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*Via Electronic Filing*

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

Re: Dockets Nos. G-2012-2312597 and R-2012-2312577, et al.  
Pa. P.U.C., et al. v. Equitable Gas Company, LLC

Dear Secretary Chiavetta:

We are counsel to Equitable Gas Company, LLC in the above consolidated matters and are submitting the Company's Reply Brief via Electronic Filing. Copies of the Company's Reply Brief are being served upon the persons and in the manner set forth on the certificate of service attached to it.

Very truly yours,

THOMAS, LONG, NIESEN & KENNARD

By

Thomas T. Niesen

Encl.

cc: Certificate of Service (w/encl.)  
David W. Gray, Esq. (w/encl.)

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**Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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**Administrative Law Judge  
Mary D. Long, Presiding**

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<b>Pennsylvania Public Utility Commission</b>	<b>:</b>	<b>R-2012-2312577</b>
	<b>:</b>	<b>C-2012-2315323</b>
<b>v.</b>	<b>:</b>	
	<b>:</b>	
<b>Equitable Gas Company</b>	<b>:</b>	
<b>Application of Equitable Gas Company, LLC for Affiliated Interest Approval and Such Other Approvals, If Any, As May Be Necessary In Regard to the Acquisition of the Goodwin Gathering System from EQT Gathering, LLC and of the Tombaugh Gathering System from Equitrans, LP</b>	<b>:</b>	<b>G-2012-2312597</b>

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**REPLY BRIEF OF  
EQUITABLE GAS COMPANY, LLC**

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Date: January 7, 2013

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## I. INTRODUCTION

Equitable Gas Company LLC (“Equitable” or “Company”) submits this Reply Brief in response to the Main Brief of the Bureau of Investigation and Enforcement (“I&E”) and in further support of the Joint Settlement Agreement filed by the Company, the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) (collectively, the “Settling Parties”). There is a theme that has been confirmed by I&E’s Main Brief that was already addressed in Equitable’s Main Brief – I&E’s opposition is based on speculation, assumptions, hypotheticals, worse case scenarios and scare tactics, as opposed to the record and governing law. It is unfortunate that I&E has taken such an extreme position that jeopardizes natural gas service to over 1,600 customers. In short, I&E’s claimed primary concerns – cost and safety (a concern that is based solely on reported unaccounted-for-gas (“UFG”) levels<sup>1</sup> and one that I&E readily acknowledges is not supported by any federal or state pipeline safety laws that it has jurisdiction over) – are fully addressed by the evidentiary record and the Joint Settlement Agreement.

The Joint Settlement Agreement addresses both cost and safety matters in a way that is reasonable and consistent with the public interest. As per the testimony submitted by the Company, the Gathering Systems are presently being used to safely transport natural gas and provide retail service to more than 1,600 end use customers (hereinafter “the 1,600 plus customers”).<sup>2</sup> The Settling Parties propose, *inter alia*, and without any impact on current rates, to maintain the *status quo* of continued natural gas service while Equitable conducts a 12-month assessment of the Gathering Systems. There is *no* guarantee of any cost recovery to Equitable. Instead, the Settling Parties have agreed to permit Equitable to seek recovery in a future Public

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<sup>1</sup> I&E Main Brief at 5-6.

<sup>2</sup> Equitable St. No. 4R at 7.

Utility Commission (“Commission”) proceeding of costs “prudently” incurred during that 12-month period, which are otherwise capped at \$2 million. Thus, I&E’s concerns over costs and its reliance on the *potential* hundreds of millions in costs to replace all of the lines are, at a minimum, premature and misplaced. Moreover, I&E’s suggestion that Equitable somehow has *carte blanche* to spend at a whim and pass along all such costs to its ratepayers ignores the Joint Settlement Agreement as well as all traditional ratemaking principles.

With respect to safety, the only testimony submitted that is based on actual knowledge of the Gathering Systems proves that natural gas service has been and will continue to be provided to the 1,600 plus customers in a safe manner. I&E’s sole basis for questioning otherwise is the reported UFG levels, which I&E contends is indicative of pervasive leaks. In order to address that concern, as part of the 12-month assessment, Equitable will leak survey the entirety of the Systems – 379 miles of pipe – perform any necessary leak repairs, engage in other efforts to reduce the reported levels of UFG and otherwise address any identified safety concerns. Clearly, that approach is a solution in the public’s best interest as opposed to I&E’s position that abandonment has merit and that the lines be shut down with no further analysis.

I&E’s repeated suggestions that Equitable somehow should not be trusted to comply with not only its commitments in the Joint Settlement Agreement (which would be backed by Commission Order) but also the other representations Equitable has made on the record are troubling. Equitable has an excellent operational record at the Commission and has conducted its business with integrity and fairness. It intends to continue to do so. Moreover, Equitable fully expects the OCA and OSBA to hold Equitable to the terms of the Joint Settlement Agreement and the Commission will have the ability to enforce those terms.

