower the GS-T, General Service - Transportation, customers' retainage rate from 8.6% to 7.6%, and the T, Transportation Service - Industrial, customers' retainage rate from 7.2% to 6.7% (Peoples Exhibit No. 33).

I&E, OCA, and OSBA presented testimony on Peoples' retainage levels, each proposing adjustments based on different methodologies for the calculation of Peoples' retainage rates. (I&E Statement No. 1, pp. 7-9; OCA Statement No. 1, pp. 5-8; OSBA Statement No. 1, pp. 1-5.) In response, the Joint Petitioners have agreed that effective October 1, 2012, the tariffed

implemented and updated, effective October 1, 2012, via a new tariff supplement to Tariff No. 45 depending on the outcome of the base rate case.

retainage rate under Rate GS-T will be decreased from 8.6% to 8.0% and the tariffed retainage rate under Rate T will be decreased from 7.2% to 6.9%. (Settlement ¶ 27.) Parties who advocated on the retainage level issues are joining in this Settlement, as it presents a resolution that is fair to the various classes of ratepayers. The Settlement reflects an acceptable compromise of these competing litigation positions and should be adopted without modification. The settled-upon retainage rates also take into consideration the reductions in unaccounted-for gas that have been achieved by Peoples.

J. Retainage Waivers

In the Settlement of Peoples' 1307(f)-2011 proceeding, Peoples 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 30, 2012, Peoples will perform and file updated net benefit tests in the context of the 1307(f)-2012 proceeding to determine the appropriate levels of retainage waivers to become effective October 1, 2012. (Peoples Statement No. 4, pp 6-7.) 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. 8-9.)

The contracts of four customers that currently receive a full or partial waiver of retainage expired or will expire between October 1, 2011 and September 30, 2012. Peoples performed its net benefit test for these customers, and concluded that a positive ratepayer net benefit will continue to exist for these competitively-situated transportation customers. Therefore, Peoples entered into contracts with three of these customers and is currently negotiating with the other customer and will continue a gas retainage waiver for the duration of these customers' new contracts. (Peoples Statement No. 4, pp. 10-11; Peoples Exhibit No. 34 [**HIGHLY CONFIDENTIAL**].) Under the terms of the Settlement, the Joint Petitioners agree that the

retainage waivers related to the individual customers identified in Peoples Exhibit No. 34 [HIGHLY CONFIDENTIAL] should be approved by the Commission. (Settlement ¶ 25)

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, 2012 and September 30, 2013, Peoples will perform and file updated net benefit tests in the context of its 2013 1307(f) proceeding to determine the appropriate levels of retainage waivers to be effective October 1, 2013. 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 ¶ 26.) The Settlement maintains the reasonable compromise reached in prior 1307(f) settlements and approved by the Commission.

K. Lost and Unaccounted For Gas

Consistent with the final order issued in Peoples' 1307(f)-2010 case at Docket No. R-2010-2155608, as part of Peoples' 2011 1307(f) filing, Peoples submitted its "2011 Unaccounted-For-Gas Plan and Report" ("2011 UFG Plan"). The 2011 UFG Plan recommended further analysis, through segmentation of the system, to pinpoint the specific system components that contribute more than others to the overall UFG. (Peoples Statement No. 3, pp. 2-3.) The recommendations and objectives identified in the 2011 UFG Plan included: (1) designating a UFG Project Manager; (2) completing system segmentation studies; (3) undertaking actions to improve measurement accuracy and uncertainty as a contributor to UFG; (4) continuing to repair leaks or replace pipelines, with an emphasis on increasing expenditures on gathering system expenditures; and (5) continuing the programs initiated in 2010. (Peoples Statement No. 3, p. 4.)

In addition to requiring Peoples to use reasonable efforts to implement the 2011 UFG Plan, the approved settlement of Peoples 2011-1307(f) at Docket No. R-2011-2228694 established target ranges for a total combined system UFG (gathering, distribution and transmission) and storage migration losses. (Peoples Statement No. 3, p. 20).

