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April 26, 2013

VIA ELECTRONIC FILING

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

**Re: Pennsylvania Public Utility Commission v. Peoples TWP LLC
Docket Nos. R-2013-2341604, C-2013-2346486, C-2013-2346650, C-2013-2348747
and C-2013-2359531**

Dear Secretary Chiavetta:

Attached please find the Joint Settlement of All Issues of the Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

MWH/skr
Attachment

cc: Honorable Conrad A. Johnson
Honorable Jeffrey Watson
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL:

Sharon Webb, Esquire
Office of Small Business Advocate
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AND BY FIRST CLASS MAIL ONLY:

Kathleen A. O'Laughlin
100 Irene Drive
Butler, PA 16001

Barry Haldin
127 Cedar Lane
Indiana, PA 15701

Dated: April 26, 2013



Michael W. Hassell

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2013-2341604
Office of Consumer Advocate	:		C-2013-2346486
Office of Small Business Advocate	:		C-2013-2346650
Kathleen A. O’Laughlin	:		C-2013-2348747
Barry Haldin	:		C-2013-2359531
	:		
v.	:		
	:		
Peoples TWP LLC	:		

**JOINT SETTLEMENT OF ALL ISSUES OF THE
RATE INVESTIGATION PURSUANT TO 66 Pa.C.S. § 1307(f)**

TO ADMINISTRATIVE LAW JUDGES
JEFFREY WATSON AND CONRAD A. JOHNSON:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and Peoples TWP LLC (“Peoples TWP” or the “Company”), parties to the above-captioned proceeding (hereinafter, collectively referred to as the “Parties”), hereby join in this Joint Petition for Settlement of All Issues of the Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) (“Settlement”) and respectfully request: (1) that Administrative Law Judges Jeffrey Watson and Conrad A. Johnson (“ALJs”) approve this Settlement to become effective for service furnished on and after August 1, 2013; and (2) that the ALJs and the Commission make the findings required by the Public Utility Code, as provided herein. Under the Settlement, as fully set forth and explained below, the Parties have resolved all of their issues relative to Peoples TWP’s 2013 Purchased Gas Cost (“PGC”) proceeding at Docket No. R-2013-2341604. In support of this Settlement, the Parties represent as follows:

I. INTRODUCTION

1. Peoples TWP is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission's regulatory jurisdiction. Peoples TWP is an affiliate of Peoples Natural Gas Company LLC ("Peoples").

2. Peoples TWP is a "public utility" and a "natural gas distribution company" as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202.

3. Peoples TWP provides retail natural gas sales and transportation services to approximately 60,300 customers throughout its service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland.

4. Because Peoples TWP's annual operating revenues, derived from providing gas service to customers in Pennsylvania, exceed \$40 million, Peoples TWP's recovery of purchased gas costs is governed by the Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code §§ 53.61 - 53.65 and 53.68.

5. On January 2, 2013, Peoples TWP submitted to the Commission, as required under 52 Pa. Code §§ 53.64 and 53.65, pre-filing data in support of a tariff supplement proposing changes in rates for recovery of purchased gas costs. The supporting data explained Peoples TWP's gas procurement practices and the basis for projections of the cost of purchased gas for the twelve-month period ending July 31, 2014. That pre-filing data reflected a projected increase in the purchased gas rate applicable to residential retail service customers of \$0.0385/Mcf, based upon the November 1, 2012 purchased gas rates in effect as of the time of the pre-filing, as well as changes in the purchased gas rates for other customer classifications.

6. The projected purchased gas rate applicable to residential retail service customers to be effective as of August 1, 2013, was \$4.9216/Mcf.

7. On February 1, 2013, Peoples TWP filed with the Commission a proposed supplement to Tariff Gas – Pa. P.U.C. No. 7. Concurrent with the filing of the Proposed Supplement, Peoples TWP filed the remainder of its direct case, consisting of prepared statements covering Peoples TWP’s gas procurement policy and the computation of purchased gas rates contained in the Proposed Supplement.

8. On February 1, 2013, I&E filed a Notice of Appearance. On February 5, 2013, the OCA filed a Notice of Appearance and a Formal Complaint at Docket No. C-2013-2346486. The OSBA filed a Formal Complaint at Docket No. C-2013-2346650 on February 5, 2013.

9. On February 20, 2013, the Commission’s Secretary’s Bureau served Peoples TWP with the complaint of Kathleen A. O’Laughlin at Docket No. C-2013-2348747.

10. A prehearing conference was held on February 19, 2013. Prehearing conference memoranda were submitted by I&E, OCA, OSBA, and Peoples TWP. At the prehearing conference, the Parties established a schedule under which they would be able to complete litigation of the proceeding and allow the Commission to decide any contested issues within the statutory six-month notice period.

11. Formal discovery requests have been propounded by the Parties and Peoples TWP has provided responses. The Parties also exchanged information through informal discovery.

12. On March 6, 2013, counsel for I&E, OCA, and OSBA each submitted direct testimony. On March 26, 2013, Peoples TWP submitted rebuttal testimony.

13. In accordance with the Commission's Rules of Practice and Procedure (52 Pa. Code § 5.231), the Parties engage in numerous settlement discussions in an effort to achieve a full settlement.

14. On April 1, 2013, the Parties reached an agreement in principle to settle all of the issues in this proceeding, and requested that the procedural schedule be suspended.

15. On April 3, 2013, the ALJs issued an Interim Order suspending the procedural schedule.

16. An evidentiary hearing was held on April 9, 2013, for the purpose of moving the Parties' respective testimony and exhibits into the record.

17. On April 24, 2013, the Commission's Secretary's Bureau served Peoples TWP with the compliant of Barry Haldin at Docket No. C-2013-2359531.

18. The Parties have agreed to the submission of this Settlement to provide information to support the necessary statutory findings required under Section 1307(f) and 1318, and are in full agreement that the Settlement is in the best interest of Peoples TWP's customers and Peoples TWP.

19. The agreement among the Parties is set forth in Sections II through V of the Settlement, below.

II. PROPOSED SETTLEMENT

20. The Parties propose to resolve all issues as set forth in Paragraphs 16 through 25.

21. Retainage Rate. Effective July 1, 2013, the tariffed retainage rate for Small Volume transportation customers (Rate Schedules RS-T, GSS-T, GSL-T) shall be reduced from 6.3% to 5.4%, and the tariffed retainage rate for Large Volume transportation customers (Rate Schedules LGS-T, SLGS-T, LGS-T, EPGS-T, FTS) shall be reduced from 4.0% to 3.4%. In

deriving the foregoing retainage percentages, a three-year average of Lost and Unaccounted for Gas (“LUFG”) and Company Use Gas was used.

22. Other Gas Costs. Effective on the date in which the rates approved in Peoples TWP’s next base rate proceeding (to be filed after April 1, 2013) go into effect, Peoples TWP will be permitted to begin to recover as part of commodity purchased gas costs certain costs incurred solely for the purpose of procuring gas supplies and performing hedging activities on behalf of Section 1307(f) customers. These additional costs shall only include (a) market reports that are used to support daily and monthly gas purchases and hedging triggers and 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 in support of Peoples TWP’s hedging program. Peoples TWP will not seek to recover these same costs through its non-gas base rates. The projected amount of annual other costs is \$11,000. Actual claimed costs will remain subject to annual review in future PGC proceedings.

23. Request for Proposal. Peoples TWP agrees to undertake a Request for Proposal (“RFP”) process to identify least-cost options to replace the existing Tennessee Gas Pipeline (“TGP”) Firm Transportation capacity deliverable to the TGP Pittsburgh Terminal city gate or other comparable delivery point. The RFP will include as full a range of service options as possible for meeting the firm demand served behind People TWP’s city gate at TGP Pittsburgh Terminal. These service options may include extending the term of the existing TGP contract (Contract No. 65074) beyond the primary term end date of 10/31/2013, at the current effective rate for the contract. Service options that include extending the term of this contract, should also consider the feasibility of segmenting the contract in a manner that allows for a firm receipt point closer to Pennsylvania while freeing the southern half of the full path for capacity release in

order to mitigate the cost of the contract. These service options should also compare the cost of extending the contract term with the option to relinquish the capacity and replace it with a delivered peaking or comparable short notice, seasonal service. Further, the bidders list for the RFP should, if possible, include other potential service providers besides those included in the RFP issued in 2012, pursuant to the 2012-PGC settlement. The Company should follow up with bidders who do not respond to the RFP, as well as those who do respond but submitted a non-conforming bid to determine whether their responses indicate that the RFP should be revised and re-issued to ensure the broadest, effective set of service options to choose from.

24. Design Day Demand. Peoples TWP agrees that it will continue to review and evaluate its methodology for developing design day demand, in total and by market area. The Company will continue to collect and evaluate data to determine if factors such as wind speed, winter only degree days and daily sendout information can be and should be incorporated into its design day calculations. The Company will compile all available daily sendout information available for the past three years, and will present that data and its evaluations and conclusions to the parties no later than October 31, 2013. The Company will schedule meeting with parties to this Settlement beginning in early November, 2013 to discuss collaboratively the data and evaluations, in order to assess further modifications to its design day calculations.

25. Segmentation Study. Peoples TWP's proposed segmentation study is intended to evaluate LUFG on a portion of Peoples TWP's system that is after producer purchase meters. Reductions in LUFG resulting from such study will inure to the benefit of Peoples TWP's customers by reducing the LUFG and retainage rates. Notwithstanding the foregoing, the reference to the segmentation study in this proceeding may not be cited to support a right to recover the costs of the segmentation study in a future base rate proceeding, and all parties

reserve their respective rights to support or challenge a claim for recovery of such costs in a future proceeding.

26. Extra Demand Factors. The Extra Demand factors applicable for the 2013 PGC Application Period will be based for each customer classification on the average of the extra demand allocation factors observed for 2010, 2011 and 2012. Extra demands are calculated as the differences between actual peak day demands and average day demands, adjusted for new and lost large volume customers. The Extra Demand factors are provided as Attachment "A." Parties' acceptance of this methodology is limited to this proceeding, and may not be used to constrain any Party's ability to offer alternative views regarding the development of extra demand factors in future base rate or Section 1307(f) proceedings. In addition, this agreement shall not limit any Party's ability to offer alternative views regarding the allocation of upstream supply costs between shopping and non-shopping customers in the context of the Company's evaluation of its retail customer choice program in its next base rate proceeding.