I&E claims throughout its Main Brief that EQT Gathering and Equitrans (collectively, “EQT Midstream”)<sup>3</sup> have allowed the Gathering Systems to deteriorate to the point where they cannot be relied upon to provide safe and reliable service. I&E’s assessment of the Gathering Systems is inaccurate, unfair and contrary to the evidence of record. Later in this Reply Brief, Equitable quotes at length from the testimony of Equitable witness Cooper.<sup>4</sup> Mr. Cooper explained the training and implementation processes for the classification and repair of leaks and the handling of leak calls that EQT Midstream applies to the Gathering Systems.<sup>5</sup> He also explained that the UFG levels for these Systems are likely, significantly, the result of measurement and metering anomalies and not leaking gas.<sup>6</sup> The Gathering Systems are operated at low pressure (significantly below their design) in predominately rural areas, without incident, and neither EQT Gathering nor Equitrans, the entities presently operating the Gathering Systems, nor Equitable, which would acquire the Systems, views them as safety risks. I&E ignores this testimony in its Main Brief.

I&E also comments throughout its Main Brief about the non-jurisdictional status of the pipelines. The pipelines are non-jurisdictional for pipeline safety purposes under federal and state law as contemplated by those laws, because they are, in fact, operated at low pressure in predominately rural areas and, as such, are viewed as relatively low risk. The lack of jurisdiction for pipeline safety purposes, which is acknowledged by I&E, is no reason to deny the transfer of

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<sup>3</sup> There are numerous places throughout I&E’s Main Brief where it uses Equitrans, EQT Gathering and Equitable interchangeably when discussing the past and current ownership and operation of the Gathering Systems. Equitable assumes that was an inadvertent oversight by I&E. However, I&E’s arguments that attempt to use EQT Midstream’s desire to no longer own, operate or invest in these assets that are non-core to them and relatively small (all of which was explained in testimony) in an effort to somehow suggest that they have no value to Equitable and its 1,600 plus customers is misleading and otherwise unsupported by the record.

<sup>4</sup> Mr. Cooper is Vice President, Engineering for EQT Midstream, which includes the midstream assets of EQT Gathering and Equitrans. He has responsibility for EQT Midstream’s design engineering, pipeline safety compliance, data telecommunications and SCADA systems. Equitable St. No. 4R at 1.

<sup>5</sup> N.T. 79-83.

<sup>6</sup> N.T. 83-91.

the Systems but, more importantly, the lack of jurisdiction does not mean that the Systems are unsafe.

In fact, I&E has failed to articulate a single reason how the transfer of these lines impacts their jurisdictional status for pipeline safety purposes or otherwise impacts their safe operation. To the contrary, the Joint Settlement Agreement and record establish that Equitable is committed to, *inter alia*, leak survey the entire 379 miles of lines and perform necessary leak repairs during that initial 12-month assessment period – neither of which is required under the governing pipeline safety standards. Accordingly, I&E’s primary alleged concern (assuming it has a factual basis) – gas leaks – is *significantly* mitigated by the transfer. I&E should be supporting the transfer rather than opposing it.

The Settling Parties have presented the Commission with a resolution of this matter which is reasonable and consistent with the public’s best interest. Once again, the Settling Parties propose, *inter alia*, and without any impact on current rates, to maintain the *status quo* of continued natural gas service while Equitable conducts a 12-month assessment of the Gathering Systems. As part of the 12-month assessment, Equitable will leak survey the entirety of the Systems – 379 miles of pipe – perform any necessary leak repairs, engage in other efforts to reduce the reported levels of UFG and otherwise address any identified safety concerns. The Commission should approve Equitable’s acquisition of the Gathering Systems subject to the terms of the Joint Settlement Agreement between and among Equitable, the OCA and the OSBA. To do otherwise is not in the public interest.

**II. REPLY TO THE MAIN BRIEF OF THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

**A. Cost and Benefit to All Equitable Ratepayers**

Citing the legal standard for the issuance of a certificate of public convenience under Chapter 11 of the Public Utility Code, I&E contends that Equitable has failed to demonstrate that approval of the transaction will result in affirmative public benefits.<sup>7</sup> However, in a similar transaction involving Equitable's acquisition of the PA North Gathering System from an affiliate, the Commission, at Docket No. G-00031009, did *not* find it necessary to issue a certificate of public convenience but, instead, concluded that only affiliated interest approval under Chapter 21 of the Public Utility Code was required.<sup>8</sup> Equitable, accordingly, believes that a certificate of public convenience, likewise, is not necessary here and that the appropriate legal standard is found in Section 2102(b) of the Public Utility Code, which provides that agreements between affiliates must be "reasonable" and consistent with the "public interest." Equitable's proposed transfer of the Gathering Systems from affiliates, subject to the terms of the Joint Settlement Agreement, is reasonable and consistent with the public interest for all the reasons explained in Equitable's Main Brief and this Reply Brief.