In support of its 2012 1307(f) filing, Peoples provided extensive testimony from the Company's UFG Program Manager, Jeffery S. Nehr, relative to the Company's efforts to implement the 2011 UFG Plan. (Peoples Statement No. 3, pp. 4-20.) As evidenced by this testimony, Peoples heeded Commissioner Cawley's request that the Company continue to aggressively address lost and unaccounted for gas on its system. *Pa. Pub. Util. Comm'n v. Peoples Natural Gas Co.*, Docket No. R-2011-2228694, Statement of Commissioner Cawley, (Aug. 11, 2011).

Specifically, Mr. Nehr's testimony detailed the eight discrete system segmentation studies, consisting of three distribution and five gathering systems, undertaken by Peoples in 2011 and the results of those studies. (Peoples Statement No. 3, pp. 5-9; Peoples Exhibit No. 20.) Further, Peoples detailed its efforts to improve producer measurement through the installation of Peoples-owned and -operated measurement recorders on the top 200 producer meters, which represent 50% of the total local gas produced into the Peoples system. (Peoples Statement No. 3, p. 10.) Mr. Nehr also addressed Peoples' efforts to reduce overall UFG on gathering systems by installing chart recorders on production meters and examining policies and practices related to chart integrators. (Peoples Statement No. 3, pp. 10-11; Peoples Exhibit Nos. 21-23.) Peoples also provided testimony relative to the Company's efforts to address non-compensated customer measurement, oversized large commercial meters, free gas customers, and storage losses. (Peoples Statement No. 3, pp. 14-18; Peoples Exhibit Nos. 24-26). In

addition, Peoples reported on its pipeline replacement and measurement improvement programs and the Company's capital and expense commitment to the 2011 UFG Program. (Peoples Statement No. 3, pp. 18-20; Peoples Exhibit No. 27.)

Based upon Peoples' implementation of the 2011 UFG Plan and as recognized by the Joint Petitioners in the Settlement, Peoples has reduced its system-wide rate for UFG, storage losses, and Company-used gas from 7.9% for the 12 months ended July 31, 2010 to 7.4% for the twelve months ended July 31, 2011. (Settlement ¶ 28.) Further, Peoples achieved the target range set forth in the 2011 Settlement for UFG (excluding storage migration losses) for the 12 months ended July 31, 2011 of 4.92% (low end) and 5.92% (high end). Peoples' actual UFG (excluding storage migration losses) was 5.17%, which was below the midpoint target of 5.42%. (Settlement ¶ 30.)

As set forth in the Settlement, the Joint Petitioners have agreed that Peoples shall use reasonable efforts to implement its 2011 UFG Plan and to implement its "2012 UFG Initiatives" as set forth on pages 21 through 31 of the Direct Testimony of Jeffrey Nehr, Peoples' Manager, Gas Measurement. (Peoples Statement No. 3, pp. 21-31; Settlement ¶ 31; Settlement Appendix C.) To the extent that Peoples does not continue to implement any material commitment of the UFG Plan, as modified by the 2012 UFG Initiatives, or the 2012 UFG Initiatives, Peoples shall bear the burden of proving by a preponderance of the evidence in its 2013 1307(f) proceeding that it was not in the public interest to implement such material commitment. *Id.*

The Joint Petitioners further agreed that Peoples shall, in conjunction with its 2013 1307(f) filing, report on the success of the 2011 UFG Plan, as modified by the 2012 UFG Initiatives, and of the 2012 UFG Initiatives and propose "2013 UFG Initiatives" to address any deficiencies or other circumstances that are inhibiting the reduction of UFG. (Settlement ¶ 32.)

Finally, Peoples has agreed to use reasonable efforts to achieve the UFG target ranges set forth in **Appendix D** to the Settlement. (Settlement ¶ 33.)