27. Waiver of Retainage. For each customer that currently receives a partial waiver of retainage pursuant to the discount provisions of the Company's tariff page 101 and whose contract expires between April 1, 2013 and July 31, 2014, Peoples TWP will perform an updated net benefits test to determine the appropriate level of retainage waiver. The Company will provide to parties the results of those updated net benefits tests in its 2014 PGC Proceeding. The Parties retain their ability to challenge whether costs incurred by the Company related to partial retainage rate waivers in the historical period were reasonable and prudent in the 2014 PGC Proceeding. This provision shall not limit any Party's ability to challenge the overall level of rate discounts provided to "flex rate" customers in future base rate proceedings.

28. Remaining “E-1” Factor Balance. If the total “E-1” factor over/undercollection is less than \$100,000 at the end of June 30, 2013 or as of the end of a period one-month prior to the start of any subsequent quarterly rate change period during the 2013-PGC Application Period (the twelve-month period beginning August 1, 2013), the Company shall cease charging separate “E-1” factors effective with the next quarterly PGC rate change, and consolidate any remaining “E-1” balances into the “E-2” factor and create a single “E” factor going forward.

29. Gas Supply Contracts. Peoples TWP requests approval for the extension of the following contracts with Columbia Gas Transmission Corporation (“Columbia Transmission”) to March 31, 2014: FSS contracts #50108, #50110, #98053 and #98055; and SST contracts #50109, #98054 and #98056. Peoples TWP further requests approval of extension of FTS Contract # 133308 with Columbia Transmission to 10/31/13. Peoples TWP finally requests approval for the contract for storage services and associated firm transportation with Dominion Transmission, Inc. (“DTI”) for the Allegheny Storage Project pursuant to the terms of the Precedent Agreement and the Order of the Federal Energy Regulatory Commission entered December 20, 2012 at Docket No. CP12-72.

III. PROPOSED FINDINGS OF FACT

30. Peoples TWP uses the new Peoples Service Company (“PSC”) to monitor the rate and related tariff filings of the interstate pipelines serving Peoples TWP, as well as other important generic Federal Energy Regulatory Commission (“FERC”) proceedings.¹ PSC monitors the proceedings before FERC on behalf of affiliates Peoples and Peoples TWP, and undertakes legal action as necessary to protect the interests of the ratepayers of these companies. (Peoples TWP Exhibit No. 1, Filing Response Requirement (“FRR”) No. 4, pp. 24.)

¹ The new PSC company was established pursuant to Commission approved affiliated interest agreements. (Peoples TWP Statement No. 1, p. 1.)

31. Through PSC, Peoples TWP monitors DTI, Columbia Transmission, Tennessee Gas Pipeline Company (“TGP”), and Texas Eastern Transmission Corporation (“TETCO”) because the outcome of the FERC proceedings of these interstate pipelines may directly affect the services that Peoples TWP provides to its customers. (Peoples TWP Exhibit No. 1, FRR No. 4, pp. 24-25; Peoples TWP Exhibit No. 1, Filing Response Exhibit (“FRE”) No. 9.) From time to time Peoples TWP has intervened in, monitored the progress of and occasionally submitted written comments in FERC proceedings where it has determined that such participation could be accomplished in a cost-effective manner. Going forward, the Peoples Service Company representatives will consider joint interventions and/or comments on behalf of Peoples TWP and Peoples in proceedings which are cost-effective and where it has joint interests. (Peoples TWP Exhibit No. 1, FRR No. 4, p. 25.)

32. During 2012, Peoples TWP made purchases from an affiliate, PA Gas Marketing LLC (“PAGM”). Purchases from PAGM are made pursuant to Peoples TWP’s standard form Non-Dedication gas purchase agreement used to cover gas purchases from unaffiliated Pennsylvania producers. As a result, the purchase price paid to PAGM and the other terms and conditions of the Company’s gas purchases from PAGM are identical to the purchase price and terms and conditions under which Peoples TWP purchases gas from non-affiliated local Pennsylvania producers. (Peoples TWP Exhibit No. 1, FRR No. 14, p. 43.)

33. On September 28, 2012, Peoples TWP and Peoples filed an agreement at Docket No. G-2011-2265150 requesting Commission approval of an agreement for the exchange of 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 more efficient operation of the recipient’s system and will improve service reliability for both companies. (Peoples TWP

Exhibit No. 1, FRR No. 14, pp. 43-44.) Peoples TWP has provided details concerning exchanges each month through November 2013, and volumes have been reasonably in balance through the period. (Peoples TWP Exhibit No. JHS-2.)

34. Prior to May 24, 2011, Peoples TWP also purchased gas supply from its then affiliate T.W. Phillips Gas Supply Corp. (“Supply Corp.”), pursuant to a Commission-approved affiliated gas purchase agreement. As of May 24, 2011, Supply Corp and Peoples TWP are no longer affiliated. However, Supply Corp. continues to be subject to a separate dedication requirement to offer all gas to Peoples TWP or its customers from all existing and new wells drilled on certain leaseholds transferred to Supply Corp., pursuant to the Commission’s Order entered August 2, 2006, at Docket No. R-00051178. (Peoples TWP Exhibit No. 1, FRR 1, p. 14.)

35. Peoples TWP has used 76 degree days for calculating its design Peak Day system requirements. This level of degree days has occurred twice in the last 30 years in western Pennsylvania. (TWP Statement No. 2, p. 8.)

36. Peoples TWP has a policy of purchasing substantial supplies of natural gas from local Pennsylvania gas producers for base load supply requirements. (Peoples TWP Exhibit No. 1, FRR No. 1, p. 3.)

37. In order to provide safe and reliable gas service during the Peak Demand Period (*i.e.*, the winter months of November through March) and for the Peak Day to weather-sensitive customers, Peoples TWP has acquired interstate firm storage and transportation capacity. (Peoples TWP Statement No. 2, pp. 3-4.)

38. Interstate gas storage and transportation services and the availability of cost-competitive interstate gas supplies are used by Peoples TWP to complement the base load

Pennsylvania gas supplies and satisfy Peoples TWP's Design Peak Day and Peak Demand Period system supply requirements. (Peoples TWP Statement No. 2, p. 12.)

39. Interstate pipeline firm storage capacity represents over 80% of total net interstate pipeline demand or reservation charges and nearly all of Peoples TWP's total Peak Day interstate pipeline capacity. This service is specifically designed to provide gas supply during the Peak Demand Period when there are extra demands placed on the system. In addition to the critical winter season peaking role, firm storage capacity also provides daily system balancing capacity. Moreover, adequate storage capacity expands opportunities to purchase historically lower cost gas supplies available during the months of April through October to fill storage, thereby providing a reasonably priced inventory of gas to draw upon during periods of peak demand. (Peoples TWP Exhibit No. 1, FRR No. 3, pp. 17-20.)

40. With the expansion of its firm storage capacity and the added flexibility of interstate storage services, Peoples TWP was able to substantially reduce its year-round firm transportation service by over 33,000 Dth per day. The remaining year-round firm transportation service, together with the firm gas supply agreements, gives Peoples TWP a reliable source of gas supply that is critical during peak demand periods. During non-peak demand periods, this year-round firm transportation capacity can be used to deliver gas for injection into interstate pipeline storage facilities. (Peoples TWP Exhibit No. 1, FRR No. 3, pp. 19-20.)

41. Peoples TWP has arrangements with interstate pipelines to provide the necessary firm storage and firm transportation service which, when combined with firm interstate gas supply arrangements and its Pennsylvania-based system gas supply, will be sufficient to meet its general system supply requirements, particularly those attributable to the peak demand of its weather-sensitive load. (Peoples TWP Exhibit No. 1, FRR No. 3, p. 20.)

- (a) Peoples TWP currently has a Firm Storage agreement with TGP on their system. Peoples TWP provided a termination notice for the Firm Storage agreement and the contract will terminate effective March 31, 2013. The primary reason for not extending the current TGP Firm Storage agreement had to do with the location and subsequent cost of transporting the gas to the Peoples TWP system. Peoples TWP also determined that the storage options associated with the DTI Precedent Agreement would provide the necessary replacement storage. (Peoples TWP Statement No. 2, pp. 15-17.)
- (b) Peoples TWP currently has a Firm Transportation agreement with TGP on their system. As a result of the system design day study, Peoples TWP determined that its system requires gas supply delivered at the TGP Pitt Terminal point on a Design Peak Day; as such, Peoples TWP will be evaluating pipeline and delivered supply options prior to the October 2013 expiration of the Firm Transportation agreement. (Peoples TWP Statement No. 2, p. 15.)
- (c) As a result of an internal evaluation performed during 2011, Peoples TWP concluded that the capacity under an existing Firm Transportation agreement with TETCO is no longer necessary to serve the current or projected gas supply requirements and the agreement will be allowed to expire after October 31, 2013. Upon the termination of this agreement, the ratepayers will realize an estimated savings of over \$700,000 per year beginning in November 2013. (Peoples TWP Exhibit No. 1, FRR No. 1, p. 5.)
- (d) On September 27, 2007, Peoples TWP entered into a Precedent Agreement with DTI for Firm Transportation and Storage Services. The Storage Service provided for under this Precedent Agreement is subject to a negotiated rate and the Firm Transportation Service is subject to recourse rates. All of the precedent conditions have been fulfilled.² (Peoples Statement No. 2, p. 17.) The use of DTI storage satisfies two important factors: (1) the need for supply to meet heat load demand and (2) the desire to take advantage of the increasing availability of local Pennsylvania production. (Peoples TWP Statement 2-R, p. 19.) Peoples TWP has an existing interconnection with DTI that allows local Pennsylvania gas that is produced into Peoples TWP to be delivered into DTI during the injection season and stored for redelivery to Peoples TWP during the withdrawal season. (Peoples TWP Statement 2-R, p. 20.)

² Peoples TWP and DTI executed a firm storage agreement and a firm transportation agreement on January 24, 2013.

42. Peoples TWP purchases gas from over 100 local Pennsylvania producers at over 2,100 receipt points pursuant to several forms of gas purchase agreements. (Peoples TWP Exhibit No. 1, FRR No. 3, p. 21.)