At the same time, the evidence of record establishes that the proposed transfer, subject to the terms of the Joint Settlement Agreement, will result in the affirmative public benefits necessary under Chapter 11. The possible continuation of safe and reliable public utility service to the 1,600 plus customers alone is a clear public benefit that is sufficient for Chapter 11 purposes. Although I&E would like to trivialize the importance of this goal, Equitable believes that it is paramount and one obviously supported by the OCA and OSBA in light of the Joint

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<sup>7</sup> See I&E Main Brief at 4 and citation to *City of York v. Pa. P.U.C.*, 295 A. 2d 825, 828 (1972).

<sup>8</sup> Equitable's acquisition of the PA North Gathering System from an affiliate was approved by secretarial letter at Docket No. G-00031009.

Settlement Agreement. The alternative of converting the 1,600 plus customers to alternative fuel sources at a potential cost of \$11,000,000 is an obvious public detriment, regardless of whether the cost is borne by the customers as Equitable believes would be required under its currently effective Tariff Rule 9<sup>9</sup> or by Equitable as apparently contemplated by I&E.<sup>10</sup> Additionally, that cost does not even take into consideration the practicalities of having customers complete such conversions and the associated costs going forward.

Moreover, the multi-step process that Equitable has agreed to undertake in order to assess and, if necessary and appropriate, rehabilitate the Systems, including surveying and completing any necessary leak repairs in the first 12 months, will increase the overall operational performance of the Systems as well as identify and address any safety concerns. Thus, I&E's statement that the "acquisition would do nothing to enhance service to any Equitable ratepayers"<sup>11</sup> since it will take up to 12 months for Equitable to even complete an assessment" is inaccurate.

Finally, there is the public benefit of enhancing the Systems in a manner that will increase the availability of locally produced gas. Although I&E focuses on the prospects for importing Marcellus gas onto these Systems and the related challenges due to the higher relative pressure of such wells, I&E ignores gas from conventional wells. Reducing reported UFG levels in order to help increase gas flow from conventional wells into these Systems and export such conventionally produced gas from these Systems for use by others is another public benefit.<sup>12</sup>

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<sup>9</sup> Public utility tariffs have the force and effect of law and are binding on the customer as well as the utility. *Pennsylvania Electric Co. v. Pa. P.U.C.*, 663 A.2d 281, 284 (Pa. Cmwlth. 1995); *PPL Electric Utilities v. Pa. P.U.C.*, 912 A.2d 386, 402 (Pa. Cmwlth. 2006).

<sup>10</sup> At page 25 of its Main Brief, I&E contends that, as a condition of granting a certificate of public convenience to abandon customers, the Commission is free to require the utility to pay all or some of the costs for customers to switch to an alternate fuel source.

<sup>11</sup> I&E Main Brief at 7.

<sup>12</sup> Equitable St. No. 1 at 5. It is Equitable's expectation that the acquisition, ultimately, will enhance access to additional sources of Pennsylvania produced local production for markets on and off the Goodwin and Tombaugh Gathering Systems. Equitable Exhibit I, Supporting Documentation at 2.

While I&E claims that there has been no cost-benefit analysis to show the impact of the acquisition on Equitable ratepayers,<sup>13</sup> the terms of the Joint Settlement Agreement are clear and clearly weighted in favor of the ratepayer. With the exception of the cost of the initial assessment project (which is capped at \$2 million and, otherwise, must be “prudently incurred”), the Joint Settlement Agreement provides no assurance to Equitable of rate recovery of any expense or investment related to the Gathering Systems. Contrary to I&E’s statements, ratemaking claims and Commission decisions concerning them remain for consideration in future proceedings, without prejudice to any position any of the Settling Parties may take in those proceedings.<sup>14</sup> Thus, I&E’s attempts to suggest that Equitable’s ratepayers somehow lose their customary protections related to utility capital investment and ratemaking treatment of same as a result of these transfers are completely unfounded.

I&E argues that no party has disputed that the Gathering Systems need to be rehabilitated and that the only issue left is the extent of the rehabilitation.<sup>15</sup> The Joint Settlement Agreement puts in place a 12-month assessment period that will give everyone the ability to make informed decisions on any rehabilitation efforts, extensive or otherwise. Based on its experience with the Crooked Creek Gathering System, Equitable does not anticipate the need to replace extensive portions of line.<sup>16</sup> Despite those settlement provisions and evidence, I&E unreasonably posits a rehabilitation effort based on a “worst case scenario” cost of \$379,000,000 to replace the entire

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<sup>13</sup> I&E Main Brief at 7.

<sup>14</sup> See Equitable Main Brief at 23-24.

<sup>15</sup> I&E Main Brief at 8-11.