The principal parties on UFG issues are joining in this Settlement, as it presents a fair and reasonable resolution.⁶ 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. NP-1 Pool Access to On-System Storage Used for BB&A Service

Peoples has agreed to make available 1.70 Bcf of on-system storage capacity used by Peoples to provide Banking, Balancing and Advancing ("BB&A") Service to NP-1 pools for the storage injection season beginning April 2013. (Settlement ¶ 38.) This adjustment from 1.55 Bcf to 1.70 Bcf of on-system storage capacity made available to NP-1 pools is in conformance with Paragraph 53 of the Commission-approved settlement agreement in Peoples' 2010 base rate proceeding at Docket No. R-2010-2201702, which provides *inter alia*:

On an ongoing basis, Peoples shall review the total level of BB&A Capacity made available to NP-1 pools and, based on changes in the total annual customer volumes served by all NP-1 pools, may revise the total level of available BB&A Capacity. Any proposed revisions to the total level of BB&A Capacity shall be reflected in Peoples' annual 1307(f) filings and will be determined by multiplying a factor of 46.7% times forecasted January NP-1 transportation usage.

The adjustment to BB&A capacity was reviewed by the active parties in this proceeding through discovery, and has been agreed to as part of the Settlement.

M. Recovery of Other Gas Costs Through the 1307(f) Mechanism

In this proceeding, Peoples has proposed to recover certain "other gas costs," currently recovered as a non-gas base rate expense, through the 1307(f) mechanism. (Peoples Statement No. 4, p. 14.) These are costs incurred solely for the purpose of procuring gas supplies and

⁶ Recognizing that producers on Peoples' system have an interest in efforts to reduce UFG, Peoples and PIOGA will make reasonable efforts to communicate effectively regarding UFG initiatives.

performing a Commission-approved gas hedging program on behalf of Peoples' 1307(f) customers. (Peoples Statement No. 1, p. 61). As set forth in the Settlement, these costs shall only include: (a) market reports that are used to support daily and monthly physical deal pricing and swap settlements and information on FERC matters; and, (b) internet-based or other related services that provide real-time pricing information in support of daily economic gas purchase decision making and forward-pricing information in support of the Peoples' hedging program. Effective October 1, 2012, Peoples will begin to recover these other gas costs from 1307(f) customers and will not seek to recover these same costs through its non-gas base rates. (Settlement ¶ 40.)

N. Method of Calculating E-Factor

In this proceeding I&E presented testimony challenging the Company's presentation of its Demand C-Factor and E-Factor and the manner in which Peoples calculates its E-Factor. (I&E Statement No. 2, pp. 4-10.) In response to I&E's testimony, Peoples has agreed to include the Demand and Commodity "E1" (or Current) Over or Under Recoveries in its Demand and Commodity C-factors in its quarterly 1307(f) filings, on a going-forward basis, starting with 1307(f) year commencing October 1, 2012. (Settlement ¶ 40.) In addition, beginning October 1, 2012, Peoples will separately present the Demand C-factor and Demand E-factor costs in its 1307(f) rate calculation, and the Demand E-factor will be included in Rider D, Peoples' migration rider that applies Peoples' Gas Cost Adjustment Charge ("GCAC"). (Settlement ¶ 41.) This component of the Settlement should be adopted because it brings consistency between 1307(f) natural gas distribution companies on the presentation of the Demand C-Factor and E-Factor and on the manner in which the E-Factor is calculated.

O. 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 ¶¶ 20-23.) 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.