43. As a result of the settlement of Peoples TWP PGC-06 at Docket No. R-00051134, Peoples TWP was authorized to offer gas price modifications for local Pennsylvania production under certain vintage contracts (“Category 1-7 supplies”) for a three year period ending in September 2009. (Peoples TWP Exhibit No. 1, FRR No. 1, p. 14.)

44. The pricing for local Pennsylvania production was further modified in the Company’s PGC-07 proceeding at Docket No. R-00061961. Pursuant to the Commission’s PGC-07 Order, Peoples TWP was allowed to offer gas price modifications for gas sold under Pennsylvania Categories 1 through 7 for those gas producers which sell a minimum of at least 250,000 Mcf/year of local Pennsylvania gas in Categories 1 through 7 to the Company. The price modification authorized in the PGC-07 proceeding included discounted prices beginning at 70% of market and increasing to 98% of market over a five-year period. (Peoples TWP Exhibit No. 1, FRR No. 1, p. 14.)

45. The gas price modifications approved by the Commission in 2006 were scheduled to expire in September 2009. In order to continue the vintage category re-pricing, in the PGC-09 proceeding at Docket No. R-2008-2075250, Peoples TWP requested and the Commission authorized an extension to the 2006 Price Amendments for local Pennsylvania gas in Categories 1 through 7, which implements revised gas price modifications beginning at 65% of market in September 2009 and increasing to 90% of market as of September 2014. (Peoples TWP Exhibit No. 1, FRR No. 1, pp. 14.)

46. Peoples TWP has a diversified strategy for establishing the purchase price of gas. This includes fixed prices and monthly NYMEX based pricing for local gas, hedging a portion of gas delivered via interstate transportation and purchasing interstate gas at the NYMEX close price for the delivery month and purchasing interstate gas at the cash price on a day-to-day basis. (Peoples TWP Exhibit No. 1, FRR No. 3, pp. 17-19.)

47. Peoples TWP only discounts retainage if certain competitive circumstances exist. If one of the competitive circumstances exists, then a test, as defined in the tariff, is performed to ensure that the customers provide a net benefit to the system. Peoples TWP provided information on the total volumes and weighted average discount retention rate relative to the volumes and retention of undiscounted customers and contemplated the impacts of such discounts on the derivation of retainage rates. (Peoples TWP Statement No. 1, p. 23; OSBA Exhibit IEC-SD2.)

48. The development of natural gas drilling into the deep Marcellus Shale formation in western Pennsylvania and the unique characteristics of the gas produced from such wells has created new circumstances which affect Peoples TWP's operations. Accordingly, Peoples TWP developed a Marcellus Shale policy to address these issues and the related operating constraints of Peoples TWP's small diameter, low pressure pipeline system which affect its ability to purchase significant volumes of Marcellus Shale gas. Such policy was approved in the context of PGC-2010 at Docket No. R-2009-2145441. (TWP Statement No. 2, pp 11-12; Peoples TWP Exhibit No. 1, FRR No. 1, p. 15.)

49. The Company has successfully implemented the Marcellus Shale policy approved in PGC-2010. During the Historical Period, the Company accepted gas production, totaling over 3.7 Bcf, from 13 deep wells drilled into the Marcellus strata adjacent (within one-mile) to the

Company's large volume pipeline system. In 2013, the production from such wells is expected to increase in the aggregate. In accordance with the policy and upon a producer's request, the Company has also released Pennsylvania producers from the dedication requirements for other new deep wells to be drilled on potential Marcellus Shale acreage since the inception of the policy. (Peoples TWP Exhibit No. 1, FRR No. 1, p. 15.)

IV. STANDARDS AND FILINGS

A. Historical Reconciliation Period and Standards

50. With respect to Peoples TWP's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended November 30, 2012,³ it is requested that the ALJs and the Commission find that Peoples TWP has met the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that, during the twelve months ended November 30, 2012:

- a. Peoples TWP met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers; and
- b. All gas purchases by Peoples TWP from entities that are considered an affiliated interest have met the requirements of Section 1318(b) of the Public Utility Code relating to purchases from and services provided by entities that are considered affiliates.

³ The reconciliation period for Peoples TWP in this proceeding is the twelve-month period ended November 30, 2012, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

B. Interim and Projected Period Findings

51. During the eight-month interim period beginning on December 1, 2012, and the projected twelve-month period beginning August 1, 2013, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning Peoples TWP's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from Peoples TWP's compliance with the provisions of Section 1318 of the Public Utility Code, including Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3). 66 Pa.C.S. §§ 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3).

52. The Parties agree, based upon evidence of record in this proceeding concerning Peoples TWP's projected gas purchases and gas purchasing policies, that Peoples TWP's projected gas purchases and projected gas purchasing policies may comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement, Section IV.B, is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and to further review in an appropriate future proceeding. Section IV.B of the Settlement is not intended in any way to limit or prevent I&E, OCA or OSBA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether Peoples TWP's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from December 1, 2012, through July 31, 2014, were challenged, the Commission's findings based upon Section IV of the Settlement shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to,

such costs during the eight-month interim period commencing December 1, 2012, and the twelve-month application period commencing August 1, 2013, and ending on July 31, 2014.

V. CONDITIONS OF SETTLEMENT

53. The Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding with regard to the historic period ended November 30, 2012.

54. This Settlement is conditioned upon the Commission's approval of terms and conditions contained herein without modification. If the Commission modifies or fails to approve this Settlement, any Party may elect to withdraw from this Settlement and may proceed with litigation; and in such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an order modifying the Settlement.

55. If the Commission does not approve the Settlement and the proceedings continue to hearings on the issues that are the subject of this Settlement, the Parties reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument on these subjects.

56. The Commission's approval of this Settlement shall not be construed to represent approval of any Party's position on any issue, except to the extent required to effectuate the terms and agreements of this Settlement in this and future proceedings involving Peoples TWP. It is understood and agreed among the Parties that this Settlement is the result of compromises, and does not necessarily represent the position(s) that would be advanced by any Party if this proceeding were fully litigated.

57. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve outstanding issues in a manner which is fair and reasonable.

The Settlement is the product of compromise. With the exception of matters identified in Section IV.A. above, with respect to the twelve-month period ended November 30, 2012, and Section II, above, with respect to the twelve-month period beginning August 1, 2013, this Settlement is presented without prejudice to any position which any of the Parties may have advanced and without prejudice to the position any of the Parties may advance in the future on the merits of the issues in future proceedings. This Settlement does not preclude the Parties from taking other positions in proceedings under Section 1307(f) concerning the recovery of purchased gas costs by other natural gas distribution companies.

58. Upon acceptance of this Settlement, the Commission will terminate its inquiry and investigation at Docket No. R-2013-2341604.

59. Peoples TWP, I&E, OCA, and OSBA have prepared and attached to this Settlement, as Attachments "B" through "E," respectively, Statements in Support setting forth the bases upon which they believe the Settlement is fair, just and reasonable and is, therefore, in the public interest.

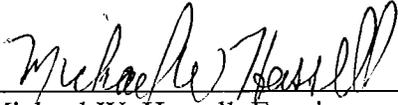
WHEREFORE, the Parties, by their respective counsel, respectfully request that Administrative Law Judges Jeffrey Watson and Conrad A. Johnson and the Pennsylvania Public Utility Commission:

- (a) Approve this Settlement including all terms and conditions thereof;
- (b) Make the findings required by the Public Utility Code as provided herein;
- (c) Mark the complaints of OCA and OSBA at Docket Nos. C-2013-2346486 and C-2013-2346650 closed;
- (d) Dismiss the complaint of Kathleen A. O'Laughlin at Docket No. C-2013-2348747

closed; and

(e) Enter a Final Order directing Peoples TWP LLC to reflect rates in the final tariffs effective for service to be rendered on or after August 1, 2103, consistent with this Settlement, subject to revision in accordance with the Commission's quarterly adjustment mechanism.

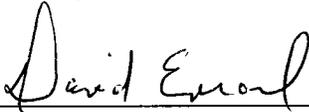
Respectfully submitted,



Michael W. Hassell, Esquire
Christopher T. Wright, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

Date: 4/26/2013

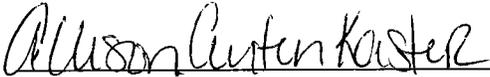
For Peoples TWP LLC



David Evrard, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Date: 4/26/2013

For Office of Consumer Advocate



Allison Curtin Kaster, Esquire
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Date: 4/26/2013

For Bureau of Investigation and Enforcement



Sharon Webb, Esquire
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Date: April 26, 2013

For Office of Small Business Advocate

Attachment A

**Peoples TWP LLC
PGC-2013
Attachment A
Extra Demand Allocation Factors**

<u>Rate Schedule</u>	<u>FS</u>	<u>FT</u>
RS - Residential Service	63.27%	71.99%
GSS - General Service Small & WS - Wholesale Service	20.44%	23.25%
GSL - General Service Large	7.46%	4.63%
LGS - Large General Service, SLGS - Special Large General Service & CGS - Cogeneration Gas Service	8.83%	0.13%

Attachment B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2013-2341604
Office of Consumer Advocate	:		C-2013-2346486
Office of Small Business Advocate	:		C-2013-2346650
Kathleen A. O’Laughlin	:		C-2013-2348747
Barry Haldin	:		C-2013-2359531
	:		
v.	:		
	:		
Peoples TWP LLC	:		

**PEOPLES TWP LLC STATEMENT IN SUPPORT OF THE
JOINT SETTLEMENT OF ALL ISSUES OF THE
RATE INVESTIGATION PURSUANT TO 66 Pa.C.S. § 1307(f)**

TO ADMINISTRATIVE LAW JUDGES
JEFFREY WATSON AND CONRAD A. JOHNSON:

I. INTRODUCTION

Peoples TWP LLC (“Peoples TWP” or the “Company”) submits this Statement in Support of the Joint Petition for Settlement of All Issues of the Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) (“Settlement”) in the above-captioned proceeding entered into by Peoples TWP, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), the active parties to the above-captioned proceeding (hereinafter collectively referred to as the “Parties”).