<sup>16</sup> Although I&E makes a statement that “it is unlikely that the same remediation measures will work for these Systems as did for Crooked Creek” (I&E Main Brief, p. 20), it failed to develop any evidence supporting this conclusory statement or otherwise provide any credible support for that statement. In contrast, Equitable witness Grabiec identified important similarities between the Systems and Crooked Creek. For instance, the Crooked Creek Gathering System, which dates from the beginning of the 20<sup>th</sup> Century, has gathering pipe of similar vintage to the Goodwin Gathering System and the Tombaugh Gathering System. Equitable St. No. 3R at 3.

379 pipeline miles of the two Gathering Systems.<sup>17</sup> Equitable, however, is not anticipating the need to replace all, or even a large part, of the 379 miles of the Gathering Systems pipe in order to continue to operate a safe system.<sup>18</sup> In clear contrast to the “worst case scenario” posited by I&E, Equitable, since 2008, has found it necessary to renew just 45 miles of pipe in the 814 miles of the Crooked Creek Gathering System at a total cost of \$8,391,960, or approximately \$191,766 per mile.<sup>19</sup>

I&E argues further that conversion of the 1,600 plus customers to alternate fuel would be substantially cheaper than replacing the pipeline for the Gathering Systems.<sup>20</sup> Again, that type of assumption is premature until, at a minimum, the 12-month assessment is completed. Moreover, it is anticipated, based on prior experience, that no or very few customers will require conversion and/or abandonment. Equitable has not had to abandon service to any Crooked Creek area customer as part of its rehabilitative effort of that system.<sup>21</sup> Moreover, contrary to the assertions of I&E, it is not at all evident that a large amount of pipeline will need to be replaced. It, also, is not at all a certainty that a substantial amount of money will be required to investigate the reported UFG levels. The Joint Settlement Agreement allows recovery of up to, but no more than, \$2 million of capital expenditures and expenses “prudently incurred during [the] initial assessment.” Equitable, however, must wait for a future base rate or other Commission proceeding to seek recovery.<sup>22</sup> During the 12-month initial assessment, Equitable will now,

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<sup>17</sup> I&E Main Brief at 8-9.

<sup>18</sup> Equitable St. No. 3R at 7-8; Equitable St. No. 4R at 7..

<sup>19</sup> Equitable St. No. 3R at 5.

<sup>20</sup> I&E Main Brief at 9-10.

<sup>21</sup> Equitable St. No. 3R at 5-6.

<sup>22</sup> With the exception of the cost of the initial assessment project (which is capped at \$2 million and, otherwise, must be “prudently incurred”), the Joint Settlement Agreement provides no assurance to Equitable of rate recovery of any expense or investment related to the Gathering Systems. Ratemaking claims and Commission

physically walk and leak survey (including any necessary leak repair) the entirety of the Gathering Systems.<sup>23</sup>

Acknowledging that the “majority” of the Gathering Systems is non-jurisdictional for pipeline safety purposes, I&E expresses concern that Equitable will have the ability to charge its jurisdictional customers for costs that are outside the scope of the Commission’s review.<sup>24</sup> Irrespective of the non-jurisdictional status of the pipelines for pipeline safety purposes, the Commission would retain its rate and ratemaking authority under Chapter 13 of the Public Utility Code including its authority to confirm the existence and completion of capital investment when Equitable seeks to recover the investment from distribution service customers in a future base rate or other Commission proceeding. Moreover, the prudence of such expenditures will be tested by the Statutory Advocates and, ultimately, resolved by the Commission.

I&E argues, as a final point, that the Joint Settlement Agreement lacks specificity regarding the cost effectiveness of pipeline repairs and that it is solely up to Equitable to determine whether a rehabilitative effort will be cost effective. I&E misreads the terms of the Joint Settlement Agreement and completely ignores traditional ratemaking principles. In very clear language, the Joint Settlement Agreement expressly reserves to all Settling Parties the right to withdraw any further support for rehabilitation efforts after receipt of the initial assessment report. Thus, for example, if Equitable’s initial assessment were to conclude that the entirety of the Gathering Systems must be replaced at a cost of many millions of dollars, each of the Settling

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decisions concerning them remain for consideration in future proceedings, without prejudice to any position any of the Settling Parties may take in those proceedings.

<sup>23</sup> During the 12-month initial assessment, Equitable will also begin segmentation of the Gathering Systems and identification and evaluation of chronically deficient pipe for either immediate replacement or immediate abandonment. Although the entire multi-step analysis is expected to take between three and four years, Equitable anticipates initial improvement in UFG levels to be more immediate as a result of its initial assessment efforts. Equitable St. No. 3R at 6-7.

<sup>24</sup> I&E Main Brief at 10-11.

Parties would have the opportunity to withdraw support for rehabilitation that they view as overly costly and take whatever additional steps they deem appropriate.