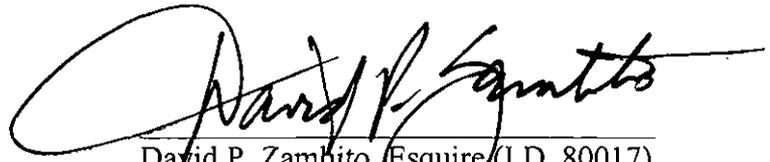
IV. CONCLUSION

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 various parties, including Peoples, I&E, OCA, OSBA, and a natural gas producers' association (PIOGA) have agreed 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,



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Date: June 29, 2012

For Peoples Natural Gas Company LLC

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JUN 29 2012

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
	:	Docket No. R-2012-2292082
v.	:	
	:	
Peoples Natural Gas Company LLC 1307(f)	:	

**BUREAU OF INVESTIGATION AND ENFORCEMENT
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 Bureau of Investigation and Enforcement (“I&E”), 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, I&E, 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 I&E 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 2, 2012, Peoples filed Supplement No. 19 to Tariff Gas - Pa. P.U.C. No. 44 (“Supplement No. 19”) with the Pennsylvania Public Utility Commission (“Commission”). This filing was made pursuant to 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, 2013. 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. I&E filed its Notice of Appearance on March 12, 2012. This Notice was followed by the Formal Complaint of the Office of Small Business Advocate (“OSBA”) dated March 30, 2012. In addition, the Office of Consumer Advocate (“OCA”) filed a Formal Complaint and Public Statement on April 3, 2012. Furthermore, the Pennsylvania Independent Oil & Gas Association (“PIOGA”) filed a Petition to Intervene on April 4,

2012 and Dominion/IGS (“Dominion”) filed its Petition to Intervene on April 11, 2012. 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 5, 2012, 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. I&E submitted the Direct Testimony and accompanying Exhibits of Joseph Kubas and Christine Wilson on May 16, 2012. In addition, initial and/or responsive testimonies from OCA, OSBA and PIOGA were submitted in a timely manner.

6. In accordance with the Commission’s policy favoring settlements over costly and time consuming litigation, I&E, 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

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

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 four (4) of the Joint Petition and the credible record evidence presented in this proceeding supports the adoption of each provision.

8. As discussed in Averment twenty one (21), 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 I&E 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 twenty two (22) and twenty three (23) of the Settlement also provide that the natural gas costs that Peoples anticipates that it will incur in the upcoming period will be based 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.

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

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

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 I&E 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 I&E 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. I&E is satisfied that the Company's planned adjustment to its E-Factor calculations are appropriate and accurate and conform to proper regulatory practices. The planned adjustment will protect ratepayers by ensuring that E-Factor dollar recovery is being sought from the proper customer group.⁴

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

⁴ I&E Statement No. 2, p. 8.

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.

I&E opines that the planned minor C-Factor adjustment will result in it being calculated properly and, as a result, ratepayers will be protected in that Peoples will not gain any unwarranted financial advantage through its gas purchasing practices. As E-Factor calculations are intended to be based on an historic period and C-Factor charges are based on projected commodity charges, it is important that these factors remain properly assigned. Not only does this assign costs to the proper group, keeping C-Factor changes within the C-Factor rate will send the appropriate price signals to customers and competing natural gas suppliers.⁵

12. As identified in Averment twenty four (24), the Settlement provides that Peoples may place into effect the natural gas supply rates as proposed and identified in Supplement No. 19. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The I&E analysis in this proceeding supports that these rates are just and reasonable and are based on sound regulatory practices.

13. I&E 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

5 Id., p. 10.

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 Bureau of Investigation and Enforcement continues to monitor the overall level of the Company's claimed LUFG. I&E remains encouraged by the improvement to the Company's experienced levels as presented in this year's filing. The 5.17%⁶ achieved by Peoples for the historic test year is an improvement over last year.

A reasonable amount of LUFG is expected in a natural gas distribution system. As the costs associated with this gas are recovered from ratepayers through the PGC rate it is necessary to take appropriate measures to control this expense. 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 LUFG. 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 decreased effective October 1, 2012 from its current level

⁶ The calculated amount of LUFG does not include storage migration losses.

of 8.6% to 8.0% for rate GS-T. The Retainage percentage for Rate T will decrease from 7.2% to 6.9%. The adjustments to the current Retainage rates are necessary to reflect the changes in the Company's methodology used to evaluate and report LUFG and Company Use gas ("CU"). "Retainage refers to the gas necessary to compensate the Company for LUFG and gas used by the Company. It is usually stated as a percentage of gas delivered into the distribution system."⁷ 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 LUFG and CU. This practice of establishing proper Retainage percentages eliminates the unwarranted shifting of responsibility for LUFG 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 LUFG and CU.