The Parties have reviewed Peoples TWP’s purchased gas costs and purchasing practices and have concluded that both are consistent with the standards set forth in the Public Utility Code. Several issues were raised by the Parties to the proceeding. The Settlement, if approved,

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

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

The 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 Parties. For these reasons and the reasons set forth below, the Settlement is just and reasonable and Peoples TWP's 2013 1307(f) Filing, as modified by the Settlement, should be approved.

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).

For the reasons set forth below, the Settlement terms are in the public interest, and the Settlement should be approved without modification.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. REMAINING “E-1” FACTOR BALANCE

The “E” Factor represents the over/under collection of commodity costs. Peoples TWP’s calculation of the “E” Factor currently is broken into an “E-1” and an “E-2” factor. The “E-1” factor represents the amortization of the July 31, 2012 “E” Factor by class and the “E-2” factor represents the amortization of the current year (*i.e.*, August 1, 2012 through July 31, 2013) “E” Factor amortization total. Prior to August 1, 2012, Peoples TWP reconciled commodity cost over/under collections by customer class. In the Settlement of Peoples TWP’s 2012 purchased gas cost proceeding (“2012-PGC”), Docket No. R-2011-2273539, it was agreed that on a prospective basis there would be no continued distinction by class regarding the over/under collection of commodity costs. The settlement further provided for the class over/under collection balances at July 31, 2012 to be recovered from or refunded to the respective rate classes. (Peoples TWP Statement No. 1, p. 11.)

In this proceeding, Peoples TWP proposed to consolidate the “E-1” and “E-2” factor once the “E-1” factor over/under collection balance reaches a certain level. Specifically, Peoples TWP proposed that the tracking of the “E-1” factor by rates class would cease and be

consolidated with the “E-2” factor if the total “E-1” factor over/under collection balance is less than \$100,000 at the time a quarterly rate change is calculated. (Peoples TWP Statement No. 1, p. 14.)

No Party to this proceeding opposed the basic procedure offered by Peoples TWP to eliminate the remaining separate E factors. Thus, in the Settlement, the Parties agreed that if the total “E-1” factor over/undercollection balance is less than \$100,000 at the end of June 30, 2013 or as of the end of a period one-month prior to the start of any subsequent quarterly rate change period during the 2013-PGC Application Period, Peoples TWP shall cease charging separate “E-1” factors effective with the next quarterly PGC rate change, and consolidate any remaining “E-1” balances into the “E-2” factor and create a single “E” factor going forward. (Settlement ¶ 27.)

Because it is impossible to project sales precisely, it is unlikely that Peoples TWP will be able to perfectly zero out a class “E-1” balance. Therefore, it would be very difficult for Peoples TWP to completely eliminate the separate class E factors as agreed in the 2012-PGC. The Settlement resolves this issue by establishing a procedure that enables Peoples TWP to move to a single commodity “E” factor once the total “E-1” factor balance is less than \$100,000. Peoples TWP believes that this provision of the Settlement will have a *de minimus* impact to ratepayers, while permitting Peoples TWP to achieve the goal of the 2012-PGC settlement to provide a single commodity “E” factor.

B. OTHER GAS COSTS

In this proceeding, Peoples TWP proposed to recover certain other gas costs, currently recovered as non-gas base rate expense, through the 1307(f) mechanism effective August 1, 2013. (Peoples TWP Statement No. 1, p. 24.) Peoples TWP explained that, although they are currently recovered through base rates, these costs are incurred solely for the purpose of procuring gas supplies on behalf of Peoples TWP’s 1307(f) customers. These products and

services include: (1) Platts' Gas Daily that provides support for all daily and monthly physical deal pricing and general market information; and (2) the internet-based service Interactive Data that provides real-time pricing information that supports daily economic decision making and forward pricing information. (Peoples TWP Statement No. 2, pp. 22.)

I&E and OSBA opposed Peoples TWP's proposal to recover these other gas costs through the 1307(f) mechanism. I&E argued that these costs will be double recovered, the amount to be recovered is vague, and that the costs are not actual purchased gas costs. (I&E Statement No. 1, p. 5.) OSBA similarly argued that these costs will be double recovered and recommended that the issue be deferred to Peoples TWP's next base rate case. (OSBA Statement No. 1, p. 12.)

In rebuttal, Peoples TWP explained that the Platts' Gas Daily and internet based service Interactive Data are risk management tools that provide information as to current and forward gas prices and are used to assist in decisions as to gas purchasing, storage, and hedging. As such, the costs associated with these services are appropriately within the definition of "gas costs" as provided in Section 1307(h), 66 Pa.C.S. § 1307(h). (Peoples TWP Statement No. 1-R, p. 5.) To avoid the potential for double recovery of these costs, in both base rates and through the 1307(f) mechanism, Peoples TWP proposed to make an adjustment in the upcoming base rate case to be filed in April 2013 that would remove these same costs from base rates. (Peoples TWP Statement No. 1-R, p. 3.)

Through the Settlement, the Parties agreed that, effective on the date in which the rates approved in Peoples TWP's next base rate proceeding (to be filed after April 1, 2013) go into effect, Peoples TWP will begin to recover certain costs incurred solely for the purpose of procuring gas supplies and performing hedging activities on behalf of Section 1307(f) customers.

Under the terms of the Settlement, these additional costs shall only include: (a) market reports that are used to support daily and monthly gas purchases and hedging triggers and 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 in support of Peoples TWP's hedging program. The projected amount of annual other costs is \$11,000. Actual claimed costs will remain subject to annual review in future PGC proceedings. Peoples TWP further agreed that it will not seek to recover these same costs through its non-gas base rates. (Settlement ¶ 21.)

Peoples TWP believes that the agreed upon recovery of the costs associated with these risk management tools is consistent with the Section 1307 because such information is used in decisions as to gas purchasing, storage, and hedging. The recovery of these costs in purchased gas costs rates also is consistent with the treatment of these costs as gas costs by Peoples TWP's affiliate, Peoples Natural Gas Company LLC ("Peoples"). See *Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC*, Docket No. R-2012-2292082, 2012 Pa. PUC LEXIS 1456, (August 30, 2012) (approving and adopting a joint settlement). Further, the agreement to defer the effective date of the recovery of such costs will protect ratepayers by ensuring that double recovery of these costs does not occur. The Settlement reflects an acceptable compromise of competing litigation positions and should be adopted without modification.

C. SEGMENTATION STUDY

In the Joint Petition for Approval of Settlement approved by the Commission on May 23, 2011, at Docket No. A-2010-2210326, Peoples TWP committed to a collaborative effort with Peoples to review and evaluate best practices for reducing lost and unaccounted for gas ("LUFG"). As a result of the collaborative evaluation, Peoples TWP identified in its 2012-PGC six broad best practices, and twenty-five detailed programs within these broad best practices

categories, to control LUFG. (Peoples TWP Statement No. 3, pp. 3-4.) Peoples TWP implemented the vast majority of the best practices and programs, although one practice that was not immediately adopted was to measure LUFG on segmented portions of its system. In this proceeding, Peoples TWP explained that it intended to continue its existing successful LUFG programs and, in addition, to implement a trial segmentation study. The segmentation study is intended to evaluate LUFG on a portion of Peoples TWP's system that is in an area that gathers local production, but is after producer purchase meters. This project will provide Peoples TWP with measurements that will allow it to better separate actual distribution LUFG levels from LUFG experienced on the non-distribution portion of the system. (Peoples TWP Statement No. 3, pp. 4-5.)

The OCA questioned why the segmentation study was identified in the context of this PGC proceeding. The OCA expressed concerns that ratepayers may be paying for capital expenditures on a segment of Peoples TWP's distribution system that is used to serve producers, marketers, or other third parties. (OCA Statement No. 1, p. 10.) Related to this concern, the OCA stated that the segmentation study will be recalled in the next base rate case as having lowered LUFG and, thus, there is some risk that the reference to the study in this proceeding could be used to support a contention in a future base rate case that the capital costs for the study should be borne entirely by ratepayers. (OCA Statement No. 1, p. 11.)

Peoples TWP fully addressed the OCA's concerns in rebuttal. Peoples TWP explained that the study will be used to evaluate LUFG on a portion of the system that is after the producer purchase meters. Peoples TWP further explained that the segmentation study involves adding additional measurement that is downstream of the producer interconnects and customer points. Thus, any reduction to LUFG would benefit customers. Peoples TWP explained that the

reference to the segmentation study was not offered in this case to establish a right to recover the costs of the segmentation study from customers in a future base rate case, but rather was offered as one of the next steps in a comprehensive study put forth in the 2012 PGC proceeding to reduce and more accurately measure LUFG. (Peoples TWP Statement No. 1-R, pp. 14-15.)

Through the Settlement, the Parties agreed that the proposed segmentation study is intended to evaluate LUFG on a portion of Peoples TWP's system that is after producer purchase meters. The Parties also acknowledged that reductions in LUFG resulting from such study will inure to the benefit of Peoples TWP's customers by reducing the LUFG and retainage rates. Finally, the Parties agreed that the reference to the segmentation study in this proceeding may not be cited to support a right to recover the costs of the segmentation study in a future base rate proceeding, and that all parties reserve their respective rights to support or challenge a claim for recovery of such costs in a future proceeding. (Settlement ¶ 24.)

The Settlement reflects an acceptable compromise of competing litigation positions, while at the same time preserving the Parties' respective rights to support or challenge a claim for recovery of the costs associated with the segmentation study. Peoples TWP believes that the reductions in LUFG resulting from the segmentation study will benefit Peoples TWP's customers by further reducing LUFG and retainage rates.

D. RETAINAGE

Natural gas distribution companies ("NGDCs") experience a difference between the volume of gas metered at the city gate and the volume of gas metered at the customer burner tip, which is referred to as LUFG. In addition to LUFG, the NGDC also will consume some of the gas delivered to its city gate as part of its operations, which is referred to as company use ("CU"). Sales customers pay for the LUFG and CU through their PGC charges, which reflect the actual costs for gas delivered and actual volume of gas consumed. Transportation customers

also contribute to LUFG and CU and, therefore, are required to supply extra gas to meet this requirement. The extra gas delivered for a transportation customer is referred to as “retainage.” For Peoples TWP, retainage is expressed as a percentage of the gas delivered by the customer to Peoples TWP for transportation to the customers’ facilities. (Peoples TWP Statement No. 1-R, p. 9; OSBA Statement No. 1, p. 2; OSBA Statement No. 2, pp. 1-2.)