**B. Production Lines v. Gathering Lines**

I&E contends that Equitable’s Application should be denied because it is misleading as to the status of the pipelines as production or gathering.<sup>25</sup> Equitable’s description of the Systems as “gathering systems” has never been misleading. This is another “red herring” raised by I&E. When Equitable described the Systems as “gathering systems,” it did so generically and not for pipeline safety purposes. Generically, the pipelines collect and gather gas as explained by Equitable witness Cooper.<sup>26</sup> For pipeline safety purposes, however, the pipelines meet the definition of “a production line” as also explained by Mr. Cooper.<sup>27</sup> In response to questioning by I&E, Mr. Cooper testified as follows noting specifically the classification of the lines as production “for the purposes of pipeline safety.”

Q. ... Regardless of who owns the lines, based upon your interpretation of API RP80, those lines are classified as production operation, correct?

A. *For the purposes of pipeline safety, that is correct.*<sup>28</sup>

Although I&E expresses concern that the pipelines (classified as production *for the purposes of pipeline safety*) would not be subject to any safety standards and that there would be no regulation over the safety of the lines by the Commission,<sup>29</sup> I&E acknowledges that, even if classified as gathering *for the purposes of pipeline safety*, the “majority” of the Gathering

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<sup>25</sup> I&E Main at 13-18.

<sup>26</sup> N.T. 71.

<sup>27</sup> N.T. 71-72.

<sup>28</sup> N.T. 74-75 (emphasis added).

<sup>29</sup> I&E Main Brief at 17; *Also see* I&E Main Brief at 22-23..

Systems is “non-jurisdictional.”<sup>30</sup> Thus, *for purposes of pipeline safety*, whether classified as production or gathering, the pipelines are non-jurisdictional. The lack of jurisdiction for pipeline safety purposes is no reason to deny the transfer of the Systems.

Also, the lack of pipeline safety standard jurisdiction is a function of the governing law and I&E has failed to articulate one reason how the transfer of these assets impacts that issue or otherwise diminishes the safe operation of these lines. To the contrary, Equitable is committed to completing various steps that are not legally required in order to potentially enhance the continued safe system operations, including leak surveying all 379 miles of pipe and performing any necessary leak repairs in the first 12 months. I&E ignores that commitment or downplays its impact by suggesting that Equitable will not follow through. Similarly, I&E suggests that Equitable would have *carte blanche* in classifying these lines, if they are transferred. A pipeline owner/operator cannot, however, deny pipeline safety jurisdiction to an agency such as PHMSA or the Commission’s Gas Safety Division by improperly classifying lines. There is a process to challenge such tactics. Thus, the non-jurisdictional status of these Systems is a function of the governing law and not the whim of a pipeline owner/operator. I&E’s focus on this issue is a “red herring” and should be disregarded.

More importantly, the lack of pipeline safety jurisdiction does not mean that the Systems are unsafe.<sup>31</sup> Rural gas gathering lines/production lines, such as those in these Systems, have historically been exempt from federal pipeline safety regulation because they are operated at low pressure in predominately rural areas and, as such, they are viewed by those passing the laws as relatively low risk. Moreover, these particular lines are being operated significantly below the

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<sup>30</sup> I&E Main Brief at 10 and 23.

<sup>31</sup> I&E Main Brief at 17.

pressures that they were designed to handle.<sup>32</sup> Thus, although I&E attempts to cite to recent examples of unfortunate gas related incidents in an effort to block these transfers, such advocacy is misplaced. These are not high pressure lines with the risks associated with such lines.

Ignoring the location and operational characteristics of the Systems, I&E's safety concerns are based solely on a UFG "number."<sup>33</sup> There, however, are many contributing factors to UFG and there is absolutely no evidence that UFG, even at its current level, is the result of unsafe pipeline leaks. The testimony of record as cited and discussed throughout Equitable's Main Brief and this Reply Brief is that EQT Gathering and Equitrans have adequately maintained the Gathering Systems consistent with their rural location and low pressure operating characteristics.

The Settling Parties are not, in any way, compromising safety. Instead, they are proposing, without any change to current rates, to maintain the *status quo* of continued natural gas service to the 1,600 plus customers while Equitable conducts a 12-month assessment of the Gathering Systems which will include leak surveying and related necessary repair of the entirety of the two Systems. Equitable has an excellent record of overall safe operations and compliance with pipeline safety laws and regulations. Equitable intends to continue its excellent operational record.<sup>34</sup>

**C. I&E's Safety Concerns**

I&E states that a natural gas facility must be adequately and properly maintained and contends that EQT Gathering and Equitrans have let the Gathering Systems fall into disrepair creating safety hazards and that Mr. Cooper was unaware of the UFG percentage and the leaks

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<sup>32</sup> Equitable St. No. 4R at 3-5.

<sup>33</sup> N.T. 140-141.

<sup>34</sup> Equitable St. No. 3R at 11.

prior to preparation for the transfer.<sup>35</sup> I&E's assessment of the Gathering Systems and Mr. Cooper's testimony is inaccurate, unfair and contrary to the evidence of record. In response to questioning by I&E, Mr. Cooper testified at length about the training and implementation processes for the classification and repair of leaks and the handling of leak calls and explained that the processes used for the EQT Gathering and Equitrans non-jurisdictional Gathering System assets are *identical* to the processes used for the EQT Midstream jurisdictional assets.