The decrease in the Company's Retainage percentages 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 LUFG charges and it represents an adjustment to the initial proposal by the Company that did not properly amend its current Retainage charges. The overall Retainage Charge to be assigned is 7.4% and represents the experienced LUFG, including storage losses and CU gas. The application of 8.0% and 6.9% to classes GS-T

7 I&E Statement No. 1, p. 5.

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. As noted above, the establishment of the proper 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 borne by customers. I&E 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, I&E 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, I&E 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 Settlement provides that Peoples will examine its current hedging program and report on its status in testimony accompanying next year's PGC filing. Although, at one point, hedging programs were effective in reducing the volatility of the price of gas, further evaluation is necessary to determine if the continuation of the practice is prudent. The results of the planned examination the Company has agreed to share will enable parties to assess the strength and viability of the program on an ongoing basis. The submission of the results of its examination of the program will provide additional

protections to ratepayers by ensuring the Company flexibility to provide maximum benefits to its 1307(f) customers based on the most stable, yet advantageous, pricing.

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

19. 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

20. Based upon I&E's 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.

21. 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.

22. I&E 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.

23. 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 I&E, Peoples or any other signatory as provided therein.

24. I&E's agreement to settle the issues presented in this agreement is made without any admission or prejudice to any position that I&E 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.

25. If the ALJ recommends that the Commission adopt the Settlement as proposed, I&E has agreed to waive the filing of Exceptions with respect to the issues contained herein. However, I&E 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. I&E has also reserved the right to file Reply Exceptions to any Exceptions that may be submitted by Peoples, the active parties or any Formal Complainant on any matter.

26. The Bureau of Investigation and Enforcement is satisfied that the provisions and data contained in the Company's annual filing accurately reflect People's purchased gas costs and its practices are in accordance with accepted regulatory policies.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement 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
Deputy Chief Prosecutor
PA Attorney I.D. #80409

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Dated June 29, 2012

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2012-2292082
	:	
The Peoples Natural Gas Company	:	
1307(f)- 2012 Proceeding	:	

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 (Joint Petition or Settlement) 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 of the Settlement without modification.

I. INTRODUCTION AND BACKGROUND

The historical background set forth at pages 1-4 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 the purchasing policies and practices of Peoples Natural Gas Company LLC (Peoples or Company) for the Peoples' natural gas supply for the 12-month period ending January 31, 2012. 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 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 the issue 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.

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 one recommendation in his direct testimony. The OCA will discuss in detail how the terms and conditions of the Joint Petition resolve this issue to the satisfaction of the OCA and is 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 set forth in the Joint Petition.

2. The Joint Settlement provides a reasonable resolution to OCA concerns regarding Peoples' Retainage Charges.

In testimony, the OCA recommended that Peoples' current retainage rates be maintained. OCA Statement No. 1 at 3. As set forth in this testimony, a portion of the gas delivered to Peoples' system is lost or otherwise unaccounted-for (LUFG) before it reaches the Company's customers. Additionally, a portion of the gas delivered to the system is used in company operations. *Id.* Over the last three years, on average, approximately 8.1 percent of deliveries to Peoples' system is either LUFG or used in company operations. These losses are recovered through PGC rates for sales customers, but for transportation customers, these losses are typically recovered through a retainage charge. Residential and Commercial transportation customers are currently assessed a retainage charge of 8.6 percent, while Industrial transportation customers are assessed a retainage charge of 7.2 percent. However, in its filing, Peoples proposed to reduce retainage charges for Residential and Commercial customers to 7.6 percent and for Industrial customers to 6.7 percent. The Settlement provides that, effective October 1, 2012, the tariffed retainage rate for the former will be decreased from 8.6% to 8.0% and the

tariffed retainage rate for the latter will be decreased from 7.2% to 6.9%. The OCA submits that these agreed-upon retainage rates represent a fair and equitable result. The current retainage rates will not be retained, but they will only be decreased slightly while still reflecting current levels of gas losses experienced by the Company.

