

Docket No. R-2013-2355886

Peoples TWP LLC

Before the

Pennsylvania Public Utility Commission

VOLUME XI

Peoples Statements 1 through 7 and Exhibits thereto

INFORMATION SUBMITTED PURSUANT TO:

Title 52 Pennsylvania Code § 53.51, et seq.,
Pa. P.U.C. Regulations Re: Filing of Rate Changes

Peoples TWP's 2013 General Rate Filing

St. 1

R. Hovanec

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PEOPLES TWP LLC

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Docket No. R-2013-2355886

PREPARED DIRECT TESTIMONY OF
ROBERT M. HOVANEK
PRESIDENT
PEOPLES TWP LLC

DATE SERVED: April 30, 2013
DATE ADMITTED: _____

Peoples TWP Statement No. 1

PREPARED DIRECT TESTIMONY

OF ROBERT M. HOVANEK

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Robert M. Hovanec, and my business address is 205 North Main Street, Butler,
3 Pennsylvania 16001.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed as President, Chief Operating Officer and Chief Financial Officer of Peoples
7 TWP LLC (hereinafter "PTWP" or the "Company"). I am also the Senior Vice President and
8 Chief Financial Officer of Peoples Service Company LLC ("PSC"). Pursuant to the affiliated
9 interest agreements between Peoples Natural Gas Company LLC ("Peoples") and PSC, and
10 between PTWP and PSC, which were approved by the Pennsylvania Public Utility Commission
11 (the "Commission") in Docket Nos. G-2012-2290014 and G-2012-2291735, PSC provides
12 certain administrative services to Peoples and PTWP.

13
14 **Q. AS PRESIDENT OF PTWP, DO YOU HAVE OVERALL RESPONSIBILITY FOR**
15 **MAINTAINING THE FINANCIAL STABILITY AND DAILY OPERATIONS OF THE**
16 **COMPANY?**

17 A. Yes. As a Commission regulated natural gas distribution company, our primary mission is to
18 provide safe and reliable natural gas distribution service to our customers. To this end, it is
19 critical that the tariff rates for such gas service provide the appropriate level of Operating
20 Revenues necessary to support our mission.

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT**
2 **EXPERIENCE.**

3 A. I graduated from Indiana University of Pennsylvania in May 1976 with a Bachelor of Science
4 Degree, having majored in Accounting and Economics. After graduation, I was employed as an
5 Auditor with Arthur Andersen LLP in the large commercial audit division until April 1981.
6 Next, I was employed as the Senior Internal Auditor for FSC Corporation. I joined T.W.
7 Phillips Gas and Oil Co. (“T.W. Phillips”), PTWP’s predecessor, in October 1981 and have
8 remained there to the present time. I am a Certified Public Accountant, having obtained my
9 certificate in Pennsylvania in 1978.

10
11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY COMMISSION?**

12 A. Yes, I have represented PTWP and its predecessor as a witness in the Commission’s
13 Investigation of Gas Cost Rate No. 5 proceedings and the 1983, 1989, 1995, 2000, 2006 and
14 2010 base rate proceedings before the Commission at Docket Nos. R-832339, R-891566, R-
15 953406, R-005459, R-051178 and R-2010-2167797. I have also testified in the Company’s
16 Purchased Gas Cost Adjustment proceedings from 1985 to 2012, the Company’s Restructuring
17 of Services proceeding at Docket No. R-994790 and other isolated Commission proceedings.
18 Finally, I was the primary witness in the 2010 Application proceeding filed with the
19 Commission under which 100% of the equity interest of T.W. Phillips was transferred to the
20 LDC Holdings II LLC (“Holdings II”), an indirect subsidiary of SteelRiver Infrastructure Fund
21 North America LP (“SteelRiver”), at Docket No. A-2010-2210326.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. First, I will provide an overview of the corporate history of PTWP and its predecessor. Next, I
3 will introduce the other PTWP witnesses in this proceeding. The bulk of my testimony will
4 address the accomplishments of PTWP since its acquisition by Holdings II in May 2011.
5 Specifically, I will address each of the implementation activities associated with the terms and
6 conditions of the settlement incorporated in the Commission Order approving the acquisition. I
7 will also sponsor certain exhibits which are set forth as Appendix A to this testimony.

8
9 **Q. PLEASE PROVIDE A BRIEF CORPORATE HISTORY OF PTWP AND ITS**
10 **PREDECESSORS.**

11 A. PTWP and its corporate predecessors in interest have been serving the public continuously
12 since 1896 and have acquired the utility plants and properties of the following companies on
13 the dates set forth below:

14	DATE	COMPANY
15	July 20, 1904	T.W. Phillips Sons and Company
16	August 15, 1904	Home Natural Gas Company
17	August 25, 1904	Enterprise Natural Gas Company
18	November 29, 1905	Mahoning Gas & Heat Company
19	November 29, 1905	Citizens Fuel Company
20	August 25, 1916	Independent Natural Gas Company
21	April 25, 1966	R.C. Ernst Gas Company
22	September 11, 1974	Anderson Gas Company
23	June 30, 1988	Acme Natural Gas Co.

1 T. W. Phillips was incorporated on February 25, 1975, under the Pennsylvania Business
2 Corporation Law. At the close of business on February 28, 1975, pursuant to the Commission's
3 Certificate of Public Convenience and Order dated December 16, 1974, and issued at
4 Application Docket No. A-98887, T.W. Phillips acquired all the gas utility assets and business
5 previously carried on by a corporation named T.W. Phillips Gas and Oil Company which
6 subsequently changed its name to TWP INC.

7
8 On January 31, 1989, the Company purchased from National Fuel Gas Distribution Corporation
9 a portion of its assets associated with gas utility service in Mars and Callery Boroughs and in
10 Adams, Butler, Forward, Oakland, Penn, and Summit Townships, Butler County, Pennsylvania.
11 A Certificate of Public Convenience, docketed at A-122350 and dated January 12, 1989, was
12 issued by the Commission approving the transfer which affected approximately 1,250
13 residential and commercial customers.

14
15 On May 24, 2011, Holdings II purchased the stock of T. W. Phillips and T.W. Phillips was
16 merged into PTWP.

17
18 PTWP's charter territory includes Allegheny, Armstrong, Beaver, Butler, Clarion, Clearfield,
19 Indiana, Jefferson, and Westmoreland Counties, Pennsylvania. Gas service is authorized in all
20 localities where the Company has pipelines, and a list of the communities where gas service is
21 available is set forth in PTWP's existing and proposed tariffs.

22
23 **Q. PLEASE PROCEED WITH THE INTRODUCTION OF PTWP'S WITNESSES.**

24 **A. PTWP's other witnesses, and the subject matter of their testimony, are:**

1 Paul W. Becker, Vice President Engineering, will discuss PTWP's Smart Modernization Plan
2 which will result in the planned replacement of all bare steel pipe within the next 20 years,
3 PTWP's pipeline related capital expenditures budget requirements, and PTWP's activities to
4 improve the safe operation of its system on a day-to-day basis. (Peoples TWP Statement No.
5 2)

6
7 Gregory A. Sciullo, Vice President, Corporate Controller, will sponsor the accounting filing
8 requirements and explain how the accounting records of PTWP are maintained under industry
9 standards. (Peoples TWP Statement No. 3)

10
11 Jon H. Skoog, Vice President, Gas Supply, will describe the operational characteristics of the
12 PTWP system, the derivation of PTWP's system volume requirements, and proposed changes
13 to PTWP's tariff provisions related to customer choice and natural gas transportation service.
14 (Peoples TWP Statement No. 4)

15
16 Sadie John Kroeck, Director, Customer Relations, will describe PTWP's Universal Service
17 Programs and support the Company's proposed changes to improve and expand some of those
18 Programs. (Peoples TWP Statement No. 5)

19
20 Paul Moul, Managing Consultant, P. Moul & Associates, will present an independent
21 assessment of the fair rate of return that PTWP should be authorized to earn on its investment
22 in providing gas delivery service to customers. (Peoples TWP Statement No. 6)

23
24 Anthony Caldoro, Rates Consultant, will present the calculation of the Company's rate base,

1 including support for the Company's cash working capital requirement. (Peoples TWP
2 Statement No. 7)

3
4 John Spanos, Vice President, Gannett Fleming, Inc. will sponsor a depreciation study that
5 determined PTWP's annual depreciation accrual rates. (Peoples TWP Statement No. 8)

6
7 James Warren, a tax partner in the law firm of Miller & Chevalier, will sponsor and support
8 the Company's tax calculations for ratemaking purposes and the tax-related information
9 provided by PTWP in response the Commission's rate filing regulations. (Peoples TWP
10 Statement No. 9)

11
12 Dawn Folks, Rate Analyst, will discuss the Company's calculation of historical and projected
13 revenues, including customer counts and volume projections and the rate contribution for
14 competitive accounts at present rates. (Peoples TWP Statement No. 10)

15
16 Lynda W. Petrichevich, Manager, Rates and Regulatory Affairs, will identify PTWP's revenue
17 requirements and identify and explain PTWP's operating and maintenance expenses for the
18 Historic Test Year, Future Test Year, and the Fully Forecasted Future Test Year. (Peoples
19 TWP Statement No. 11)

20
21 Russ Feingold, Vice President, Black and Veach Corporation will sponsor the cost of service
22 allocation studies prepared by his firm for use in the rate case. (Peoples TWP Statement No.
23 12)

1 Andrew Wachter, Manager, Rates and Regulatory Affairs, will explain how rates were
2 designed to produce that the revenue requirement described in PTWP witness Lynda
3 Petrichevich's testimony. (Peoples TWP Statement No. 13)
4

5 **Q. PLEASE DESCRIBE THE SETTLEMENT TERMS CONTAINED IN THE**
6 **COMMISSION ORDER APPROVING THE APPLICATION NOTED ABOVE AND**
7 **THE IMPORTANCE OF PTWP'S IMPLEMENTATION ACTIVITIES ASSOCIATED**
8 **WITH SUCH SETTLEMENT TERMS.**

9 A. As I previously mentioned, on May 24, 2011, Holdings II acquired T. W. Phillips, and T.W.
10 Phillips was merged into PTWP. The acquisition was approved by the Commission in Docket
11 No. A-2010-2210326. The approval occurred after the parties to the case proposed a Joint
12 Settlement of All Issues (the "Settlement"). On April 1, 2013 PTWP filed with the
13 Commission an Acquisition Settlement Annual Report for the calendar year 2012. The
14 implementation activities, undertaken by PTWP during calendar year 2012, associated with the
15 Settlement terms provide a clear blueprint of the important steps taken by PTWP in upgrading
16 certain aspects of its gas operations, customer service, information technology, community
17 support, human resources and other functional areas. The following section of my testimony
18 provides a summary of the implementation activities associated with the Settlement terms.
19

20 **Q. PLEASE DISCUSS THE SPECIFIC RATEMAKING ISSUES CONTAINED IN THE**
21 **SETTLEMENT?**

22 A. There were seven ratemaking issues contained in the Settlement. I have highlighted each of the
23 issues below and provided a response indicating how such issues are reflected in this case.