Q. So prior to the preparation for the transfer of these systems, as the pipeline safety compliance responsibility, you were unaware of the amount of leaks from 2010 and you were unaware of the amount of lost and unaccounted-for gas associated with these systems; is that your testimony today?

A. In terms of a specific number, I've already stated to you I didn't know the number was 50 percent or 70 percent, and I didn't know if the specific number of leaks repaired in a given year was 100 or 150. What I can state to you is that I was aware that these are systems that are aging and have a leak history. I was aware that we have a process to repair those leaks.

Q. You're aware that you have a process to repair the leaks?

A. Yes, sir.

Q. And what is that process?

A. We have basically two things that we do. One is we respond to leak calls and go out and investigate the leaks. We then find the leak, classify it under a classification system, and then that classification system determines whether the leak receives immediate repair, a scheduled repair or continuing monitoring.

That classification system, that survey process, the training of the personnel to do that is the same program that we use for our regulated lines and we apply that to our unregulated lines.

Q. It's your testimony that you're saying that the same process that is applied in the regulated lines is applied to the unregulated lines?

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<sup>35</sup> I&E Main Brief at 18-19.

A. In those specific areas of responding to a leak call, finding the leak, evaluating the leak for appropriate repairs and then doing the repairs, we have one training program, and our personnel to do those activities are trained accordingly,

That training program has to meet the requirements for the lines that are regulated because those are specific actions we're required to take. We don't have a different program for other pipe lines. We use the same personnel and we use the same process.

\* \* \* \*

... So all of the pipes that are operated by Equitrans and Equitable Gathering as they relate to this proceeding go through the same program.

We operate many miles of pipes beyond what we're talking about here, some of which are subject to the federal oversight rules some of which are subject to rules in other states, and we have elected to train all of our personnel one time.

They get trained how to look for leaks, repair leaks, and that's the procedure that they use.<sup>36</sup>

Mr. Cooper also addressed UFG in response to further questioning by I&E identifying the potential factors comprising a UFG percentage.

Q. ... [W]as there ever any discussion regarding the levels of unaccounted-for gas on the Tombaugh and Goodwin Systems and how the company was going to – Midstream was going to address that?

A. \* \* \* \*

One of the things that goes into these evaluations of lost and unaccounted-for gas is it's an accounting balance. You look at the gas that flows into the system from the different sources and you look at the measured outlets of gas on the system and then you balance the two and you end up with a number that's left over that, in our vernacular, is lost and unaccounted-for.

Some of that could be leakage, but there are other factors that go in there. Those factors can include differences in metering, meaning the types of meters that are on this system and the low pressures and the low volumes that we are using, you are operating those meters in the range where they have the potential to be less accurate. So the number that you get will have some variability.<sup>37</sup>

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<sup>36</sup> N.T. 79-83.

<sup>37</sup> N.T. 83-85.

Mr. Cooper explained in regard to UFG that, while the UFG percentages for the Goodwin and Tombaugh Gathering Systems are relatively high, there are multiple measurement anomalies that make up that percentage. It, clearly, is not just pipeline leakage.

This particular system and the way that it's configured also has many connections, several of which are connections to the Equitable Gas company, where the actual connection does not have a meter to measure the gas that leaves.

So in order to calculate the lost gas, we rely on Equitable Gas to provide us the customer meter readings that ultimately that gas goes to. They provide us a file that says, "Here's our meter readings on these meters that are downstream of where we are connected," and then we use that to balance. If Equitable Gas were to have a leak on their line that leads from ours to those customers, we wouldn't be accounting for that.

As part of the questions that came back and forth in the various testimony, to try to help understand that, I took one small section of the line and asked some of our individuals that process our meter readings to cross-check the file with all the meters in it with what we're actually using to do the calculations. And what I have found is that not all of the meters are in the file we're using to calculate LUF, meaning – and I'll use just a raw number to demonstrate the ability – the file that I'm using on a particular segment may have ten customers on it. Those customers belong to EGC, when in fact there may be 12 or 13 meters that actually come off of that line.

So the number that's representing domestic use of gas is being under-reported, so when I do the calculation to balance, I'm showing gas coming in but I'm not accounting for all of it going out, so the unaccounted-for number is larger than what you might expect.

There are also some locations on the line where there are distribution systems nearby, and the gas company takes their feed off of a transmission line and feeds a distribution system, as is the normal process most everywhere.

Because there's not another transmission line available in the area, in order to provide reliable service to customers, it is a good practice to have a backup feed if there's a problem with your primary feed. Sometimes this is called looping.

There are some cases on this system where there's a regulator that isolates this system from Equitable Gas but there's not a meter associated with it.