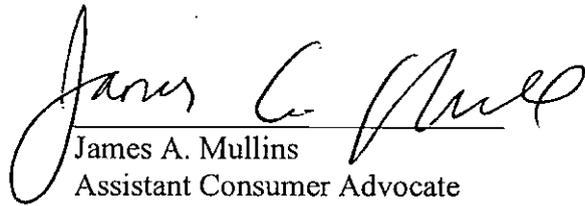
3. Other issues addressed in the Joint Petition.

The Joint Petition also equitably addresses a number of other issues not raised by the OCA, but in which the OCA took an interest during settlement discussions. In particular, the Joint Petition provides that: 1) Peoples shall use reasonable efforts to continue to implement its LUFG Plan, and 2) Peoples will examine its projected design day requirements and its projected gas supply and capacity portfolio in anticipation of the March 31, 2014 expiration of the Company's contracts with Dominion Transmission, Inc. The OCA submits that both of these provisions are in the public interest and should be approved. Peoples continued efforts to implement its LUFG Plan will ensure that customers are not bearing the costs of wasted gas supply. Similarly, Peoples commitment to examine its projected design day requirements and its projected gas supply and capacity portfolio will ensure that customers will not bear the costs of unneeded and unnecessary supply and capacity.

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,



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June 29, 2012
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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2012--2292082
	:	
PEOPLES NATURAL GAS COMPANY, LLC.	:	

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

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, on March 30, 2012, the Office of Small Business Advocate (“OSBA”) filed a complaint against the March 2, 2012, 66 Pa. C.S. § 1307(f) pre-filing of Peoples Natural Gas Company, LLC. (“Peoples” or the “Company”).

The OSBA actively participated in the negotiations that led to the proposed joint settlement, and is a signatory to the Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) (“*Joint Petition*”).

The OSBA submits this statement in support of the *Joint Petition*.

The Joint Petition

The *Joint Petition* sets forth a comprehensive list of issues that were resolved through the negotiation process. The following issue was of significance to the OSBA when it concluded that the *Joint Petition* was in the best interests of Peoples' small business customers.

Retainage Rates – In his direct testimony, OSBA witness Brian Kalcic opposed the retainage rates proposed by Peoples, in part, because the Company proposed to change its past practice of utilizing a three-year average for calculating lost and unaccounted for gas/company use to a twelve month methodology. As Mr. Kalcic explained:

The Company's proposed twelve-month approach would result in significantly lower retainage rates for transportation customers (compared to the three-year methodology), since Peoples' LUFG/CU levels are currently declining. However, the fact that the three-year average methodology produces retainage rates that lag behind the decline in system losses does *not* make the methodology deficient. On the flip side, when system losses are increasing, the three-year average approach produces retainage rates that lag behind the *rise* in system losses. Over time, the three-year average methodology may be expected to "balance out," i.e., produce unbiased retainage rates that are fair to both sales and transportation customers.

In contrast, the Company's proposal to move to a twelve-month methodology at a time when system losses are declining is biased in favor of transportation customers, since it effectively ignores those periods where transportation customers were assessed retainage rates that were lower than current losses (i.e., when Peoples' losses were increasing year over year). In other words, Peoples' retainage proposal would cut short the period over which transportation customers are due to pay back sales customers for previous (below average) retainage rates. The Commission should reject it.

Q. What do you recommend?

A. I recommend that the Company's retainage rates continue to be based on Peoples' three-year average LUFG/CU level. As previously discussed, based on the information shown in Table 1, the appropriate retainage rates for Rate GS-T and Rate T customers for the period beginning October 1, 2012, would be 8.4% and 7.3%, respectively.¹

¹ OSBA Statement No. 1 at pages 4-5.