1 A. Settlement Provision: The acquisition premium shall be calculated in accordance with
2 GAAP and shall be excluded from rate base when establishing future base rates.

- 3 ○ The recovery of the acquisition premium has not been included in this rate case.

4 B. Settlement Provision: All transaction and transition costs associated with the
5 acquisition shall be excluded from recovery when setting base rates.

- 6 ○ No such recovery of these costs is included in this rate case.

7 C. Settlement Provision: A base rate credit shall be applied in next PTWP base rate case
8 proceeding.

- 9 ○ A \$10 million base rate credit has been included in this rate case.

10 D. Settlement Provision: No base rate increase shall be applied prior to January 1, 2014.

- 11 ○ The effective date of rate increase proposed in this rate case is on or after
12 January 1, 2014.

13 E. Settlement Provision: Costs for any non-regulated capital projects or costs that are not
14 for the purpose of providing service to distribution customers will be excluded from
15 base rates.

- 16 ○ No such CAPEX has been incurred nor has such capital costs been included in
17 this rate case.

18 F. Settlement Provision: The application of a capital structure within the range of
19 comparable gas utilities.

- 20 ○ PTWP is proposing a capital structure of 50% equity, 50% debt.

21 G. Settlement Provision: Deferred Tax recovery shall be based on the Federal
22 normalization rules

- 23 ○ The recovery of deferred taxes in this rate case is consistent with the Federal
24 normalization rules.

1 **Q. PLEASE ADDRESS THE SPECIFIC AFFILIATE RELATED ISSUES CONTAINED**
2 **IN THE SETTLEMENT.**

3 A. First, in the Settlement, PTWP committed that it would seek Commission approval of all new
4 or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code.
5 Consistent with that commitment, PTWP made the following affiliated interest filings since
6 the acquisition:

7 A. On February 24, 2012, PTWP filed, at Docket No. G-2012-2290018, an affiliated
8 interest agreement to provide for the exchange of certain operational services between
9 PTWP and Peoples. This Agreement was approved, by Secretarial Letter, on
10 September 5, 2012.

11 B. On March 2, 2012, at Docket No. G-2012-2291735, PTWP made a filing for approval
12 of a Service Agreement between PTWP and PSC. This Agreement was approved, by
13 Secretarial Letter, on June 5, 2012.

14 C. During 2011, PTWP filed for Commission approval of a gas exchange agreement
15 between itself and Peoples (the "GEA") at Docket No. G-2011-2265150. The GEA
16 was approved by the Commission by Secretarial Letter issued March 15, 2012. Since
17 then, PTWP filed for Commission approval of two separate amendments to the GEA.
18 The first was approved by the Commission on July 13, 2012, and the second was
19 approved on January 29, 2013. Both requests were filed in Docket Number G-2011-
20 2265150.

21 Additionally, PTWP made four other commitments in the Settlement related to affiliated
22 issues. I have highlighted each of the commitments below and provided a response indicating
23 how each has been met.

1 A. Maintenance of reasonable accounting controls and pricing protocols shall be
2 maintained to govern transactions with affiliates.

- 3 ○ All affiliated transactions have been in accordance with existing Commission
4 approved affiliated interest agreements.

5 B. Reasonable access to books and records, and employees of affiliates, shall be provided,
6 upon request, to all regulatory parties.

- 7 ○ PTWP has, and will continue to provide such access to the regulatory parties.

8 C. Access will be provided, upon request, to all regulatory parties, to presentations given
9 by Holdings II, its parent, and SteelRiver to any common stock, bond, or bond rating
10 analysis that pertain to PTWP.

- 11 ○ No such requests were made in 2012, thus no reports were provided.

12 D. Access will be provided, upon request, to all regulatory parties, to any reports filed
13 with U.S. Securities and Exchange Commission.

- 14 ○ No reports were filed with the U.S. Securities and Exchange Commission in
15 2012.

16
17 **Q. PLEASE DESCRIBE THE MANAGEMENT RELATED TERMS CONTAINED IN**
18 **THE SETTLEMENT?**

19 A. Four commitments were made related to the management of PTWP. I have highlighted each
20 of the commitments below and provided a response indicating how such commitments have
21 been met.

22 A. There shall be no change in ownership or control in PTWP without Commission
23 approval.

1 ○ PTWP did not experience any change in ownership or control since May 24,
2 2011.

3 B. The Chief Executive Office for PTWP shall be a different individual than the Chief
4 Executive Officer of Peoples.

5 ○ I am currently the President of PTWP while Morgan K. O'Brien is the
6 President of Peoples.

7 C. PTWP's corporate headquarters shall remain within its service territory for at least ten
8 years.

9 ○ PTWP's corporate headquarters remains in Butler, Pennsylvania and its
10 primary corporate officers (President and Vice President – Engineering), field
11 engineering, gas control, accounting and customer service departments are
12 located at this address.

13 D. Field Office and staffing shall be maintained at sufficient levels to maintain safe,
14 adequate and reliable service.

15 ○ All field offices have been maintained and the hourly manpower levels have
16 been maintained at levels sufficient to maintain safe, adequate and reliable
17 service.

18
19 **Q. PLEASE DISCUSS PTWP'S COMMITMENT TO IMPROVE CUSTOMER SERVICE.**

20 A. In the Settlement, PTWP agreed to dedicate the necessary resources to achieve specified
21 customer service metrics. PTWP has been making remarkable progress in achieving and
22 surpassing the specified metrics. Set forth below is a table that shows the performance
23 metrics.

		2012 Actual	2012 Goal
1	Call Center: % calls answered w/in 30 seconds	85%	≥70%
2	Call Center: Average busy out rate	0%	<0.5%
3	Call Center: Average Call Abandonment Rate	2%	≤7%
4	# Customer disputes not issued a report w/in 30 days	0%	<3%
5a	% Meters not read as required by 56.12 (6 months)	.01%	<0.17%
5b	% Meters not read as required by 56.12 (12 months)	.00%	<0.02%
6a	Gas Safety Response Time (within 60 minutes)	99.2%	>98%
6b	Gas Safety Response Time (min. 90% in each district)	5 out of 5	5 out of 5
7	Percent of bills not rendered once every billing period	.01%	≤0.01%

1 **Q. PLEASE DESCRIBE PTWP'S COMMITMENT REGARDING PLANT**
2 **INVESTMENT.**

3 A. As part of the Settlement, PTWP committed to make a minimum cumulative capital
4 investment of \$36 million for calendar years 2012 through 2014 which would be designed to
5 improve safety and reliability of service. PTWP further committed to increase its investment
6 in replacement of bare steel and aging infrastructure by dedicating at least 50% of the
7 incremental cumulative capital investment in excess of \$8.7 million to the replacement of bare
8 steel and aging infrastructure. During calendar year 2012, PTWP invested \$12.2 million in
9 plant which represents 1/3 of the 2012-2014 commitment. During calendar year 2012, \$6.8
10 million was expended for the replacement of bare steel and aging infrastructure. Of the total
11 \$3.5 million in increased total capital, the Company spent 63% (\$2.2 million) on bare steel and
12 aging infrastructure which exceeded the 50% requirement.

1 **Q. HAS PTWP MAINTAINED A 50/50 DEBT/EQUITY RATIO EVEN THOUGH ITS**
2 **CAPEX SPENDING HAS INCREASED?**

3 A. Yes. The funding of all of the capital investments discussed in the immediately preceding
4 question has included both Equity Capital and Debt in the appropriate amounts to insure that a
5 50/50 debt/equity ratio is maintained.

6
7 **Q. PLEASE DESCRIBE PTWP'S COMMITMENT REGARDING UNIVERSAL**
8 **SERVICES?**

9 A. PTWP agreed to continue to fund its Universal Service programs consistent with the needs
10 analysis prepared using the same procedures that were used to develop the needs analysis that
11 was presented in conjunction with its 2010 base rate case. PTWP further committed to adhere
12 to the commitments made in the Settlement of its 2010 base rate case.

13
14 **Q. HAS TWP MET THESE COMMITMENTS?**

15 A. Yes. During 2011, PTWP implemented a new Percentage of Income based Customer
16 Assistance Program which is consistent with the recommendations of the Commission for
17 such programs. Further, PTWP continues to administer its Universal Service Programs
18 consistent with the Settlement of the 2010 base rate case.