So under normal circumstances, the gas customers receive their gas off of the transmission line and it's intended, if there's an emergency, for whatever reason – somebody struck the pipeline and you had to cut it in – instead of all

those customers losing their service, this regulator coming off of the production line will allow gas to flow forward and feed some of those customers.

We're dealing with relatively low pressures here, and the adjustments on those regulators, if they are slightly overlapped, there can be periods of time where the backup feed might let a little gas out.

Because they don't measure it there and it's not part of the balance because it's not normally fed from there, gas could leave the system and I don't account for it.

And those are a couple of the illustrations that I think are important for you to see that while the percentage of lost gas is relatively high, there are multiple sources that make up that percentage, not just pipeline leakage.<sup>38</sup>

Mr. Cooper further explained how EQT Midstream staff<sup>39</sup> routinely monitors the UFG on the Gathering Systems on a monthly basis. Unexplained changes in UFG from month to month are investigated:

In addition, what the Midstream staff does is, they monitor this on a monthly basis as the new reports come in, and they look for unexplained changes in that in the short term. So while the number is higher if that number goes up, that results in a call to our operations group that says, "We have an unexplained change in the loss on a particular area in the system," and they go out and start a leak investigation to see if the unexplained change resulted from a leak.

So while there's not a lot of routine patrolling that would occur were the line subject to pipeline safety at some frequency, you're actually much closer to the point of a leak occurring by measuring these changes, to go out and monitor for it, identify it and repair it.<sup>40</sup>

Summarizing, Mr. Cooper explained that, while it is true that EQT Midstream has not undertaken a comprehensive review of the gas measuring and gas accounting related to the

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<sup>38</sup> N.T. 85-87

<sup>39</sup> I&E's attempts to suggest that Mr. Cooper was somehow derelict in his responsibilities because he allegedly did not have intimate knowledge of certain information for these Systems before this proceeding was filed (I&E Main Brief at 21-12) are inaccurate and unfair. It is clear from the record that those that report to Mr. Cooper had the needed information; that Mr. Cooper had the needed information for a person at his level; and that the Systems otherwise are being operated in a safe manner.

<sup>40</sup> N.T. 87-88; *see also* N. T. 89-90 where Mr. Cooper explained how, in response to a hypothetical increase in the UFG level, the Midstream staff would look at variances in UFG and make a determination whether or not a given area has had an unexplained change.

Gathering Systems, it is, nevertheless, readily apparent, based on the procedures and processes that are already in place, that some of what is presently categorized as “unaccounted-for” gas, ultimately, will be “accounted-for” either through correcting the number of end use consumer meters and the associated data files or by identifying places where additional end use customers have been added and the data file has not been adjusted upward, or going out and doing additional meter installations, or going out and doing different regulator installations. The evidence of record, in other words, does not warrant a conclusion that what is viewed as high UFG is entirely the result of pipeline leaks.<sup>41</sup>

#### **D. I&E’s Abandonment of Service Assertions**

I&E contends that the idea of abandonment has merit and may be the best course of action for the 1,600 plus customers.<sup>42</sup> Abandonment proceedings in which Equitable has been involved due to possible ground subsidence as a result of long-wall mining in Southwestern Pennsylvania have taken a year or more to bring to a conclusion and those proceedings have involved no more than a few customers<sup>43</sup> in contrast to the 1,600 plus customers that would be involved here.<sup>44</sup> In contrast, Equitable can rely on Tariff Rule 9 in order to abandon service on a

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<sup>41</sup> N.T. 91-92. On a related point, I&E’s attempts, with no evidentiary support, to suggest that the gas being provided to Equitable’s customers is “odorless” in an effort to minimize the lack of leak calls is unfounded. I&E Main Brief at 20-21. If I&E were correct, there would be no leak calls. This is another example of I&E taking extreme positions in order to attempt to block this transfer.

<sup>42</sup> I&E Main Brief at 23-24. In support of this contention, I&E again refers to UFG levels citing the Commission’s Proposed Rulemaking Order entered June 7, 2012, in *Establishing a Uniform Definition and Metrics For Unaccounted-For-Gas*, Docket No. L-2012-2294746. I&E states that the Proposed Rulemaking Order proposes to establish a uniform definition of UFG. See I&E Main Brief at 25. Although the Proposed Rulemaking Order presented a proposed uniform definition for calculating and reporting distribution as well as gathering UFG, metrics were proposed for distribution UFG only. Additionally, contrary to I&E’s further assertion, Equitable does dispute Witness Graeser’s statement that UFG over 9% requires close monitoring. See I&E Main Brief at 19. Mr. Grabiec explained that there are many components to UFG and, consequently, it is not possible to identify a specific percentage at which UFG would become a safety concern. N.T. 114-115. **There is no 9% standard for UFG as suggested by I&E.**

<sup>43</sup> *Groff v. North Penn Gas Company*, 77 Pa. P.U.C. 203 (1992), cited by I&E involved just four customers. See I&E Main Brief at 27-28.