The following chart outlines the proposals for retainage rates in this proceeding:

Peoples Retainage Rates – 2012 1307(f) Proceeding

	Rate GS-T	Rate T
Existing Rate	8.6%	7.2%
Peoples Proposed Rate	7.6%	6.7%
OSBA Proposed Rate	8.4%	7.3%
Settlement	8.0%	6.9%

The OSBA supports the retainage rates as outlined in the *Joint Settlement*, because these rates reflect a reasonable compromise to the filed positions of Peoples and the OSBA.

Conclusion

For the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,


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Attorney ID No. 83789

For:
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Acting Small Business Advocate
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Dated: June 29, 2012

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PIOGA's testimony focused on the following Initiatives: (1) continuing analysis to determine the root cause of UFG by continuing the segmentation program, updating completed models, reporting from new gathering models, and adding segmentation for select and representative transmission pipelines to identify transmission UFG; (2) continuing to install Peoples-owned and -operated correctors on the top 200 producer interconnect meters, which represent 50% of the local production received by Peoples; (3) coordinating efforts with PIOGA and integrator companies to develop a program to reduce the number of chart recorders and chart estimates on its system; (4) planning to eliminate producer interconnects that haven't been active for the past 12 months and to abandon non-essential gathering pipelines that do not impact customer service; and (5) examining the producer master/deduct allocation program for possible changes to eliminate errors associated with allocations.

PIOGA's testimony expressed an overall concern that the focus of these Initiatives in terms of spending money seems to be on producer operations rather than on the source of most UFG – leaks – and that some of the Initiatives are based on insufficient data. PIOGA's testimony stated specific concerns with each of these Initiatives, including: (1) segmentation program – Peoples' need for additional facilities and data to determine the root causes of the unusually high UFG on the Greene County gathering system; (2) installation of correctors – lack of information to determine the impact on UFG from Peoples' installation of correctors on 25 top producer interconnects operated in parallel with producers' recording instruments, and lack of producer interest in relinquishing their control over their measuring and regulating sets when the available data appears to show low error rates that are within tolerance; (3) reducing chart recorders and chart estimates – insufficient information for committing to such a capital intensive program when the information presented doesn't demonstrate that the use of chart

recorders and chart estimates are a significant source of UFG; (4) elimination of inactive producer interconnects and abandonment of non-essential gathering pipelines – lack of sufficient information to determine the effect of elimination on PIOGA producers and whether alternatives to abandonment (*e.g.*, fixing some of the leaky lines) might be better for Peoples, its customers and PIOGA producers; and (5) producer master/deduct meter allocation program – lack of details on Peoples’ plans that prevents PIOGA from determining the impact on producers, in view of (i) the integral part of master meters/deduct meters to some producers’ production fields and problems with converting them to allocation systems; (ii) attribution of UFG related to deduct meter to the producer and not to Peoples; and (iii) the use of the allocation/deduct meter system for Peoples’ allocating the price to be paid to the producer according to legacy gas sales agreements.

The Settlement (§ 31) provides that Peoples will use reasonable efforts to continue to implement its 2012 UFG Initiatives and, to the extent Peoples does not continue to implement any material commitment of the 2012 UFG Initiatives (defined as the specific action items set forth in the 2012 UFG Initiatives), Peoples bears the burden of proving by a preponderance of the evidence in its 2013 1307(f) proceeding that it was not in the public interest to implement such material commitment.

Peoples states that the objective of its UFG Plan and 2012 UFG Initiatives “is to determine the ‘root cause’ of UFG so that UFG reduction activities can be repeated on a wider scale” and that many of its action items “are phased projects that will allow us to change course based on data analysis.” Peoples Statement No. 3, p. 3, lines 6-9. Peoples also states that it has coordinated development and implementation of certain Initiatives with PIOGA (Peoples

Statement No. 3, p. 12, lines 7-10; p. 13, lines 3-4; p. 22, lines 3-5; p. 23, lines 3-4; p. 27, lines 5-7; p. 29, lines 20-21).