19
20 **Q. PLEASE DISCUSS THE PTWP LOW INCOME USAGE REDUCTION PROGRAM**
21 **("LIURP") COMMITMENT.**

22 A. The Settlement provided for an increase in the current funding for PTWP's LIURP of \$10,000
23 per year until the effective date of the next base rate case. As discussed in PTWP witness
24 Sadie Kroeck's testimony (**Peoples TWP Statement No. 5**), during 2012, all unspent money

1 for LIURP, including the additional \$10,000, was carried forward to 2013. Funds were carried
2 over from prior years due to contractor scheduling concerns, however, measures are being
3 taken to fully utilize the funds going forward.
4

5 **Q. PLEASE DISCUSS THE COMMITMENTS MADE REGARDING THE DOLLAR**
6 **ENERGY FUND.**

7 A. Commencing January 1, 2012, PTWP committed to contribute a minimum of \$35,000 of
8 shareholder funds annually for three years to the Dollar Energy Fund. In 2012, PTWP donated
9 \$35,000 to the Dollar Energy Fund for grants for eligible customers and an additional \$15,000
10 to Dollar Energy for administrative funds.
11

12 **Q. PLEASE DISCUSS THE COMMITMENTS MADE REGARDING CONTRIBUTIONS**
13 **TO THE BUTLER COUNTY EMERGENCY RELIEF INITIATIVE – UNITED WAY**
14 **OF BUTLER COUNTY (“BERI”).**

15 A. PTWP committed to continue its charitable contribution to the BERI of a minimum of \$5,000
16 per year for the three years commencing January 1, 2012. In 2012, the Company made an
17 annual contribution of \$5,000 to BERI.
18

19 **Q. HAVE ANY OF THE CONTRIBUTIONS FOR LIURP, DOLLAR ENERGY FUND**
20 **AND BERI THAT YOU JUST DISCUSSED BEEN RECOVERED THROUGH RIDER**
21 **USP?**

22 A. No, none of these costs are currently recoverable through Rider USP. These contributions
23 have been funded by PTWP’s owners.

1 **Q. HAS PTWP CONTRIBUTED AT LEAST \$15,000 TO COMMUNITY**
2 **ORGANIZATIONS IN CALENDAR 2012?**

3 A. Yes. In calendar 2012 PTWP made \$171,114 of corporate contributions to various community
4 organizations. The PTWP employees have also been very active during calendar year 2012.
5 Community involvement included key sponsorship and employee participation in the Butler
6 Bantam Jeep Festival, Butler Holiday Parade, Produce to People, Daffodil Days for the
7 American Cancer Society and the Butler County Children & Youth Adopt A Child At
8 Christmas Program. Employees also collected and shipped over 500 pounds of supplies to the
9 420th Engineering Route Clearance Company stationed in Afghanistan. Lastly, the PTWP
10 United Way campaign raised a combined total of \$68,208 to fund four United Way
11 organizations throughout its service territory. The PTWP corporate donation of \$37,104 (a
12 dollar to dollar match of the employees' donations) greatly exceeded the historical level of
13 \$3,300.

14
15 **Q. HAS PTWP MAINTAINED ADEQUATE GAS SUPPLY PROCUREMENT**
16 **PERSONNEL?**

17 A. Yes. All PTWP gas supply personnel in place as of May 2011 have been maintained and
18 incorporated into a combined Gas Supply department with Peoples, pursuant to the
19 Commission approved affiliated interest agreements I previously discussed.

20
21 **Q. HAS PTWP EVALUATED THE MERITS OF INSTALLING INTERCONNECTIONS**
22 **BETWEEN THE PTWP AND PEOPLES PIPELINE SYSTEMS?**

23 A. Yes. As I previously discussed, PTWP has obtained Commission approval for a GEA (Gas
24 Exchange Agreement) between itself and Peoples, which agreement provided for the use of

1 two new interconnections between PTWP and Peoples. Since the approval of the GEA on
2 March 15, 2012, two additional interconnections have been approval between PTWP and
3 Peoples.

4
5 **Q. DID PTWP CONVENE A COLLABORATIVE TO DEVELOP A STRATEGY TO**
6 **PROMOTE RETAIL NATURAL GAS COMPETITION ON ITS SYSTEM AND TO**
7 **DEVELOP CONSISTENT RULES AND PROCEDURES TO ENCOURAGE CHOICE**
8 **PROGRAMS?**

9 A. Yes. In August 2012, PTWP held a meeting which was attended by the regulatory parties,
10 natural gas suppliers, customers and other interested parties. A strategic plan was presented
11 for implementing Choice on the PTWP system and utilizing, as appropriate, the Peoples'
12 Choice rules and procedures. In March 2013, a new PTWP Choice Transportation Program
13 was presented to the regulatory parties and several interested natural gas suppliers and
14 comments were requested by PTWP. PTWP has included revised tariff sheets in this filing to
15 implement new Choice procedures as discussed in the direct testimony of PTWP witness Jon
16 Skoog (Peoples TWP Statement No. 4).

17
18 **Q. HAS THE COMPANY PRESENTED PROPOSALS TO REDUCE LOST AND**
19 **UNACCOUNTED FOR GAS (“LUFG”)?**

20 A. PTWP submitted a comprehensive LUFG analysis report in the context of the 2011 1307(f)
21 proceeding; updates were provided in the Company’s 2012 and 2013 1307(f) proceedings.

22
23 **Q. DID PTWP AND PEOPLES EVALUATE THE POSSIBILITY OF FORMING A**
24 **SERVICE COMPANY TO PROVIDE SERVICES TO BOTH COMPANIES?**

1 A. Yes. In March 2012, a Joint Petition was filed by Peoples and PTWP for the approval of
2 certain affiliated interest agreements under which administrative services can be provided to
3 the named affiliates of each company. The cost allocation specified in such affiliated interest
4 agreements are reflected in this rate case filing. As I previously discussed, in June 2012, the
5 Commission approved the applicable affiliated interest agreements.

6
7 **Q. DID PTWP FILE A PETITION WITH THE COMMISSION SUPPORTING A**
8 **COMMISSION GENERIC INVESTIGATION WITH RESPECT TO “GAS ON GAS”**
9 **COMPETITION AMONG PENNSYLVANIA NATURAL GAS DISTRIBUTION**
10 **UTILITIES?**

11 A. Yes. PTWP, along with Peoples, the Commission’s Bureau of Investigation and Enforcement,
12 the Office of Consumer Advocate, and the Office of Small Business Advocate joined in a
13 petition requesting that the Commission institute an investigation or rulemaking proceeding to
14 address issues relating to competition among NGDCs with overlapping service territories,
15 often referred to as “gas-on-gas” competition. In response, the Commission instituted a
16 generic investigation, docketed at P-2011-2277868 and I-2012-2320323. PTWP will actively
17 participate in this investigation and will fully abide by the final results of this process.

18
19 **Q. HAS PTWP PROPOSED IN THIS RATE CASE TO BLEND THE PURCHASED GAS**
20 **RATES OR BASE RATES OF PTWP AND PEOPLES?**

21 A. No.

22
23 **Q. PLEASE PROVIDE A SUMMARY OF PTWP’S STRATEGIC BUSINESS PLAN?**

24 A. PTWP’s primary mission will be to continue to provide safe and reliable gas distribution

1 service to all customers. Investments must include, but will not be limited to, the replacement
2 of bare steel pipe, the addition of technology to continue the improvement of customer service
3 and the maintenance of just and reasonable tariff rates to ensure that PTWP is a financially
4 viable gas distribution utility. PTWP intends to undertake this mission while employing its
5 corporate Vision and Values of Safety, Customer Commitment, Trust and Community.
6

7 **Q. WHY IS A RATE INCREASE NECESSARY FOR PTWP AT THIS TIME?**

8 A. PTWP's continuing investment in its infrastructure is driving the need for increased base rates.
9 PTWP is experiencing higher costs resulting from increases in both its plant in service and its
10 labor component. Without a base rate increase, PTWP's revenues will no longer be adequate
11 to cover its costs to provide service and to provide an opportunity to earn a fair rate of return
12 on PTWP's investment.
13

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes. I reserve the right to supplement my testimony as additional issues arise during the
16 course of this proceeding. Thank you.

Appendix A

Filing Requirements Sponsored by
Robert M. Hovanec

<u>Volume</u>	<u>Filing Requirement</u>
I	53.52(a)(6)
II	53.53.II.A.24

St. 2

P. Becker

**PREPARED DIRECT TESTIMONY OF
PAUL W. BECKER**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Paul W. Becker. My business address is Peoples TWP LLC, 205
3 North Main Street, Butler, PA 16001.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Peoples TWP LLC (“PTWP” or “Company”) as its Vice
7 President, Engineering. Pursuant to the affiliated interest agreements between
8 PTWP and Peoples Service Company LLC (“PSC”) and between Peoples Natural
9 Gas Company LLC (“Peoples”) and PSC, which were approved by the
10 Commission in Docket Nos. G-2012-2291735 and G-2012-2290014, I provide
11 engineering management services for both PTWP and Peoples.

12

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
14 **EMPLOYMENT EXPERIENCE.**

15 A. I graduated from the University of Pittsburgh in 1984 with a Bachelor of Science
16 Degree in Engineering. In 1997 I graduated from Duquesne University with a
17 Master of Business Administration degree. Shortly after graduation from the
18 University of Pittsburgh, I was employed by Carnegie Natural Gas Company
19 (“Carnegie”), Pittsburgh, Pennsylvania. During the ten years I worked for
20 Carnegie, I held various positions, starting in engineering, moving to District
21 Operations Superintendent, and finally to Manager of Transmission Operations. I

1 joined T.W. Phillips Gas and Oil Co. (now Peoples TWP) in June 1995 as
2 Assistant to the Vice President of Operations and Engineering. I was promoted to
3 Assistant Vice President of Operations and Engineering in 1996 and Vice
4 President of Operations and Engineering in 2008. After PTWP's acquisition by
5 LDC Holdings II, an indirect subsidiary of SteelRiver Infrastructure Fund North
6 America LP ("SteelRiver"), I was appointed Vice President, Field Operations. On
7 April 1, 2013, I took the position of Vice President, Engineering, my current
8 position.

9 My general areas of responsibility during my twenty-five plus years of
10 work experience have been in the engineering, construction, operation, and
11 maintenance of natural gas facilities primarily related to transmission and
12 distribution utility plant. I am a Professional Engineer in the Commonwealth of
13 Pennsylvania and I am a member of the American Society of Civil Engineers.
14 Over the course of my career I have been a member of various trade and
15 professional associations including the Energy Association of Pennsylvania and
16 most recently the American Gas Association.

17

18 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PENNSYLVANIA**
19 **PUBLIC UTILITY COMMISSION ("COMMISSION")?**

20 A. Yes. I have testified on behalf of PTWP and the former T.W. Phillips Gas and
21 Oil Co. in a number of proceedings, including the 2000 Restructuring of Services
22 Filing at Docket No. M-00994790, 2006 base rate case at Docket No. R-
23 00051178, 2010 base rate case at Docket No. R-2010-2167797, and the purchased

1 gas cost adjustment proceedings for the years 2008 through 2012 at Docket No.
2 R-2008-2013026, Docket No. R-2008-2075250, Docket No R-2009-2145441,
3 Docket No. R-2010-2211668, and Docket No. R-2011-2273539.