<sup>44</sup> See, for example, *Application Of Equitable Gas Company For Approval Of Abandonment Of Natural*

very expedited basis, which appears to be the favored approach of I&E in light of its claimed safety concerns. In any event, based on the current evidentiary record, any abandonments at this point in time, without allowing the 1,600 plus customers at least the benefit of the Joint Settlement Agreement's 12-month assessment period is not in the public interest. That point is further supported by the language in Equitable's Tariff Rule 9 that would require those ratepayers to bear those conversion costs.

In contrast to the I&E contention that the best course of action may be to abandon service to 1,600 plus customers, approval of the Joint Settlement Agreement will maintain the *status quo* of continued natural gas service to the customers, while Equitable conducts a 12-month assessment of the two Gathering Systems (including leak surveying the entirety of the two Systems and completing any necessary leak repair). The Joint Settlement Agreement is clearly more reasonable than abandonment as suggested by I&E. The possibility of abandonment is not foreclosed by the Joint Settlement Agreement<sup>45</sup> but Equitable's reasonable expectation based on its prior experience is that abandonment of all or part of the 1,600 customers is unlikely. In rehabilitating the Crooked Creek Gathering System, Equitable has not found it necessary to abandon service to a single customer.

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*Gas Service To Twenty-Six (26) Field Line Customers Located In The Township Of Richhill, Greene County, Pennsylvania*, Docket No. A-121100F2003, Order entered March 3, 2009; *Application For Approval Of Abandonment Of Service By Equitable Gas Company To Twenty-Three Field Gathering Line Customers In Washington County, Pennsylvania*, Docket No. A-2009-2089152, Order entered August 1, 2011; *Application Of Equitable Gas Company, A Division Of Equitable Resources, Inc., For Approval Of The Abandonment Of Service To Two (2) Field Gathering Customers And One (1) Vacant Field Gathering Line Meter Tap Location In Whiteley Township, Greene County, Pennsylvania*, Docket No. A-2008-2027716, Final Order entered March 9, 2009; *Pennsylvania Public Utility Commission v. Equitable Gas Company*, Docket No. A-121100F2002, Order entered November 29, 2007.

<sup>45</sup> The terms of the Joint Settlement Agreement expressly reserve the right of all Setting Parties, upon receipt of the initial assessment report and revised cost estimates, to withdraw any further support for rehabilitation efforts and to avail themselves of all remedies under the Public Utility Code and the right of Equitable to abandon service to any or all of its customers served from the Goodwin and/or Tombaugh Gathering Systems.

To be clear, the Joint Settlement Agreement and the Settling Parties are not, in any way, compromising safety.<sup>46</sup> The Gathering Systems have been operated and are continuing to be operated at low pressure in predominately rural areas, without incident, and neither EQT Gathering nor Equitrans, the entities presently operating the Gathering Systems, nor Equitable, which would acquire the Systems, views them as safety risks. Equitable intends to continue its excellent safe operational record, including compliance with any applicable pipeline safety laws and regulations regarding the Gathering Systems.<sup>47</sup> I&E's abandonment assertions should be denied.

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<sup>46</sup> I&E's suggestion that the reporting obligations under the Joint Settlement Agreement are meaningless is perplexing. I&E Main Brief at 22-23. I&E's unwillingness to participate in the settlement and its resulting lack of a right to access those reports cannot be a proper basis to challenge the settlement. If it is a proper basis, the Commission has the ability to make such appropriate modifications to the Joint Settlement Agreement, which then will be considered by the Settling Parties as per the terms of the settlement.

<sup>47</sup> Equitable St. No. 3R at 11.

### III. CONCLUSION

For all the reasons presented in its Main Brief and this Reply Brief, Equitable Gas Company, LLC requests that the Public Utility Commission approve its proposed acquisition of the Goodwin Gathering System and the Tombaugh Gathering System from EQT Gathering, LLC and Equitrans, LP, respectively, subject to the terms of the Joint Settlement Agreement between and among Equitable, the Office of Consumer Advocate and the Office of Small Business Advocate.

Respectfully submitted,

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Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Administrative Law Judge  
Mary D. Long, Presiding

Pennsylvania Public Utility Commission	:	R-2012-2312577
	:	C-2012-2315323
v.	:	
	:	
Equitable Gas Company	:	
Application of Equitable Gas Company, LLC for Affiliated Interest Approval and Such Other Approvals, If Any, As May Be Necessary In Regard to the Acquisition of the Goodwin Gathering System from EQT Gathering, LLC and of the Tombaugh Gathering System from Equitrans, LP	:	G-2012-2312597

**CERTIFICATE OF SERVICE**

I hereby certify that I have this 7<sup>th</sup> day of January 2013 served a true and correct copy of the Reply Brief of Equitable Gas Company, LLC, upon the persons and in the manner set forth below:

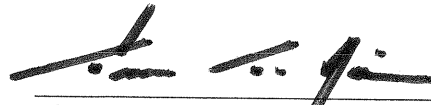
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