In this proceeding, Peoples TWP updated its analysis of retainage based upon a new three-year average of LUFG and CU. Using this analysis, Peoples TWP proposed to reduce the Small Volume transportation customers (Rate Schedules RS-T, GSS-T, GSL-T) retainage rate from 6.3% to 5.7%, and to reduce the Large Volume transportation customers (Rate Schedules LGS-T, SLGS-T, LGS-T, EPGS-T, FTS) retainage rate from 4.0% to 3.2%. (Peoples TWP Statement No. 1, pp. 22-23.) Peoples TWP explained that, pursuant to its Commission-approved tariff, Peoples TWP will discount retainage rates only if certain competitive circumstances exist and the customer provides a net benefit to the system. If these conditions are satisfied, a retainage discount is provided as necessary to retain the customer. The retainage discounting was factored into Peoples TWP’s calculation of the proposed retainage rates. (Peoples TWP Statement No. 1, p. 23.)

The OSBA opposed the retainage rates proposed by Peoples TWP. The OSBA argued that the proposed retainage rates will under-recover system losses, and that the effects of discounting were not appropriately allocated between Small Volume and Large Volume transportation customers initially. With respect to discounting, the OSBA argued that Peoples TWP should decrease base rates rather than retainage rates or, alternatively, that Peoples TWP should not discount retainage rates below a minimum level. Based thereon, the OSBA recommended retainage rates of 5.39% for Small Volume transportation customers, and 3.41%

for Large Volume transportation customers. (OSBA Statement No. 1, pp. 3-4; OSBA Statement No. 2, p. 2.)

In rebuttal, Peoples TWP explained that it would not, as suggested by OSBA, under-recover system losses if the proposed retainage rates were adopted. Indeed, based on OSBA Exhibit IEc-SD1 and Peoples TWP Exhibit APW-2 (Revised), it appears that Peoples TWP may slightly over collect from transportation customers if the Company's proposed retainage rates were adopted. (Peoples TWP Statement No. 1-R, pp. 8-9.) With respect to discounting, Peoples TWP explained that its current policy for discounting retainage rates is consistent with its Commission-approved tariff and the results of previously litigated proceedings on discounting retainage rates. Peoples TWP also explained that the amount of delivery rate and retainage discounting is determined on a case-by-case basis as a result of an arm's length negotiation with competitive customers. In each circumstance, however, Peoples TWP endeavors to maximize both the delivery rate and retainage charged without losing the net benefit of the customer from the system. (Peoples TWP Statement No. 1-R, pp. 6-7.) Peoples TWP also rejected the OSBA's recommended retainage rates, explaining that the OSBA's rates for Large Volume transportation customers is above the reasonable range, and that the OSBA's calculation places more of the costs of discounted retainage on remaining Large Volume customers. (Peoples TWP Statement No. 1-R, p. 10.)

In the Settlement, the Parties agreed that, effective August 1, 2013, the tariffed retainage rate for Small Volume transportation customers (Rate Schedules RS-T, GSS-T, GSL-T) shall be reduced from 6.3% to 5.4%, and the tariffed retainage rate for Large Volume transportation customers (Rate Schedules LGS-T, SLGS-T, LGS-T, EPGS-T, FTS) shall be reduced from 4.0%

to 3.4%. In deriving the foregoing retainage percentages, a three-year average of Lost and Unaccounted for Gas (“LUFG”) and Company Use Gas was utilized. (Settlement ¶ 20.)

With respect to discounting of retainage rates, the Parties agreed in the Settlement that for each customer that currently receives a partial waiver of retainage pursuant to the discount provisions of Peoples TWP’s tariff and whose contract expires between April 1, 2013 and July 31, 2014, Peoples TWP will perform an updated net benefits test to determine the appropriate level of retainage waiver. Peoples TWP agreed to provide to the results of those updated net benefits tests in its 2014-PGC proceeding. The Parties also confirmed their right to challenge in the 2014-PGC the historical period costs incurred by Peoples TWP related to partial retainage rate waivers. The Parties also recognized that this provision of the Settlement will not limit any Party’s ability to challenge the overall level of rate discounts provided to “flex rate” customers in future base rate proceedings. (Settlement ¶ 26.)

The agreed upon retainage rates are within the reasonable range of retainage rates for the Small and Large Volume transportation customers. These retainage rates will ensure that transportation customers bear their fair share of the LUFG and CU costs incurred to provide service to the transportation customers. The settlement provision related to discounting of retainage rates will allow Peoples TWP to continue to offer reasonable retainage rates as necessary to retain a customer with competitive options. Further, this provision will help ensure that the competitive customers that receive discounted retainage rates will continue to provide a net benefit to the system. The Settlement reflects an acceptable compromise of competing litigation positions and should be adopted without modification.

E. DESIGN DAY DEMAND

NGDCs must arrange for sufficient upstream deliverability capacity, from a combination of local supply sources, transportation capacity, and storage deliverability capacity, to meet the

extreme peak demands of its customers on a particular day or even a particular hour. The design day demand is a measure of that extreme peak demand. (OSBA Statement No. 1, p. 5; Peoples TWP Statement No. 2, p. 6.) In this proceeding, Peoples TWP used a load regression analysis to develop its projection of design day needs. Peoples TWP used 76 degree days for calculating its Design Peak Day system requirements. This level of degree days has occurred twice in the last 30 years in western Pennsylvania. (Peoples TWP Statement No. 2, p. 8.) Based thereon, and following corrections made to the analysis to address criticism by other parties, Peoples TWP proposed a Design Peak Day system requirement of approximately 162,476 Mcf. (Peoples TWP Statement No. 2-R, p. 12.)

The OCA and OSBA took issue with the Design Peak Day system requirement proposed by Peoples TWP. The OCA pointed out corrections to the Design Peak Day analysis. (OCA Statement No. 2, p. 2.) The OCA also recommended that the billing degree days squared variable should be eliminated from the forecasting model. (OCA Statement No. 2, p. 5.) The OSBA discussed various modifications to the design day demand, and recommends that its high-end estimates of design day demand be adopted for planning and cost allocation purposes. Finally, the OSBA recommended that Peoples TWP evaluate its Design Peak Day forecast methodology. (OSBA Statement No. 1, pp. 7-11.)

In response to the errors identified by OCA and OSBA, Peoples TWP provided a revised Design Peak Day forecast. (Peoples TWP Statement No. 2-R, pp. 3-5.) Peoples TWP also explained that adopting the OCA's proposal to eliminate billing degree days squared results in a lower correlation between heating degree days and usage than the model that contained that variable. (Peoples TWP Statement No. 2-R, p. 5.) Peoples TWP further explained that it is undertaking an evaluation of its Design Day Peak forecast, taking into consideration all of

OSBA's recommendations made in prior PGC proceedings, and that it has made improvements to its model from last year. (Peoples TWP Statement No. 2-R, pp. 7-8.) Peoples TWP also explained that the various modifications recommended by OSBA are not appropriate and should not be adopted. (Peoples TWP Statement No. 2-R, pp. 10-12.) Finally, Peoples TWP acknowledged that, although there may be enhancements available to the Design Peak Day forecast, the methodology employed in this case has historically been used by Peoples TWP, and that the prior Design Peak Day forecasts have ensured an adequate supply of reliable and least cost natural gas availability during Peak Demand periods. (Peoples TWP Statement No. 2-R, p. 12.)

In the Settlement, the Parties agreed that Peoples TWP should continue to review and evaluate its methodology for developing design day demand, in total and by market area. Peoples TWP also agreed to continue to collect and evaluate data to determine if factors such as wind speed, winter only degree days and daily sendout information can be and should be incorporated into its design day calculations. Peoples TWP agreed to compile all available daily sendout information available for the past three years, and to present that data and its evaluations and conclusions to the Parties no later than October 31, 2013. Finally, Peoples TWP agreed to schedule a meeting with the Parties beginning in early November, 2013 to discuss collaboratively the data and evaluations, in order to assess further modifications to its design day calculations. (Settlement ¶ 23.) The Settlement reflects an acceptable compromise of competing litigation positions and should be adopted without modification.

F. EXTRA DEMAND FACTORS

To allocate the demand costs it incurs related to its upstream transmission and storage capacity among various rate classes, Peoples TWP uses the same Extra Demand Cost of Service Methodology that has been used since 1990. The Extra Demand Cost of Service Methodology

uses the ration of Peak Day requirements to average annual daily requirements to allocated demand charges. Based upon this approach, Peoples TWP proposed to allocate its upstream transmission and storage capacity demand costs as follows:

<u>Rate Class</u>	<u>Firm Transportation</u>	<u>Firm Storage</u>
RS	71.99%	63.27%
GSS/WS	23.25%	20.44%
GSL	4.63%	7.46%
LGS	0.13%	8.83%

(Peoples TWP Statement No. 1, pp. 18-20.)

Although the OSBA stated that it accepts Peoples TWP’s use of the Extra Demand Cost of Service Methodology, the OSBA nonetheless recommends that the extra demand be allocated using design day and projected average requirements by rate class rather than Peoples TWP’s use of actual demand. (OSBA Statement No. 1, pp. 11-12.)

In rebuttal, Peoples TWP explained that the Extra Demand Cost of Service Methodology was first adopted in 1990, at Docket No. R-891566, and has been used in every PGC since. Peoples TWP also noted that that the Extra Demand Cost of Service Methodology was fully litigated and approved in the Company’s 1997 and 1999 PGC proceedings at Docket Nos. R-00963812 R-00984554. In the 1997-PGC proceeding, the Commission concluded that Peoples TWP’s Extra Demand Cost of Service Methodology is “consistent with the principles of cost causation” and “the best way to allocate these costs.” In the 1999-PGC proceeding, the Commission noted that the “extra demand allocation method used by the Company has been examined by the Commission on several occasions and found to be appropriate for allocation of the costs at issue for this Company,” and that “the Company should [not] be directed to change this method simply because it is different from a general formula found in a textbook.” Finally,

Peoples TWP's use of an Extra Demand Cost of Service Methodology for allocating Demand Charges has been accepted in the 2000 Restructuring of Service proceeding, as well as the 2000, 2006, and 2010 Base Rate Cases. (Peoples TWP Statement No. 1-R, pp. 11-12.)