4

5 **Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF**
6 **ENGINEERING?**

7 A. I lead a consolidated engineering and compliance organization that is responsible
8 for engineering, design, compliance, facility planning, mapping, distribution
9 integrity program, transmission integrity program, claims, meter operations, and
10 land and right-of-way.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. I will identify the filing requirements that I am sponsoring. Additionally, I will
15 address PTWP's pipeline system operations, PTWP's pipeline related capital
16 expenditures budget requirements, and PTWP's activities to improve the safe
17 operation of its system on a day-to-day basis.

18

19 **Q. WHAT FILING REQUIREMENTS ARE YOU SPONSORING?**

20 A. A list of the filing requirements I am sponsoring is attached to my testimony as
21 Appendix A.

22

23 **Q. PLEASE DESCRIBE THE PTWP CAPITAL SPENDING PROGRAM.**

1 A. There are two main components of PTWP’s capital spending program – (1)
2 information technology and telecom systems improvement and (2) gas delivery,
3 or pipeline infrastructure, improvement. I will focus on the pipeline infrastructure
4 improvement and describe the construction program that PTWP is undertaking.

5 PTWP’s pipeline infrastructure capital budget is driven by the Smart
6 Modernization Plan. Smart Modernization is a comprehensive infrastructure
7 replacement program that targets the removal and replacement of bare steel
8 pipelines and associated services with a goal of completing that replacement
9 within 20 years. Candidate pipelines are identified and prioritized for
10 replacement and/or upgrade through a combination of risk ranking, capacity
11 analysis, operating history, and overall reliability. The Smart Modernization Plan
12 reflects a commitment of the owners of PTWP to supply capital needed to replace
13 older and higher risk pipeline and related equipment with newer pipe and
14 equipment, and it matches well with regulatory initiatives in the Commonwealth.

15

16 **Q. WHAT INITIATIVES ARE THOSE?**

17 A. I am referring to the accelerated pipeline replacement programs encouraged by the
18 Commission and the General Assembly. The first initiative came out of the
19 PTWP 2009 management audit. There, the audit staff found that PTWP had the
20 highest percentage of bare steel pipeline to total pipeline of five Pennsylvania
21 Natural Gas Distribution Companies (“NGDCs”) that were included in the
22 comparison panel. The audit recommendation was to expedite the replacement of
23 bare steel facilities within the distribution system infrastructure. In PTWP’s 2012

1 management audit implementation evaluation, the audit staff concluded that
2 PTWP had accelerated its bare steel replacement from 2008 through 2011 but
3 continued to have the highest percentage of bare steel among the comparison
4 group. The audit report noted SteelRiver’s acquisition of PTWP and SteelRiver’s
5 commitment in the case approving the acquisition to invest a cumulative \$36
6 million during the calendar years 2012 - 2014.

7 The next initiative was a Commission tentative order issued at Docket No.
8 M-2011-2271982 that would have required all NGDCs to file with the
9 Commission an accelerated Pipeline Replacement and Performance Plan designed
10 to replace all high-risk pipe over no longer than twenty years. This tentative order
11 was issued in November 2011 but has now been superseded by procedures
12 adopted in 2012 as a result of the enactment of Act 11 of 2012 (“Act 11”).

13 Act 11 authorized a new ratemaking procedure to permit NGDCs to put
14 into effect a Distribution System Improvement Charge (“DSIC”) to recover on a
15 timelier basis the capital costs incurred in making infrastructure improvements. A
16 condition of putting a DSIC in effect is prior Commission approval of a Long-
17 Term Infrastructure Improvement Plan (“LTIP”). The LTIP must examine the
18 NGDC’s current distribution system infrastructure, including its elements, age
19 and performance, and reflect reasonable and prudent planning of expenditures
20 over the course of many years to replace and improve aging infrastructure in order
21 to maintain safe, adequate and reliable service. There are seven required LTIP
22 elements: (a) Types and age of eligible property; (b) Schedule for its planned
23 repair and replacement; (c) Location of the eligible property; (d) Reasonable

1 estimate of the quantity of property to be improved; (e) Projected annual
2 expenditures and measures to ensure that plan is cost effective; (f) Manner in
3 which replacement of aging infrastructure will be accelerated and how repair,
4 improvement or replacement will maintain safe and reliable service; and (g) A
5 workforce management and training program. The Commission has stated in its
6 order implementing Act 11 that in its judgment, the core element of a LTIP is the
7 demonstration of the manner in which replacement of aging infrastructure will be
8 accelerated and how repair, improvement or replacement will maintain safe and
9 reliable service.

10

11 **Q. GETTING BACK TO THE MANAGEMENT AUDIT IMPLEMENTATION**
12 **EVALUATION, HOW DID IT ADDRESS BARE STEEL PIPELINE?**

13 A. The Commission's Audit Staff made the replacement rate of bare steel pipeline an
14 issue in PTWP's 2009 management audit. The Staff auditors noted that PTWP
15 had a larger percentage of bare steel pipeline as a component of all its system
16 pipeline than any other member of its comparison group. The audit
17 recommendation on this issue was that PTWP should expedite the replacement of
18 bare steel facilities within the distribution system infrastructure. Over the next
19 three years, PTWP increased its capital spending on pipeline renewal and
20 replacement and reduced the miles of bare steel pipe on its system from 1,100 to
21 972. Nevertheless, in PTWP's next management audit issued in 2012, the
22 auditors concluded that despite the improvement in bare steel replacement, PTWP
23 still had a higher percentage of bare steel pipeline in its system than did other

1 members of its comparison group, and the audit recommendation on this issue
2 was that PTWP should continue the expedited pace of bare steel replacement
3 within the Company's distribution system.

4

5 **Q. PLEASE EXPLAIN THE STATUS OF PTWP'S COMPLIANCE WITH**
6 **THE ACQUISITION SETTLEMENT COMMITMENT THAT YOU**
7 **PREVIOUSLY REFERENCED?**

8 A. As I noted before, the matter of upgrading distribution facilities also came up in
9 the proceeding that considered SteelRiver's application to acquire T.W. Phillips
10 Gas & Oil Co. at Docket No. A-2010-2210326. In the settlement agreement that
11 was part of the approval of that application, PTWP agreed to make a minimum
12 capital investment in plant of \$36 million for calendar years 2012 through 2014.
13 PTWP further committed to dedicate at least 50% of incremental cumulative
14 capital investment above the historical average capital spending level of \$8.7
15 million per year to replacement of bare steel and aging infrastructure.

16 PTWP is on track to meet this requirement. In 2012, PTWP spent \$12.2
17 million in plant investment. Of this amount, \$6.8 million was spent on bare steel
18 and aging infrastructure replacement. Further, of the total \$3.5 million in
19 increased total capital spend (\$12.2 million-\$8.7 million), \$2.2 million or 63% of
20 the increase was spent on bare steel and aging infrastructure replacement.

21

22 **Q. WERE THERE ALSO RELEVANT FEDERAL INITIATIVES BEING**
23 **UNDERTAKEN AT THIS TIME?**

1 A. Yes. Over roughly the same time period that these proceedings were coming
2 before the Commission, the Pipeline and Hazardous Materials Safety
3 Administration (“PHMSA”) of the U.S. Department of Transportation was going
4 through the process of developing and promulgating regulations requiring
5 distribution system operators to assess the risk of operating their distribution
6 systems. In compliance with these regulations, PTWP developed in 2011 a
7 Distribution Integrity Management Program (“DIMP”) that includes an integrity
8 management plan with procedures for identifying threats to each distribution
9 pipeline, evaluating and ranking risks associated with each pipeline, and
10 identifying and implementing measures to address those risks (the “DIMP Plan”).
11 In going through the DIMP process, PTWP identified its bare steel pipeline as its
12 highest risk pipeline and continued accelerated replacement as one of the remedial
13 measures to address the risks related to its bare steel.

14

15 **Q. HAS PTWP PREPARED AND REQUESTED APPROVAL OF A LTIIIP?**

16 A. Yes, PTWP filed a LTIIIP with the Commission on January 23, 2013. The LTIIIP
17 sets forth PTWP’s planned expenditures on pipeline and other distribution system
18 repairs and replacements for the period January 1, 2013 through December 31,
19 2017. The LTIIIP dovetails with PTWP’s Smart Modernization Plan and guides
20 the Company’s capital spending program related to pipeline infrastructure
21 improvement over this five-year period. PTWP’s LTIIIP also built upon its DIMP
22 Plan and the acquisition settlement, and focused on the replacement of its highest
23 risk pipe, its bare steel pipeline.

1 The LTIP sets forth PTWP’s infrastructure improvements plans for the
2 years 2013 through 2017 within the longer-term goal of replacing all 948 miles of
3 bare steel pipe on its system within twenty years. For 2013, PTWP proposes to
4 replace 32 miles of pipe, 800 company-owned services, and 1,200 meters at a
5 projected cost of \$17 million. For 2014, PTWP proposes to replace 27 miles of
6 pipe, 800 company-owned services, and 1,200 meters at a projected cost of \$9.1
7 million.

8

9 **Q. PLEASE DESCRIBE PTWP’S GAS DELIVERY CAPITAL SPENDING**
10 **PROGRAM FOR THE PERIOD COVERING THE TWELVE MONTHS**
11 **ENDING DECEMBER 31, 2013 AND THE PERIOD COVERING THE**
12 **THIRTEEN MONTHS ENDING JANUARY 31, 2015.**

13 A. The pipeline operations capital budget for each of these periods is shown Filing
14 Requirement 53.53.II.A.13, which is sponsored by PTWP witness Anthony
15 Caldro, and is dominated by planned LTIP expenditures over those periods.
16 During both periods, PTWP will focus on the replacement of bare steel pipeline.
17 During the twelve months ending December 31, 2013, PTWP is planning to
18 replace 29 miles of distribution pipeline and 800 related services plus 3 miles of
19 transmission lines at a budgeted cost of \$15.8 million. The LTIP, and capital
20 budget, also includes replacement of 1,200 distribution meters and projected
21 mandatory line relocations. The remainder of the pipeline capital budget will be
22 primarily for improvement of transmission regulating stations, distribution

1 regulating stations, storage compressor stations, and general infrastructure,
2 including vehicles and equipment.