It is clear that information gathering and the flexibility to make adjustments based on the most recent and comprehensive information available is necessary for Peoples' implementation of successful and cost-effective UFG reduction measures. The Settlement commitment for Peoples to use reasonable efforts to implement its 2012 UFG Initiatives must be construed in the context of Peoples' acknowledgment that its 2012 UFG Initiatives are subject to "continuing analysis" (Peoples Statement No. 3, p. 21, line 16) and Peoples' commitment to ongoing discussions with PIOGA concerning development and implementation of the Initiatives. As stated in PIOGA's testimony, PIOGA believes it has a good working relationship with Peoples. PIOGA St. No. 1, p. 10, lines 13-14. Based on Peoples' commitments, PIOGA fully expects to work more closely with Peoples on development and implementation of the Initiatives that affect producers so that the best information is used for Peoples' decisions on allocating its UFG reduction resources for the benefit of Peoples, its ratepayers and producers. Accordingly, PIOGA believes the Settlement resolves PIOGA's concerns with Peoples' 2012 UFG Initiatives in a fair and reasonable manner that is also consistent with the public interest in reducing UFG.

WHEREFORE, the Pennsylvania Independent Oil and Gas Association respectfully requests that the Settlement in this matter be approved.

Respectfully submitted,



Kevin J. Moody, Esq.

General Counsel

Pennsylvania Independent Oil & Gas Association

212 Locust Street, Suite 300

Harrisburg, PA 17108-1510

Dated: June 28, 2012

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**PA PUBLIC UTILITY COMMISSION
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2012-2292082
	:	
Peoples Natural Gas Company, LLC	:	
1307(f)-2012 Proceeding	:	

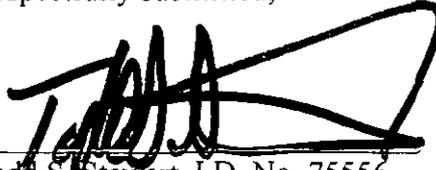
**NOTICE OF
NON-OPPOSITION TO SETTLEMENT**

AND NOW comes Interstate Gas Supply, Inc. (“IGS”) and Dominion Retail, Inc. (“Dominion Retail”)(collectively “NGS Parties”), parties to the above-captioned proceeding, and hereby state that they: 1) neither oppose nor support the Settlement in the above captioned matter; 2) do not object to or support the filing of the Settlement; 3) neither object to, nor support any recommendation by the Presiding Administrative Law Judge to approve the Settlement; and, 4) neither support nor object to, the Commission’s subsequent approval of said Settlement.

However, to the extent that any provision or provisions of the Settlement are subsequently modified, by any party or collection of parties, the Presiding Administrative Law

Judge or by the Commission, the NGS Parties reserve their right to change their position with regard to the Settlement, including pursuing any and all opportunities to oppose the Settlement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Stewart', written over a horizontal line.

Todd S. Stewart, I.D. No. 75556
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*Counsel for Dominion Retail, Inc.
and Interstate Gas Supply, Inc.*

Dated: June 28, 2012

CERTIFICATE OF SERVICE
Docket No. R-2012-2292082 et al.

I hereby certify that I have this day served a true copy of the Joint Petition for Approval of Settlement of Rate Investigation Pursuant to 66 Pa. C.S. § 1307(f) on behalf of Peoples Natural Gas Company LLC, upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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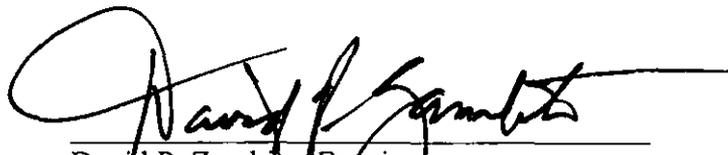
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DATED: June 29, 2012



David P. Zambito, Esquire
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