In the Settlement, the Parties agreed that the Extra Demand factors applicable for the 2013-PGC Application Period will be based for each customer classification on the average of the extra demand allocation factors observed for 2010, 2011, and 2012. Extra demands are to be calculated as the differences between actual peak day demands and average day demands, adjusted for new and lost large volume customers. These Extra Demand factors are provided as Attachment "A" to the Settlement. The Settlement also recognizes that the Parties' acceptance of this methodology is limited to this proceeding, and may not be used to constrain any Party's ability to offer alternative views regarding the development of extra demand factors in future base rate or PGC proceedings. In addition, this provision of the Settlement will not limit any Party's ability to offer alternative views regarding the allocation of upstream supply costs between shopping and non-shopping customers in the context of the Company's evaluation of its retail customer choice program in its next base rate proceeding. (Settlement ¶ 25.) The Settlement reflects an acceptable compromise of competing litigation positions and should be adopted without modification.

G. GAS SUPPLY CONTRACTS

In this proceeding, Peoples TWP requests approval for the extension of the following contracts with Columbia Gas Transmission Corporation ("Columbia Transmission") to March 31, 2014: FSS contracts #50108, #50110, #98053 and #98055; and SST contracts #50109, #98054 and #98056. Peoples TWP further requests approval of extension of FTS Contract # 133308 with Columbia Transmission to October 13, 2013. Peoples TWP finally requests

approval for the contract for storage services and associated firm transportation with Dominion Transmission, Inc. (“DTI”) for the Allegheny Storage Project.

Preliminarily, it should be noted that Peoples TWP has filed numerous PGC proceedings. In each of the previous PGC proceedings, and the “GCR-5” cases that preceded the 1307(f) amendments to the Public Utility Code, the Commission entered an order endorsing Peoples TWP’s 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 TWP’s present gas cost recovery should be evaluated. The record in this case demonstrates that Peoples TWP 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.

Further, in the Settlement, the Parties 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 ¶¶ 29-51.) Section 1318 contains seven specific sub-findings that the Commission must make in support of a conclusion that Peoples TWP is pursuing a least cost fuel procurement policy. Peoples TWP submits that the record amply supports the required findings on each of the seven issues.

Moreover, the gas supply contracts mentioned above were thoroughly evaluated by the Parties to this proceeding. In addition to informal discovery, Peoples TWP responded to numerous formal discovery requests (many of which had multiple subparts). The active parties filed three rounds of testimony and accompanying exhibits, including Peoples TWP’s direct testimony, other Parties’ direct testimony, and Peoples TWP’s rebuttal testimony. Based upon

this evaluation, the Parties agreed that these gas supply contracts should be approved in this proceeding. (Settlement ¶ 28.)

The OCA was the only Party to raise any issues related to transportation and storage contracts. Specifically, the OCA identified possible concerns that the storage service Peoples TWP receives from Tennessee Gas Pipeline Company, L.L.C. (“TPG”) and firm transportation deliverability, and a future storage service and transportation service to be provided by DTI pursuant to a Precedent Agreement entered into in 2007 for new storage capacity. The OCA notes that Peoples TWP has terminated the TGP storage service effective March 31, 2013, and that the TGP transportation service was scheduled for renewal this year. The OCA recommended that the Company pursue a RFP process to replace the TGP FT contract and consider capacity release options with respect to this contract through its remaining term. The OCA further proposed that the Company negotiate with DTI concerning the new storage service to minimize the cost of this service. (OCA Statement No. 1, pp. 2-9.)

In rebuttal, Peoples TWP explained that the DTI storage service was not a replacement for the TPG FT service; rather, it is a replacement for the TGP storage service. (Peoples TWP Statement No. 2-R, pp. 16-17.) Peoples TWP also explained that the precedent agreement with DTI defined how the storage rate would be determined, and that, in the Order entered December 20, 2012 at Docket No. CP12-72, the Federal Energy Regulatory Commission rejected Peoples TWP’s argument that DTI’s proposed rate for the storage service recovers costs should be recovered through the transportation rate.¹ As a result, Peoples TWP has no ability to change that rate. (Peoples TWP Statement No. 2-R, pp. 17-19.) Finally, Peoples TWP explained the

¹ All of the conditions of the precedent agreement have been fulfilled and the firm storage agreement and a firm transportation agreement have now been executed. (Peoples TWP Statement No. 2, p. 17.)

ways that the DTI storage service is superior to the TGP storage service. (Peoples TWP Statement No. 2-R, pp. 20-21.)

Notwithstanding the foregoing, Peoples TWP accepted the OCA's recommendation to undertake an RFP process to replace the TGP FT capacity and to consider capacity release options with respect to its TGP FT capacity for its remaining term. (Peoples TWP Statement No. 2-R, p. 22.) Consistent therewith, the Parties agreed in the Settlement that Peoples TWP will undertake an RFP to identify least-cost options to replace the existing TGP FT capacity deliverable to the TGP Pittsburgh Terminal city gate or other comparable delivery point. The RFP will include as full a range of service options as possible for meeting the firm demand served behind Peoples TWP's city gate at TGP Pittsburgh Terminal. These service options will compare the cost of extending the contract term with the option to relinquish the capacity and replace it with a delivered peaking or comparable short notice, seasonal service. Peoples TWP agreed to follow up with bidders who did not respond to the RFP, as well as those who did respond but submitted a non-conforming bid to determine whether their responses indicate that the RFP should be revised and re-issued to ensure the broadest, effective set of service options to choose from. (Settlement ¶ 22.)

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

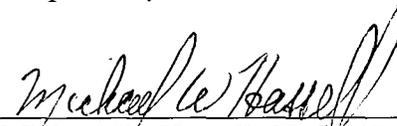
IV. CONCLUSION

Through cooperative efforts and the open exchange of information, the Parties 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 TWP's natural gas procurement

policies through numerous discovery responses, multiple rounds of testimony and accompanying exhibits, and extensive settlement negotiations. A fair and reasonable compromise has been achieved in this case, as is evident by the fact that all active parties, including Peoples TWP, I&E, OCA, and OSBA have agreed to the resolution of the issues in this proceeding. Peoples TWP fully supports this Settlement and respectfully requests that the Honorable Administrative Law Judges Jeffrey Watson and Conrad A. Johnson recommend approval of, and the Commission approve, the Settlement in its entirety, without modification.

WHEREFORE, Peoples TWP LLC respectfully requests that Administrative Law Judges Jeffrey Watson and Conrad A. Johnson and the Pennsylvania Public Utility Commission approve the “Joint Petition for Settlement of All Issues of the Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f).”

Respectfully submitted,



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Of Counsel:

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Date: April 26, 2013

Attorneys for Peoples TWP LLC

Attachment C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :

v.

Peoples TWP LLC

:
:
:
:

Docket No. R-2013-2341604

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGES CONRAD A. JOHNSON AND JEFFERY WATSON:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), through its Prosecutor, Allison C. Kaster, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just and reasonable balance of the interests of Peoples TWP LLC (“Peoples TWP” or “Company”) and its customers. The parties to this Settlement (“Joint Petitioners”) conducted discovery and extensive settlement discussions. This request is based upon I&E’s conclusion that the Settlement is in the public interest as supported by the following factors:

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission. Consequently, in negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to quantify to what

extent amicable resolution of any such proceeding will benefit the public interest. Based upon I&E's analysis of the Company's 1307(f) filing, acceptance of this proposed Settlement is in the public interest and recommends that Administrative Law Judges Conrad A. Johnson and Jeffery Watson and the Commission approve the Settlement in its entirety.

2. On January 2, 2013, the Company submitted its prefiling information, as required by 52 Pa. Code §§ 53.64 and 53.65. Thereafter, on February 1, 2013, the Company filed its Supplement to Tariff Gas- PA PUC No. 7 and accompanying Direct Testimony.

3. I&E entered its Notice of Appearance in this proceeding on February 1, 2013. Formal Complaints were filed by the Office of Consumer Advocate and the Office of Small Business Advocate on February 5, 2013.

4. A telephonic Prehearing Conference was held on February 19, 2013, which resulted in the establishment of a procedural schedule.

5. Discovery was undertaken by the parties during the proceeding.

6. In accordance with the Commission's policy favoring settlements over costly and time consuming litigation, 52 Pa. Code § 5.231, the Joint Petitioners were successful in achieving a full and complete settlement of all issues utilizing the discovery and settlement negotiation process.

7. I&E submits that the proposed Settlement is in the public interest and should be approved by the ALJs and the Commission for the following reasons:

a. I&E represents that the purchased gas costs that Peoples TWP incurred during the historic period adhered to a least cost fuel procurement policy. Adhering to a least cost procurement policy benefits ratepayers because least cost gas directly impacts customer gas bills and obligates the Company to provide safe, adequate and reliable service to its customers. After review of the filing and extensive discovery and settlement discussions, I&E maintains that the Company's gas purchasing practices have satisfied its least cost procurement obligation.

I&E analyzed the Company's E-factor and found that it was calculated in accordance with established Commission practices. This review is critical because the proper calculation of the E-factor ensures that rates are adjusted appropriately. I&E is satisfied that the Company's E-factor calculation is appropriate and accurate.