3 During the thirteen months ending January 31, 2015, PTWP is planning to
4 replace at least 27 miles of pipeline, 800 services, 1,200 meters, and do \$224,000
5 of mandatory line locations at a budgeted cost of \$9.94 million. Most of the
6 remainder of the capital budget will be spent on transmission regulating stations,
7 distribution regulating stations, storage compressor stations, and general
8 infrastructure, including vehicles and equipment.

9 As part of the accelerated pipeline replacement program, PTWP is adding
10 new bargaining unit employees. These employees will come on board in June
11 2013 and will be assigned to the in-house pipeline crews. PTWP has also hired
12 two engineering technicians to work on the design of pipeline replacement
13 projects and plans to hire additional technicians during 2013.

14

15 **Q. IS PTWP UNDERTAKING ACTIVITIES OTHER THAN PIPELINE**
16 **REPLACEMENT THAT ARE RELATED TO PIPELINE SAFETY AND**
17 **COMPLIANCE?**

18 A. Yes, starting in 2012, PTWP is undertaking a number of new activities that will
19 improve pipeline safety. I will briefly explain what these are.

20 PTWP has added resources in the Operations group to undertake damage
21 prevention and pipeline safety initiatives including line location adjustments
22 based on field locations, tap/meter locations, valve locations, and line numbers.
23 These programs will improve PTWP's ability to accurately locate its underground

1 pipelines and reduce the chances of those pipelines being damaged by third
2 parties. During the period of January 2012 through April 2013, PTWP undertook
3 a mapping project to align its mapped pipeline locations with aerial photographs.
4 This program will provide improved correlation between the maps and on the
5 ground locates thereby minimizing potential conflicts and improving locate
6 accuracy and will provide quicker access to pipelines and related equipment
7 during emergency situations. Ongoing projects include the tap/meter locations,
8 valve locations and line numbering.

9 PTWP is also contracting for the Translore damage prevention software
10 package to improve the management of line locations and third party excavations
11 in conflict areas. The software will be rolled out in all five districts in 2013. In
12 addition, PTWP is acquiring new, more advanced line locator equipment to
13 improve the underground line location process.

14 PTWP will enhance its Public Awareness Program in 2013 by engaging the
15 services of a professional public awareness service provider to improve the
16 program targeting education of excavators and emergency responders on safety
17 issues related to pipeline hits.

18

19 **Q. IS PTWP DOING ANYTHING IN ADDITION TO ITS ACTIVITIES TO**
20 **REDUCE THIRD PARTY DAMAGES?**

21 A. Yes. PTWP has also implemented two new programs to enhance corrosion
22 monitoring. The first is an acceleration of atmospheric corrosion remediation.
23 This is a multi-year program extending from 2013 and targets exterior corrosion

1 on exposed pipe. The second corrosion program addresses internal corrosion.
2 PTWP is enhancing its corrosion test coupon program, which uses test coupons –
3 small metal strips inserted into the gas stream within the pipeline and then
4 removed and analyzed for corrosion - for in-line monitoring and measurement of
5 corrosivity within the pipeline system, by adding coupon holders and increasing
6 analysis sampling. In addition to these programs, PTWP has included in its
7 capital budget funding for the installation of remote monitors on all rectifiers,
8 which are the equipment that provides electric current to anodes for cathodic
9 protection. There are also ongoing operating costs related to this equipment
10 which have been included in the operating budget.

11

12 **Q. ARE THERE ANY OTHER SAFETY RELATED ACTIVITIES TO**
13 **MENTION?**

14 A. Yes. We are also continuing our leak reduction program that we implemented in
15 2005 and have continued since then. The original focus of the program was to
16 find and fix more leaks and reduce the unrepaired leak inventory. In each year
17 since 2007 we have reduced the total number of unrepaired leaks on the system.

18 PTWP's parent company, SteelRiver, places an emphasis on worker and
19 customer safety, and PTWP regularly reports on its safety performance. Some of
20 the 2012 accomplishments were:

21 PTWP reduced its OSHA recordable accidents 17%, including a four
22 month accident free period.

1 PTWP reduced its Lost Days/Restricted Days (LD/RDs) to three, one less
2 than 2011, and PTWP's fifth consecutive year of no increase in LD/RDs. This
3 was PTWP's lowest level in seven years.

4 In the pipeline safety area, PTWP's emergency response on-time rate was
5 99%, the fifth consecutive year of improvement and an all-time best.

6 The Utility Fault Damages percentage was reduced to 15.4%, an all-time
7 best.

8 PTWP's overall system lost and unaccounted for gas (UFG) percentage
9 was reduced to 3.38%, the third consecutive year that UFG has been under 4%,
10 and the second lowest overall system level.

11 PTWP reduced its Unrepaired Leak backlog to six, an all-time low.

12 Finally, I would like to mention that PTWP continues to satisfy its
13 commitment in the acquisition case settlement agreement (Docket No. A-2010-
14 2210326) to maintain field offices in its service territory and staffing levels that
15 are sufficient to provide safe, adequate and reliable service. PTWP has satisfied
16 the both field office and staffing obligations and the reporting obligations with
17 respect to this commitment and continues to provide safe, adequate and reliable
18 service to its customers.

19

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A.** Yes. I reserve the right to supplement my testimony as additional issues arise
22 during the course of this proceeding.

Filing Requirements Sponsored by
Paul W. Becker

Volume

Filing Requirement

I
IX

53.53.I.C.2
Exhibit VI.IV.ROR.14

St. 3

A. Sciullo

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 :
 v. : Docket No. R-2013-2355886
 :
PEOPLES TWP LLC :

**PREPARED DIRECT TESTIMONY OF
GREGORY A. SCIULLO
VICE PRESIDENT AND CONTROLLER**

DATE SERVED: April 30, 2013
DATE ADMITTED: _____

Peoples TWP Statement No. 3

**PREPARED DIRECT TESTIMONY OF
GREGORY A. SCIULLO**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 **A. My name is Gregory A. Sciullo. My business address is 375 North Shore Drive,**
3 Suite 600, Pittsburgh, PA 15212.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A. I am employed by Peoples Natural Gas Company LLC (“Peoples”) as its Vice**
7 President and Controller. Pursuant to the affiliated interest agreements between
8 Peoples and Peoples Service Company LLC (“PSC”), and between Peoples TWP
9 LLC (“PTWP” or the “Company”) and PSC, which were approved by the
10 Commission in Docket Nos. G-2012-2290014 and G-2012-2291735, I am the
11 Company officer responsible for the overall development and execution of the
12 Company’s policies, strategies, and practices in the areas of Accounting,
13 Accounts Payable and Taxes.

14
15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
16 **EMPLOYMENT EXPERIENCE.**

17 **A. I received a Bachelor of Science Degree in Business Administration, with a**
18 Major in Accounting from Clarion State University in 1978.

19
20 In 1979, I accepted a position with Peoples’ predecessor, The Peoples Natural
21 Gas Company (“PNGC”), as a staff accountant. From that time through 1999 I

1 worked in a variety of financial related positions, and held many Managerial
2 level positions in the functions of General and Fixed Assets Accounting,
3 Treasury/Cash Management, Accounts Payable, Payroll and Remittance
4 Processing. In 2000, as a result of the merger of Dominion Resources, Inc.
5 (“Dominion”) and Consolidated Natural Gas Company, I was promoted to
6 Director of Accounting – Delivery Segment, within the Dominion Resources
7 Services Company (“DRS”). My area was responsible for the accounting and
8 financial reporting of several companies that comprised the Dominion Delivery
9 Segment, including Virginia Electric and Power Company (Distribution), The
10 East Ohio Gas Company, PNGC, Hope Gas, Inc., and Dominion Retail, Inc. In
11 2008, I was promoted to Controller, VAP Segment. My area continued to be
12 responsible for the accounting and financial reporting of the aforementioned
13 legal entities, as well as the additions of Virginia Electric and Power Company
14 (Transmission) and the Fixed Asset Accounting function for all of the Dominion
15 companies. On June 1, 2010, I left DRS and joined Peoples. I am currently Vice
16 President and Controller of Peoples.

17

18 Over the course of my career I have been a member of various trade and
19 professional associations including AGA/EEI General Accounting Committees,
20 Pennsylvania Gas Association Accounting Committee, and IMA/NAA
21 professional groups to name a few.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** I will identify the filing requirements that I am sponsoring. Additionally, I will
4 discuss how the accounting records of PTWP are maintained and what industry
5 standards are followed. Finally, I will address several material changes that have
6 been made to the Company's accounting procedures and practices since May of
7 2011 when LDC Holding II LLC, an indirect subsidiary of SteelRiver
8 Infrastructure Fund North America LP, purchased all of the stock of T.W. Phillips
9 Gas and Oil Co. ("T.W. Phillips") and merged T.W. Phillips into PTWP with
10 PTWP being the resulting company.

11

12 **Q. WHAT FILING REQUIREMENTS ARE YOU SPONSORING?**

13 **A.** A list of the filing requirements I am sponsoring is attached to my testimony as
14 Appendix A.

15

16 **Q. PLEASE DISCUSS HOW PTWP MAINTAINS ITS ACCOUNTING**
17 **RECORDS AND WHAT INDUSTRY STANDARDS IT FOLLOWS IN**
18 **DOING SO.**

19 **A.** Commencing on January 1, 2013, PTWP's accounting records are maintained
20 using both a "Natural" chart of accounts and a "FERC" chart of accounts.
21 Transactional data is recorded, maintained and reported in accordance with
22 Generally Accepted Accounting Principles (GAAP). Several authoritative
23 sources are utilized including standards and interpretations issued by the

1 Financial Accounting Standards Board (FASB) and FASB's Accounting
2 Standards Codification (ASC), and the Code of Federal Regulations (CFR).
3 Additionally, Pennsylvania Public Utility Commission and Federal Energy
4 Regulatory Commission (FERC) directives and standards are reviewed to assure
5 compliance with applicable reporting requirements. Prior to January 1, 2013,
6 PTWP's accounting records were maintained using only the "FERC" chart of
7 accounts.