Additionally, I&E reviewed the Company's projected gas costs and determined that it appears those costs are consistent with a least cost fuel procurement policy. The filing projects a \$0.0385/Mcf increase in the purchased gas rate applicable to residential retail service customers based upon the November 1, 2012 purchased gas rates in effect, to \$4.9216/Mcf as of August 1, 2013. While those costs are subject to review in a future PGC proceeding, I&E maintains that ratepayers are protected in that Peoples TWP gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

b. Retainage Rate (Joint Settlement ¶ 21): The Settlement provides that, effective July 1, 2013, the tariffed retainage rate for Small Volume transportation customers will be reduced from 6.3% to 5.4% and the retainage rate for Large Volume

transportation customers will be reduced from 4.0% to 3.4%. These retainage percentages are based on a three-year average of Lost and Unaccounted for Gas (“LUFG”) and Company Use Gas. The decrease proposed in the settlement is reasonable because the Company’s three year LUFG average and Company Use decreased from 3.84% (2009-2011) to 3.47% (2010-2012). Peoples TWP St. 1, p. 21. The Company utilized this three year average to determine a reasonable retainage range for Small Volume and Large Volume customers. Peoples TWP LLC St. 1, p. 22, Peoples TWP St. 1-R, pp. 9-10. Determining retainage rates based on historical LUFG and Company Use Gas is appropriate so that transportation customers make a contribution to LUFG and Company Use Gas that is proportionate to that made by PGC customers. I&E maintains that the retainage rates based upon the three year average of LUFG and Company Use gas contained in the Settlement is appropriate and in the public interest.

c. Other Gas Costs (Joint Settlement ¶ 22): The Company proposed that certain “other gas costs,” totaling approximately \$11,000, be recovered through the PGC rate. Peoples TWP St. No. 1, p. 24. I&E objected to the recovery of these costs through the PGC rate because those costs were claimed in the Company’s prior base rate proceeding, which could result in a period where the costs are double recovered. I&E St. No. 1. To address this double recovery concern, the Company proposed to remove these costs from base rates in its upcoming base rate case. Peoples TWP St. No. 1-R, p. 3. However, the Company’s proposal did not fully address I&E’s concern because it would potentially allow the Company to double recover “other gas costs” through the PGC and base rates for six months or more. The PGC rates will become effective August 1, 2013

and, given that the Company anticipates its next rate case will be filed in April 2013, the Company's new base rates may not be effective until approximately January 2014.

During this six month period, Peoples TWP could potentially double recover these costs.

The Settlement resolves this double recovery concern because it provides that the Company will not begin to recover these costs through the PGC until the rates approved in the Company's next base rate proceeding go into effect. These "other gas costs" will be removed from base rates at the conclusion of the Company's next rate proceeding and can begin to be recovered through the PGC rate. As a result, the Settlement ensures that no double recovery will occur because these costs will not be recovered through the PGC rate and base rates simultaneously.

8. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense.

9. I&E further submits that the acceptance of the foregoing settlement will negate the need for any direct and cross-examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the filing of possible appeals.

10. The Settlement is conditioned upon the Commission's approval of all terms and conditions contained therein and should the Commission fail to grant such approval

or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or I&E as provided therein.

11. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

12. If the ALJs recommend that the Commission adopt the Settlement as proposed, I&E has agreed to waive the filing of Exceptions. However, I&E has not waived its rights to file Reply Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJs in the Recommended Decision. I&E has also reserved the right to file Reply Exceptions to any Exceptions that may be filed by the Company.

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 Judges Conrad A. Johnson and Jeffery Watson recommend, and the Commission subsequently approve, the foregoing Joint Petition for Settlement, including all terms and conditions contained therein.

Respectfully submitted,

A handwritten signature in cursive script that reads "Allison C. Kaster". The signature is written in black ink and is positioned above the printed name and title.

Allison C. Kaster

Prosecutor

Pennsylvania Public Utility Commission
Office of Trial Staff
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 787-1976

Dated: April 26, 2013

Attachment D

residential customers from \$4.8831 per Mcf as of November 1, 2012 to \$4.9216 per Mcf effective August 1, 2013.

On February 5, 2013, the OCA filed a Formal Complaint against the Company's proposed rates, seeking to ensure that the rates were not excessive, discriminatory, or otherwise contrary to Commission regulation or policy. On February 1, 2013, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in the case, and on February 5, 2013, the Office of Small Business Advocate (OSBA) also filed a Formal Complaint against the proposed rates. On February 20, 2013, the Commission's Secretary's Bureau served PTWP with the complaint of Kathleen A. O'Laughlin, a PTWP customer, at Docket No. C-2013-2348747. The OCA, OSBA and I&E all engaged in discovery regarding the proposed rates. The parties also exchanged information through informal discovery.

A prehearing conference was held on February 19, 2013, at which a procedural schedule was established. Pursuant to that schedule, on March 6, 2013, the OCA submitted the Direct Testimony of its expert witnesses, Melissa Whitten and Dr. Alvaro Pereira.¹ Ms. Whitten's testimony addressed three areas of PTWP's filing – the Company's interstate pipeline and storage contracts, the recovery of costs related to segmentation plans implemented for measuring unaccounted for gas, and the separation of forecasting and gas procurement activities within Peoples Service Company LLC, the PTWP affiliate that provides gas supply management services to PTWP. Dr. Pereira testified with respect to the regression analysis used to calculate the design day load requirements for residential customers.

After the submission of the non-company parties' direct testimony, settlement discussions were initiated, and those discussions have produced the instant proposed Settlement,

¹ OCA Statement No. 1 and OCA Statement No. 2, respectively.

which addresses all issues in the case. For the reasons set forth below, the OCA submits that the Settlement is in the public interest and should be adopted by the Commission.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The Settlement addresses the issues raised by the OCA in its Direct Testimony in the following manner:

A. Interstate Pipeline Storage and Transportation Contracts (Settlement ¶ 22)

In its testimony, the OCA expressed concern with regard to several of PTWP's interstate pipeline and storage contracts. Specifically, the OCA was concerned about the relationship between the contract for firm transportation with Tennessee Gas Pipeline Company (TGP), scheduled to expire on October 31, 2013, and the Precedent Agreement for firm storage and transportation with Dominion Transmission Inc. (DTI). OCA St. No. 1 at 2-9. Initially, the OCA viewed the DTI contract as a replacement for a previously terminated storage contract with TGP and the existing TGP firm transportation contract. As such, the OCA questioned the need to have both the TGP and DTI contracts in place and questioned whether the DTI contract represented a less expensive alternative to the TGP firm transportation contract. In Rebuttal Testimony, PTWP made clear that while the DTI contract served as a replacement for the storage service under the terminated TGP storage contract, it was not considered a replacement for the TGP firm transportation contract. PTWP explained that it relies on the TGP transportation contract to deliver gas to TGP's Pitt Terminal Point on a design peak day. The DTI contract does not provide this service. PTWP St. No. 2R at 17. Through informal discovery, PTWP also clarified that the rate it was paying for firm transportation service under the DTI contract was the lower system-wide firm transportation rate and not the higher incremental firm transportation

rate initially assumed by the OCA. With these clarifications, the initial concerns regarding the need for both contracts and the reasonableness of the cost of the DTI contract were addressed.

Nevertheless, as noted above, the TGP transportation contract is scheduled to expire in October of this year and PTWP has indicated its intention to evaluate pipeline and delivered supply options to replace this transportation capacity prior to the contract's expiration. PTWP St. No. 2 at 15. In this regard, the OCA indicated its preference for PTWP to engage in a robust RFP process designed to mitigate the cost of any extension or replacement of the existing contract on PGC customers. The Settlement addresses this point. Under its terms, PTWP agrees to undertake an RFP process to identify least-cost options to replace the existing TGP contract. The RFP is to include as full a range of options as possible including: (1) extending the term of the existing contract at the current effective rate; (2) exploring the feasibility of segmenting the contract to allow a firm receipt point closer to Pennsylvania, while freeing the southern half of the full path for capacity release; and (3) exploring the possibility of relinquishing the capacity and replacing it with a delivered peaking or comparable short notice, seasonal service. Further, the Settlement provides that PTWP should seek to broaden its bidders list and that the Company should follow up with bidders who do not respond to the RFP and with those who submit non-conforming bids to determine if the RFP should be revised and re-issued to ensure the broadest, most effective set of service options to choose from. Settlement ¶ 22.

It is the OCA's expectation that an RFP process adhering to these settlement terms will accomplish the goal of minimizing the cost of extending or replacing the TGP transportation capacity on PTWP's PGC customers.

B. Design Day Demand Methodology (Settlement ¶ 23)

Pursuant to a term included in the settlement of PTWP's 2012 PGC proceeding, the Company agreed to review and evaluate its current methodology for developing design day demand and to present the results of its review in the instant proceeding. In its Direct and Rebuttal Testimony PTWP reported on the results of its design day demand methodology review. The Company indicated that as a result of its review, it has begun using billing heating degree days rather than calendar heating degree days as an element in the statistical regression model it employs to calculate design day load requirements. PTWP St. No. 2 at 7-8; PTWP St. No. 2-R at 7-8. This change enabled the model to better match billing cycle usage to actual weather. With respect to other aspects of its review, PTWP indicated that its evaluation is ongoing. In particular, it noted that it is continuing to work toward creating a regression model based on daily send-out data instead of monthly billing data. Such a model would lend itself to evaluating such things as the effects of wind-speed, using winter-only degree days, and other potential factors, all of which have been recommended by OSBA's witness Robert Knecht. The Company indicated that further internal actions are necessary in order to collect the daily data as well as to model data that is available only monthly.

Both OCA's witness Pereira and OSBA's witness Knecht testified that the current regression model used by PTWP appears to overstate design day demand. OCA St. No. 2 at 2-6; OSBA St. No. 2 at 3-4. Among the flaws that each found in the existing model was the inclusion of the variable "billing degree days squared," which these witnesses determined to be statistically insignificant for most rate classes, including the residential rate class. Mr. Knecht provided an analysis of design day demand forecasts using a regression model that excluded the "billing

degree days squared” variable and the model produced lower forecasts in all relevant rate categories. OSBA St. No. 2 at 3.

Given these concerns with the current regression model and PTWP’s ongoing exploration of improvements to its design day forecasting methodology, the Settlement provides that PTWP will continue to review and evaluate its methodology for developing design day demand, in total and by market area. The Company will continue to collect and evaluate data to determine if factors such as wind speed, winter only degree days and daily send-out information can and should be incorporated into its design day calculations. The Company will compile all available daily sendout information available for the past three years, and will present that data and its evaluations and conclusions to the parties to this Settlement no later than October 31, 2013. The Company will then schedule meetings with parties beginning in early November, 2013 to discuss collaboratively the data and evaluations, in order to assess further modifications to its design day calculations. Settlement ¶ 23.