8
9 Further, PTWP issues annual audited financial statements replete with our
10 independent auditors' report. The report is based on audits conducted in
11 accordance with auditing standards generally accepted in the United States of
12 America.

13
14 **Q: HAVE ANY MATERIAL CHANGES OCCURRED WITH THE**
15 **ACCOUNTING PROCEDURES OR PRACTICES AT THE COMPANY**
16 **SINCE THE ACQUISITION OF THE COMPANY IN MAY OF 2011.**

17 **A:** Yes. Two changes related to accounting procedures and one change related to
18 fixed asset identification were made in 2012. I will describe each change below:

19

20 **A. Vacation Accrual**

21 During 2012, PTWP implemented a change to the vacation policy related to
22 vesting and carried over vacation. Employees are now entitled to their
23 annual vacation allotment at the beginning of each year, will be compensated

1 for unused vacation time should their employment be terminated, and are
2 allowed to carry over limited unused vacation time from one year to the next.
3 Due to these changes, and in accordance with ASC -450 – Contingencies
4 (Formerly SFAS-5), an accrued vacation liability of (\$1,279,325.28) was
5 recorded to Account 242 as of December 31, 2012. This liability will be
6 recalculated quarterly.

7

8 **B. Asset Retirement Obligations**

9 PTWP began to estimate Asset Retirement Obligations associated with
10 certain plant assets in 2012.

11

12 **C. Distribution Mains Identification**

13 Commencing December 31, 2012, PTWP began identifying Distribution
14 Mains Assets in Account 376 and Construction Work In Progress –
15 Distribution Mains in Account 107 as High Pressure Mains and Low Pressure
16 Mains.

17

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 **A.** Yes. I reserve the right to supplement my testimony as additional issues arise
20 during the course of this proceeding.

Filing Requirements Sponsored by
Gregory A. Sciallo

<u>Volume</u>	<u>Filing Requirement</u>
I	53.52(b)(2)
I	53.52(c)(2)
I	53.52(c)(3)
I	53.52(c)(5)
I	53.52(c)(6)
II	53.53.II.A.11
II	53.53.II.A.14
II	53.53.II.A.15
II	53.53.II.A.16
II	53.53.II.A.17
II	53.53.II.A.18
II	53.53.II.A.20
II	53.53.II.A.23
III A	53.53.III.A.1
III A	53.53.III.A.2
III A	53.53.III.A.3
III A	53.53.III.A.4
III A	53.53.III.A.5
III A	53.53.III.A.6
III A	53.53.III.A.7
III A	53.53.III.A.8
III A	53.53.III.A.9
III A	53.53.III.A.10
III A	53.53.III.A.11
III A	53.53.III.A.12
III A	53.53.III.A.13
III A	53.53.III.A.18
III A	53.53.III.A.19
III A	53.53.III.A.22
III A	53.53.III.A.23
III A	53.53.III.A.24
III A	53.53.III.A.25
III A	53.53.III.A.28
III A	53.53.III.A.29
III A	53.53.III.A.30
III A	53.53.III.A.31
III A	53.53.III.A.32

Filing Requirements Sponsored by
Gregory A. Sciallo

<u>Volume</u>	<u>Filing Requirement</u>
III A	53.53.III.A.38
III A	53.53.III.A.42
III B	53.53.III.A.46
III B	53.53.III.E.1
III B	53.53.III.E.2
III B	53.53.III.E.16
III B	53.53.III.E.18
III B	53.53.III.E.23
III B	53.53.III.E.32
III B	53.53.III.E.34
VI	Exhibit VI.I.RR.1
VI	Exhibit VI.I.RR.17
VI	Exhibit VI.I.RR.19
VI	Exhibit VI.I.RR.23
VII	Exhibit VI.II.RR.29
VII	Exhibit VI.II.RR.51
VII	Exhibit VI.II.RR.52
VIII	Exhibit VI.III.COS.3
VIII	Exhibit VI.III.COS.4
VIII	Exhibit VI.III.COS.5
VIII	Exhibit VI.III.COS.6
VIII	Exhibit VI.III.COS.7
IX	Exhibit VI.IV.ROR.1
IX	Exhibit VI.IV.ROR.2
IX	Exhibit VI.IV.ROR.5
IX	Exhibit VI.IV.ROR.8
IX	Exhibit VI.IV.ROR.12
IX	Exhibit VI.IV.ROR.16

St. 4

J. Skoog

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 :
 v. : Docket No. R-2013-2355886
 :
PEOPLES TWP LLC :

**PREPARED DIRECT TESTIMONY OF
JON H. SKOOG
VICE PRESIDENT, GAS SUPPLY
PEOPLES TWP LLC**

DATE SERVED: April 30, 2013
DATE ADMITTED: _____

Peoples TWP Statement No.4

**PREPARED DIRECT TESTIMONY OF
JON H. SKOOG**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Jon H. Skoog, and my business address is 375 North Shore Drive,
3 Suite 600, Pittsburgh, PA 15212.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Peoples Natural Gas Company LLC (“Peoples”) as its Vice
7 President Gas Supply. Pursuant to the affiliated interest agreements between
8 Peoples and Peoples Service Company LLC (“PSC”) and between Peoples TWP
9 LLC (“PTWP”) and PSC, which were approved by the Commission in Docket
10 Nos. G-2012-2290014 and G-2012-2291735, I provide Gas Supply management
11 services for both Peoples and PTWP.

12
13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
14 EMPLOYMENT EXPERIENCE.**

15 A. I received a Bachelor of Science Degree in Business Administration, Accounting
16 Major, from Drake University in 1982. From 1982 through 1994, I had various
17 financial planning, commodity risk management and commercial positions
18 within the Enron Corp organization. From 1994 through 1996, I served as Vice
19 President of Origination for gas supply and marketing with Aquila Energy. From
20 1996 through 2000, I had two positions within the Consolidated Natural Gas
21 Company (“CNG”). From 1998 through 2000, I served as Vice President

1 Natural Gas Operations and Risk Management for CNG Retail. From 2000
2 through 2004, I had two positions within the Equitable Resources organization.
3 From 2001 through 2004, I served as Managing Director Commercial Operations
4 with Equitable Production Company. From 2004 through 2006 I served as
5 Director Energy Structuring with Strategic Energy. From 2006 through 2010 I
6 served as Manager Gas Supply with Hess Corporation. In April, 2010, I was
7 hired as Vice President Gas Supply for Peoples.

8

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
10 **PUBLIC UTILITY COMMISSION (THE “COMMISSION”)?**

11 A. Yes, I have submitted testimony in the cases outlined in **Peoples TWP Exhibit**
12 **No. JHS-1** to this direct testimony.

13

14 **Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF GAS**
15 **SUPPLY?**

16 A. I am responsible for:

- 17 1. the formation and execution of PTWP’s gas purchase policy, strategy and
18 practices;
- 19 2. reviewing well-head prices paid to local Pennsylvania (“PA”) gas producers
20 and natural gas prices paid to interstate gas suppliers from which PTWP
21 purchases gas; and
- 22 3. negotiating, executing and monitoring all interstate pipeline service
23 agreements and PA gas purchase contracts.

1

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
3 **PROCEEDING?**

4 A. I will identify the filing requirements that I am sponsoring. Next, I will discuss
5 the operational characteristics of the PTWP system and the derivation of PTWP's
6 system volume requirements and related supply plan reflected in this case.
7 Additionally, I will discuss the proposed changes to PTWP's tariff provisions
8 related to customer choice and natural gas transportation service.

9

10 **Q. WHAT FILING REQUIREMENTS ARE YOU SPONSORING?**

11 A. A list of the filing requirements I am sponsoring is attached to my testimony as
12 Appendix A.

13

14 **Q. PLEASE DISCUSS HOW PTWP OPERATES ITS PIPELINE SYSTEM.**

15 A. PTWP is a comparatively small Class "A" natural gas public utility, which owns
16 utility plant for the transmission, storage and distribution of natural gas within
17 the Commonwealth of Pennsylvania. PTWP furnishes retail and transportation
18 natural gas service to over 60,000 customers in various communities in the
19 Counties of Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield,
20 Indiana, Jefferson, and Westmoreland, all located in western Pennsylvania.

21

22

23

Throughout its history, PTWP has maintained a policy of purchasing
substantial supplies of natural gas from local Pennsylvania producers for base
system supply requirements. However, operational constraints inherent in its

1 pipeline operating system have limited PTWP's ability to utilize local
2 Pennsylvania gas for peaking purposes. PTWP injects local Pennsylvania gas
3 into on-system storage and periodically into Dominion Transmission storage
4 using the Company's Rubright interconnect and compression facilities. A
5 discussion of the pipeline system's operating constraints is provided in Filing
6 Requirement 53.53.I.C.1. As a result of those operating constraints, large
7 volumes of higher pressure interstate storage gas received by PTWP at eight
8 existing interconnections with four interstate pipelines are utilized during peak
9 periods. The combination of utilizing local Pennsylvania gas for base load and
10 utilizing interstate services for peak periods allows PTWP to serve its load
11 effectively given the operational constraints and unique characteristics of its
12 system.

13

14 **Q. AS THE WITNESS SUPPORTING THE ANNUAL AND PEAK**
15 **REQUIREMENTS AND SUPPLY VOLUME PROJECTIONS USED IN**
16 **THIS FILING, PLEASE GENERALLY DESCRIBE HOW PEOPLES**
17 **TWP ANNUALLY FORMULATES ITS GAS SUPPLY PLAN.**

18 A. Each year PTWP reevaluates its total system requirements and available sources
19 of supply, which include both Company purchases and customer-owned gas. On
20 the requirements side of the analysis, PTWP develops customer throughput
21 projections for each month. Added to these throughput projections are monthly
22 projections for company use and lost and unaccounted for gas. The end result is
23 a report of the total projected system requirements on a monthly basis.

1 Certain operational considerations play a role in the requirements analysis
2 PTWP’s goal of pursuit of reliable service requires the Company to develop flow
3 models that aid in pinpointing where supply is required on the system to meet
4 customer requirements in various supply and demand scenarios. In addition, it is
5 necessary to project the throughput for both sales and transportation customers
6 and the level of transportation customer-owned gas that will be available for use
7 by transportation customers because the availability of transportation customer-
8 owned gas will impact PTWP’s planning of receipts into its system.

9 On the supply side of the analysis, PTWP uses an economic dispatch
10 approach that takes into account operational reliability and contractual
11 constraints. Under that approach, PTWP projects the cost of its various sources
12 of supply and plans to use those sources that are least costly first.

13

14 **Q. PLEASE DESCRIBE THE GENESIS OF THE PROPOSED CHANGES TO**
15 **PEOPLES TWP’S TARIFF RELATING TO CUSTOMER CHOICE**
16 **(“CHOICE”) AND NATURAL GAS TRANSPORTATION SERVICE.**

17 A. In Paragraphs 60 and 61 of the settlement reached in the case approving the
18 purchase of PTWP at Docket A-2010-2210326¹, PTWP agreed to convene a
19 collaborative conference of interested parties regarding Choice and to review
20 Peoples’ policies for Choice. Paragraph 61 in particular noted that PTWP should

¹ On May 24, 2011, LDC Holdings II, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP, acquired the outstanding shares of Capital Stock of T.W. Phillips Gas and Oil Co. Also on this date, T.W. Phillips Gas and Oil Co. was merged into Peoples TWP LLC.

1 develop rules and practices that are consistent with Peoples' Choice programs in
2 order to encourage supplier participation in Choice. In August of 2012, PTWP
3 convened a collaborative with interested parties to look at its existing program,
4 consider best practices for successful Choice programs, and gain input from
5 suppliers. The goal of this process was to develop a priority one pooling program
6 that would bring more suppliers and thus more choices to PTWP's customers.

7 Approximately 15 suppliers, a representative of the Office of Consumer
8 Advocate ("OCA"), and Peoples' and PTWP staff from Transportation Services,
9 Gas Supply, and Regulatory participated. During the presentation, we provided an
10 overview of PTWP's system, customer base, and territory. We reviewed current
11 PTWP tariff provisions for transportation. We described the manual processes
12 currently in place and our plans for automating processes such as customer
13 enrollment through our upcoming PTWP system conversion. We then opened up
14 the forum for questions, suggestions, and comments.

15

16 **Q. PLEASE DESCRIBE THE FEEDBACK YOU RECEIVED FROM THIS**
17 **COLLABORATIVE.**

18 A. We were very pleased that our participant group was interested in PTWP and were
19 eager to share their thoughts and suggestions. Many of the participants already
20 operate within Peoples' transportation programs and were therefore very familiar
21 with Peoples' rules and processes. The most common suggestion was a desire to
22 see PTWP's programs modified to fit the Peoples' model.

23

1 **Q. BASED ON THIS FEEDBACK, ARE YOU PROPOSING TO CHANGE**
2 **PEOPLES TWP'S PROGRAMS TO BE THE SAME AS PEOPLES?**

3 A. Not entirely. Our intention from the beginning was to use a best practices
4 approach. Convening the collaborative gave us some valuable information about
5 what was important to potential supplier and producers. We also developed an
6 internal working group that met on a regular basis to consider modifications to
7 PTWP's existing program. Because the collaborative feedback strongly favored a
8 program similar to Peoples and Peoples' Energy Choice program has been very
9 successful since its inception about 15 years ago, we knew we would want to move
10 towards a model that closely resembled Peoples. However, we considered this as
11 an opportunity not only to make modifications for PTWP, but to also identify areas
12 of Peoples' programs or processes that had some room for improvement. Our
13 working group spent significant time pouring through PTWP's tariff provisions for
14 transportation. We identified areas for change such as balancing and the definition
15 of Priority One customers for transportation purposes. In each area, we discussed
16 the unique operational aspects of PTWP's system. We also spent time reviewing
17 Peoples' tariff provisions for pooling and our internal processes for handling
18 nominations, balancing, and pool communications. Through this process, we
19 developed an overall model that we believe will work well for PTWP and increase
20 participation in Choice. We then convened a webinar in March with the
21 collaborative participants to provide an overview of our proposed transportation
22 programs model.

23

1 **Q. PLEASE DESCRIBE THE TRANSPORTATION MODEL YOU ARE**
2 **PROPOSING FOR PTWP.**

- 3 A. The proposed transportation program will have three main pooling types:
- 4 1. Priority One Pooling – The aggregation of residential and firm, critical,
5 commercial, essential human needs end-users.
 - 6 2. Non-Priority One Pooling – The aggregation of non-residential and non-
7 critical, non-essential human needs, commercial and industrial customers.
 - 8 3. Local Gas Aggregation (“LGA”) Pooling – This type of pool allows suppliers
9 to aggregate production meters to serve PTWP pools and other markets.

10

11 **Q. PLEASE DESCRIBE THE PROPOSED PRIORITY ONE POOLING**
12 **PROGRAM.**

- 13 A. Currently there are no priority one customers served by natural gas suppliers
14 (NGSs) on the PTWP system. The proposed rules and practices for the PTWP
15 priority one program are designed to be consistent with the Peoples’ priority one
16 program. Generally, this program is designed to have the pipeline capacity and
17 local supplies used to serve priority one customers move with the customers. If a
18 customer is being served by PTWP, the capacity and local supplies stay with the
19 Company. If a customer switches to a NGS, the capacity and local supplies will be
20 assigned to the NGS. Since these rules are familiar to NGSs on Peoples, it is our
21 expectation that adopting similar rules will encourage supplier participation on the
22 PTWP system.

1 Proposed balancing for this pool type will occur through the posting of
2 daily customer usage estimates that equate to gas supply targets that must be met
3 by the pool. PTWP will set a daily usage estimate based on the total projected
4 daily usage of all customers served by each pool. Such targets will be posted two
5 to three days in advance in order to give NGSs sufficient time to plan for and meet
6 the targets. If the pool brings in supplies that meet the daily customer usage target,
7 the pool is considered to be in daily balance and no daily imbalance fees will be
8 applied.

9 However, since PTWP's daily usage targets will never be exactly accurate,
10 at the end of a month a priority-one pool's monthly deliveries will probably not
11 match pool customers' usage, so the priority one pools must also balance these
12 volumes. Once the priority one pool customers' actual usage is determined
13 through the monthly customer billing process, the pool's monthly deliveries will be
14 reconciled with the monthly usage, and the prospective daily usage targets will be
15 adjusted to include a reconciliation quantity for the prior period's difference
16 between the targeted and actual customer usage.

17 Since PTWP is currently holding pipeline capacity to serve all of its
18 priority one customers, capacity for these customers will be released and assigned
19 to the priority one pool operators pro-rata based on the design day usage for all
20 customers served by each priority-one pool operator. Priority one pool operators
21 will be responsible for paying the interstate pipelines for assigned capacity. PTWP
22 will continue to charge priority one customers for pipeline capacity costs. Since

1 PTWP is recovering these costs from its priority one customers, it will reimburse
2 priority one pool operators for their share of the assigned capacity costs.

3 In addition, since PTWP is serving its priority one customers with local gas
4 that is currently under contract, local gas will be assigned to the pool as well. The
5 local gas will be sold to each priority one supplier at PTWP's actual monthly
6 weighted average cost of local gas.

7
8 **Q. HOW DOES THE PROPOSED NON-PRIORITY ONE POOLING**
9 **PROGRAM DIFFER FROM THE PRIORITY ONE POOLING**
10 **PROGRAM?**

11 A. There will be no daily pool usage targets posted for NP1 pool operators. Instead,
12 the NP1 pool will be monthly balanced, and NP1 pool daily deliveries will be
13 subject only to PTWP's issuance of operational alerts and orders and the need to be
14 within the monthly tolerance range at the end of the month. Customer usage for
15 the month will be balanced against monthly supplies within a 4%
16 banking/advancing limit. We are also proposing pool-to-pool trading procedures
17 so that NP1 pools will have the opportunity to trade supplies with other NP1 pools
18 during a monthly trade period. The proposed trade period of 4 days will be opened
19 by PTWP once the final customer usage amounts have been determined and
20 communicated to the pools. We believe that this is an important aspect of the
21 program and will help suppliers avoid costly cash-out and in turn encourage
22 supplier participation.

23

1 **Q. PLEASE DESCRIBE THE LGA POOLING PROGRAM.**

2 A. This program is particularly beneficial to a system such as PTWP's that has so
3 much local gas production. Through the proposed LGA pooling program, PTWP
4 will allow suppliers to aggregate various local gas metering points into a single
5 LGA pool. The total aggregated monthly production volumes can then be used to
6 serve priority one and non-priority one pool operators and other suppliers as well
7 as off-system customers. Given the fact that approximately 90% of the gas
8 delivered to the PTWP system is sourced from local wells, the adoption of a LGA
9 pooling program is an important tool in helping suppliers manage and balance
10 supplies with customer usage and will promote a more competitive retail market on
11 the system.

12

13 **Q. IN ADDITION TO IMPLEMENTING THIS THREE POOL MODEL, ARE**
14 **YOU PROPOSING OTHER CHANGES TO PEOPLES TWP'S**
15 **TRANSPORTATION PROGRAM?**

16 A. Yes. The changes we are making are primarily streamlining and automating
17 processes. Currently, all customer enrollments, drops, and changes are processed
18 manually. Through PTWP's conversion to a new SAP customer service and
19 billing system, we will automate these processes. Electronic files containing
20 customer enrollments or changes will be submitted through the Company's website
21 through use of a secure login. We will also use this site to provide electronic
22 communications to NGSs on a daily and monthly basis. We offer combined billing
23 services today and will continue to do so in the future. When we convert to the

1 new customer service and billing system in January of 2014, we will also open our
2 Purchase of Receivables (POR) program. In addition to the conversion to the
3 customer service and billing system, we will also convert PTWP into our Gastar
4 nominations and EBB application. In short, the services we offer will improve
5 greatly as we automate these processes.