The OCA submits that this process will afford PTWP the time needed to conclude its analysis of the feasibility of collecting daily data to support a model based on daily send-out. It will also present the OSBA and OCA with the opportunity to provide input on any prospective model that is developed by PTWP and will do so prior to the time for filing the 2014 PGC case so that any changes made based on OSBA and OCA input can be incorporated for the 2014 case.

C. Recovery of Segmentation Plan Costs (Settlement ¶ 24)

In its Direct Testimony, PTWP reviewed its implementation of the best practices it previously identified for reducing unaccounted for gas (UFG) on its system. PTWP St. No. 3 at 3-5. The Company testified that it had determined that segmenting its pipeline system by adding measuring capability to isolate pipeline operating areas was a best practice it should adopt. It

hoped to quantify UFG on the portions of its pipeline system that gather production gas. It explored different options and ultimately settled on a plan to segment the Schmidt Compressor suction pipeline system, a portion of its overall system that includes 44 producer interconnects and also serves 70 customers. Segmentation would require the installation of meters at three locations. The Company noted that this project would allow it to better separate actual distribution UFG levels from UFG experienced on the non-distribution section of its system. PTWP estimated the costs of the segmentation project at \$60,000 for measuring equipment and an additional \$100,000 for pipeline modifications, rights of way, electricity, and connecting monitoring equipment to its SCADA system. Recovery of these costs was not being sought through PGC rates. Rather, these costs would be recovered in a future base rate case.

In its testimony, the OCA noted that despite the fact that PTWP was not seeking recovery of the \$160,000 in capital expense through the PGC rate, it may not be appropriate to recover the costs from PTWP ratepayers if indeed the purpose of the investment would be to minimize UFG on a segment of its pipeline system that the Company identified as a non-distribution section, in other words, a section that serves primarily producers or marketers. OCA St. No. 1 at 10-11. In particular, OCA witness Whitten expressed concern that mentioning the project in the context of lowering UFG on PTWP's system might influence how the project would be addressed in a future base rate proceeding.

In its Rebuttal Testimony, PTWP maintained that reductions in UFG resulting from the segmentation project would inure to the benefit of its customers by reducing UFG and retainage rates. The Company also reiterated that while the Schmidt Compressor pipeline system is functionalized as a non-distribution pipeline, 70 customers are directly connected to and take gas from this portion of the pipeline system. The measuring devices to be installed as part of the

segmentation project will be installed downstream of the 44 producer interconnects and the 70 customer connections. The Company also testified that by referencing the segmentation project in this proceeding it did not intend that it be cited to support a right to recover the costs of the project in a future base rate proceeding. PTWP St. No. 1-R at 13-15.

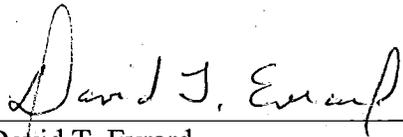
In order to resolve any concerns regarding the effect of discussion of the segmentation project in this proceeding on cost recovery in a future base rate proceeding, the Settlement provides that reference to the segmentation project in the instant proceeding may not be cited to support a right to recover the costs of the project in a future base rate case, and all parties reserve their respective rights to support or challenge a claim for recovery of the costs in that future proceeding. Settlement ¶ 24.

The OCA submits that this provision of the Settlement adequately addresses the concerns raised in its Direct Testimony on this issue.

III. CONCLUSION

In consideration of the various elements of the Settlement that have been described above, the OCA finds the Settlement as a whole to be in the public interest, and for that reason, submits that the terms and conditions of the Settlement should be approved.

Respectfully Submitted,



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April 26, 2013

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Attachment E

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

PEOPLES TWP LLC

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DOCKET NO. R-2013-2341604

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

I. Introduction

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

On January 2, 2013, pursuant to Section 1307(f) of the Public Utility Code, Peoples TWP LLC (“Peoples TWP” or “Company”) submitted pre-filed supporting information concerning its annual 2012 Purchased Gas Cost (“PGC”) Rate filing. On January 31, 2013, the Company made its definitive Section 1307(f) filing.

II. Summary of the OSBA’s Principal Concerns

On February 5, 2013, the OSBA filed a Formal Complaint in this proceeding. In its Complaint, the OSBA identified several issues of concern, primarily regarding whether the Company’s proposed PGC rates are consistent with a least cost fuel procurement policy. Additionally, the OSBA wanted to ensure that the resulting rates and charges were not excessive, unjust, unreasonable, or discriminatory to small business customers, or otherwise contrary to Commission regulation or policy.

To this point in the proceeding, the OSBA has participated in discovery, filed direct testimony, filed supplemental direct testimony and participated in the negotiations which led to the Joint Petition for Settlement.

III. Settlement

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. The OSBA does not object to the resolution of any of those issues as detailed in the text of the Settlement.

The OSBA's principle issues of concern, and those on which the OSBA filed testimony, involved (a) the Company's proposed retainage rates for transportation service customers, (b) the Company's methodology for developing design day demand, (c) the Company's approach for calculating the Commission-approved "extra day" demand allocation factors for upstream pipeline and storage demand costs, and (d) the Company's proposal to include certain other gas supply costs in its PGC revenue requirement.

A. Retainage Rates

Unlike most Pennsylvania natural gas distribution companies ("NGDCs"), Peoples TWP uses different retainage rates for "Small Volume" and "Large Volume" transportation customers. In its filing in this proceeding the Company proposed to decrease the current retainage rates for both types of customers, applying a proportionately larger reduction to Large Volume customers. In direct testimony the OSBA developed recommendations for Small Volume and Large Volume transportation customers that generally relied on the Company's methodology for calculating retainage rates as set forth in Company Exhibit APW-2. Subsequent to the filing of intervenor testimony, the Company filed a revised version of APW-2 as well as its response to OSBA-1-7. The revised filings corrected certain figures as set forth in Exhibit APW-2 and clarified that the Company applies its retainage factor to gas receipts at the city gate, rather than gas delivered to the customer.¹ In light of the corrections made to the

¹ OSBA Statement No. 2 at 2

Company's calculations, the OSBA filed Supplemental Direct Testimony and Exhibits on March 20, 2013 to update its analysis and recommendations relative to the retainage rates based on the Company's corrections.

In settlement, the Company has accepted the OSBA's proposed retainage rate calculations, which do not result in a disproportionately large reduction in retainage rates for Large Volume customers. As such, the Settlement fully resolves the OSBA's concerns on this subject.

B. Design Day Demand Calculations

In the settlement of the Company's 2012 Section 1307(f) proceeding, the Company agreed to "... review and evaluate its current methodology for developing design day demand, in total and by market area, taking into consideration the evidence presented in this proceeding, the Company's internal data availability and sound utility practice" and to report on the results of this effort in the 2013 Section 1307(f) proceeding.

As detailed in OSBA Statement No. 1, the Company's effort in this regard was disappointing at best. Various methodological issues regarding design day demand were summarily dismissed or ignored in the Company's review, including the specific critique presented by OSBA in the 2012 proceeding. Moreover, in continuing to use the methodology from the last proceeding, the Company's filing relied on incorrect data and the Company excluded relevant data from its statistical analysis.

The Company subsequently corrected its errors in supplemental discovery.

In direct testimony, both OCA and OSBA found fault with the Company's statistical analysis, and concluded that the Company's design day demand forecasts were overstated. In response to the Company's corrected data submission, the OSBA submitted supplemental direct testimony which relied on the corrected data. The supplemental direct testimony again concluded that the Company's design day demands were overstated, albeit by a smaller amount than that shown in OSBA's direct testimony.

Because the differences between the Company's design day demand calculations and OSBA's calculations were relatively small, the OSBA essentially agreed to give the Company a second chance to address its inadequacies. Specifically, the Settlement requires that the Company undertake an evaluation

of the data availability and methodologies for design day demand determination (that it should have undertaken over the past year) and present its findings to the Parties to this proceeding no later than October 31, 2013. Subsequent to sending out the information pertaining to design day, the Company has also committed to meet collaboratively with the parties in a further assessment of the Company's design day calculations in November of 2013.

The OSBA deems this solution to be a reasonable compromise to the issues raised by both OSBA and OCA on this subject.

C. Extra Day Demand Factors

Unlike other Pennsylvania NGDCs, which allocate upstream pipeline and storage demand costs on a volumetric basis, Peoples TWP uses an "extra day" demand allocation methodology, as approved by the Commission over the years. In its testimony in this proceeding, OSBA proposed a refinement to the existing methodology, arguing that measuring the extra day demand based on design day demands was superior to the Company's use of "actual" peak day demands. (In contrast to certain inaccurate assertions made by the Company in this proceeding, the OSBA did not propose to change the Commission-approved extra-demand methodology – it simply proposed that a technical correction be made to the existing method to better reflect cost causation.)

In agreeing to the Settlement, the OSBA has essentially agreed to defer this issue to either the Company's upcoming base rates proceeding or to future Section 1307(f) proceedings. In light of the poor effort by the Company in addressing its design day demand methodology, the OSBA concluded that the present is not an opportune time to adopt a design day demand approach to calculating the extra demand allocation factors. The Settlement therefore explicitly recognizes the rights of the Parties to challenge the Company's methodology in future base rates and Section 1307(f) proceedings.

D. Other Gas Costs

The Company's filing included a cost claim for certain "other gas costs," comprising various market reports and internet data services that purportedly support the Company's gas procurement efforts. In response to discovery, the Company admitted that these costs are already recognized in base rates, and

the OSBA therefore concluded that including these costs in the PGC would result in an inappropriate double recovery. Moreover, it is unclear to OSBA why the Company did not move these costs from base rates to the GPC as part of its recent unbundling proceeding.

The Settlement addresses the double recovery issue by (a) agreeing not to claim these costs in its upcoming base rates proceeding, and (b) deferring the inclusion of these costs in the PGC to the time when new base rates go into effect. Moreover, the Settlement specifies that the annual level of these costs is expected to be only \$11,000, which will have only a *de minimis* impact on PGC rates.

The OSBA therefore concludes that the Settlement reasonably addresses an inappropriate double recovery problem. While including these costs in the GPC would probably be a simpler solution, the OSBA determined that the low magnitude of these costs did not merit further litigation.

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

WHEREFORE, the OSBA respectfully requests that the Administrative Law Judge and the Commission approve the text of this Settlement without modification.

Respectfully submitted,



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