6

7 **Q. WILL THESE CHANGES BE NOTICEABLE TO CUSTOMERS?**

8 A. For customers who are already participating in transportation service, we expect
9 these changes to be relatively seamless. Our original goal for this process was to
10 identify and propose changes that will increase the options to customers and
11 subsequently increase participation in Choice. For NGSs, we expect these changes
12 to be very noticeable and positive. We fully expect that implementing these
13 changes will bring more interested marketers to PTWP. So, in order to prepare our
14 customers for these new opportunities to choose an alternate supplier, we will
15 launch a customer education initiative later this year to inform customers about
16 Energy Choice. We will provide information in our bill stuffers explaining Energy
17 Choice and informing customers on how to evaluate offers they may receive from
18 a NGS. We will also provide information on our website including pricing
19 comparisons, lists of participating pools, and common questions and answers.
20 Peoples' website, which was developed collaboratively with suppliers, provides
21 useful information on Energy Choice. We propose to provide similar information
22 on the PTWP website. We will develop very similar pages for PTWP customers.

23

1 **Q. ARE YOU PROPOSING ANY CHANGES TO PEOPLES TWP'S POR**
2 **PROGRAM?**

3 A. There are some proposed modifications to the POR section of the Tariff that are
4 discussed in the testimony of Andrew Wachter at PTWP Statement No. 13. PTWP
5 has not yet implemented the POR described in its tariff because PTWP has not
6 received any significant interest from potential suppliers. Conversion to the new
7 customer service and billing system will allow us to not only move forward with
8 POR but to also promote our proposed competitive retail programs with other
9 NGS-friendly modifications. We expect this will increase the number of suppliers
10 who are interested in operating on PTWP's system.

11

12 **Q. DOES PEOPLES TWP CURRENTLY HAVE A POOLING FEE?**

13 A. No.

14

15 **Q. IS A POOLING FEE PROPOSED IN THIS CASE?**

16 A. Yes. There are costs associated with providing pooling related transportation
17 services. These services include the Gastar system for nominations and EBB and
18 staffing to support all aspects of program administration. Since the NGSs are the
19 primary beneficiary of these services, it is appropriate to charge a cost-based fee
20 for these services. The proposed pooling fee is \$ 0.0243/Mcf, and is discussed by
21 Andrew Wachter in Peoples TWP Statement No. 13.

22

23 **Q. IS THERE A FEE FOR COMBINED BILLING SERVICE?**

1 A. Yes. Currently, TWP's tariff provides for a \$0.25 fee per bill issued. We are
2 proposing a reduction of this rate to \$0.15 per bill. This fee reduction should also
3 have a positive impact on suppliers who are considering starting a pool to serve
4 residential customers.

5

6 **Q. IN ADDITION TO THE POOLING FEE AND BILLING FEE, ARE THERE**
7 **OTHER CHARGES TO A PARTICIPATING SUPPLIER? FOR**
8 **EXAMPLE, ARE THERE ARE ANY COSTS ASSOCIATED WITH**
9 **STARTING A POOL?**

10 A. PTWP's tariff calls for an application fee of \$100. We are proposing the
11 elimination of this fee since the costs related to processing a supplier application
12 will be recovered through the proposed pooling fees. Elimination of the fee should
13 also encourage more NGSs to apply.

14

15 **Q. Does this conclude your Direct Testimony?**

16 A. Yes. I reserve the right to supplement my testimony as additional issues arise
17 during the course of this proceeding.

Filing Requirements Sponsored by
Jon H. Skoog

<u>Volume</u>	<u>Filing Requirement</u>
I	53.53.I.C.1
I	53.53.I.C.2
III B	53.53.III.E.3
III B	53.53.III.E.5
III B	53.53.III.E.22
III B	53.53.III.E.24
III B	53.53.III.E.26
III B	53.53.III.E.27
III B	53.53.III.E.28
III B	53.53.III.E.30
III B	53.53.III.E.36
IV	53.53.IV.B.14
VIII	Exhibit VI.III.COS.10
VIII	Exhibit VI.III.COS.11
VIII	Exhibit VI.III.COS.12
VIII	Exhibit VI.III.COS.14
VIII	Exhibit VI.III.COS.16
VIII	Exhibit VI.III.COS.17

Peoples TWP Exhibit JHS-1

Testimony of Jon H. Skoog
Exhibit No. JHS-1
Schedule of Testimony Filed

Company	Case	Docket No.
Peoples Natural Gas Company LLC	1307(f) – 2011	R-2011-2228694
Peoples Natural Gas Company LLC	1307(f) – 2012	R-2012-2292082
Peoples Natural Gas Company LLC	Base Rate Case - 2010	R-2010-22011702
Peoples Natural Gas Company LLC	Base Rate Case - 2012	R-2012-2285985
Peoples TWP LLC	1307(f) -- 2013	R-2013-2341604
Peoples Natural Gas Company LLC	1307(f) -- 2013	R-2013-2350914

St. 5

S. Kroeck

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION,	:	
	:	
	:	
Complainant	:	
	:	
v.	:	Docket No.: R-2013-2355886
PEOPLES TWP LLC,	:	
	:	
	:	
Respondent	:	

**PREPARED DIRECT TESTIMONY OF
SADIE JOHN KROECK
DIRECTOR, CUSTOMER RELATIONS**

DATE SERVED: April 30, 2013
DATE ADMITTED: _____

PTWP's Statement No. 5

**PREPARED DIRECT TESTIMONY
OF SADIE JOHN KROECK**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Sadie John Kroeck, my business address is 375 North Shore Drive, Suite
3 600, Pittsburgh, PA 15212.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am employed by Peoples Natural Gas Company LLC (“Peoples”) as Director, Customer
7 Relations. Pursuant to the affiliated interest agreements between Peoples and Peoples
8 Service Company LLC (“PSC”), and between Peoples TWP LLC (“PTWP”) and PSC,
9 which were approved by the Commission in Docket Nos. G-2012-2290014 and G-2012-
10 2291735, I provide Universal Service management services for both Peoples and PTWP.

11

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND.**

14 **A.** I hold a Bachelor of Science Degree in Home Economics and Master of Science Degree
15 in Family Economics and Management. My career at Peoples spans more than 25 years
16 and during that time, I have been responsible for designing, developing, and
17 implementing its Universal Service Programs. Prior to joining Peoples, I was employed
18 by the Pennsylvania Public Utility Commission as the Regional Director of its Bureau of
19 Consumer Services. I serve on numerous boards and committees relating to Universal
20 Service Programs. I have given testimony and spoken at events on the national, state, and
21 local levels in support of Universal Service Programs. I provided direct and rebuttal

1 testimony in support of Universal Service Programs in Peoples' 2010 and 2012 base rate
2 proceedings.

3
4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

5 **A.** First, I will provide an overview of the PTWP's Universal Service programs from a
6 historical perspective. I will then explain proposed modifications to PTWP's existing
7 programs as well as introduce a new program called the Emergency Furnace and
8 Houeline Repair/ Replacement Program. The key modifications to the PTWP Universal
9 Service programs that are being proposed include:

- 10 • Modifications to the Energy Help Fund program (EHF)
 - 11 ○ Rename the program as Customer Assistance Program (CAP) to be
 - 12 consistent with the industry.
 - 13 ○ Accelerate the Arrearage Forgiveness aspect of the program.
 - 14 ○ Modify the recertification process.
 - 15 ○ Eliminate the application of late payment charges to EHF participants.
- 16 • Propose an annual Low Income Usage Reduction Program budget of \$240,000
- 17 and recommend changing the eligibility to 200% of the Federal Poverty Level.
- 18 • Introduce a new program, the Emergency Furnace and
- 19 HouelineRepair/Replacement Program, which is designed to meet the needs of
- 20 low-income/special needs customers who have immediate need for repair or
- 21 replacement of service lines or furnaces.

1 **Q. PLEASE BRIEFLY DESCRIBE THE UNIVERSAL SERVICE PROGRAMS**
2 **CURRENTLY OFFERED BY PTWP.**

3 **A.** PTWP provides a Customer Assistance Plan (“CAP”) which is referred to as the Energy
4 Help Fund plan (“EHF”). Under this program, payment troubled customers pay a
5 percentage of their income for the gas they use. PTWP also offers the Low Income
6 Usage Reduction Program (“LIURP”) to provide weatherization assistance to eligible
7 customers. PTWP provides assistance to customers in accessing social services through
8 our Customer Assistance Referral and Evaluations Services (“CARES”) and we maintain
9 a close working relationship with area social service agencies. Additionally, we provide
10 outreach to eligible customers to apply for assistance through the Low Income Home
11 Energy Assistance Program (“LIHEAP”) and assist customers through our partnership
12 with the Dollar Energy Fund (“DEF”).

13
14 **Q. HOW WERE THESE PROGRAMS DEVELOPED?**

15 **A.** PTWP’s programs are designed to comply with the regulations and recommendations of
16 the Pennsylvania Public Utility Commission and its Bureau of Consumer Services
17 (“BCS”). These programs were initially developed through needs assessments that
18 considered the demographics of the customer base. Recommendations made through
19 independent evaluations and recommendations from BCS were implemented as well.
20 PTWP offers Universal Service programs that are similar to those offered by other gas
21 companies. I have provided the 2012 Triennial Report on PTWP’s Universal Service and
22 Energy Conservation Plan as **Peoples TWP Exhibit No. SJK-1**. This plan provides an
23 overview of each of the current programs that PTWP offers.

1

2 **Q. LET'S BEGIN WITH THE ENERGY HELP FUND. CAN YOU PLEASE**
3 **DESCRIBE THIS PROGRAM?**

4 **A.** PTWP's EHF is commonly referred to as a Customer Assistance Program or "CAP."
5 CAPs are an integral part of any utility's Universal Service programs. Under CAP,
6 payment troubled customers receive either a rate discount or pay a percentage of their
7 income for the services that they receive from the utility. PTWP, like Peoples, Columbia
8 Gas and Equitable Gas Company, offers a percentage of income payment plan. In
9 addition to the lower payment amount, customers can also receive forgiveness for prior
10 arrearages if they maintain their monthly EHF payments.

11

12 **Q. ARE YOU PROPOSING ANY CHANGES TO PTWP'S EHF?**

13 **A.** Yes. One of the benefits of Peoples and PTWP's affiliation is the ability to identify best
14 practices. I have studied both Peoples' CAP and PTWP's EHF to identify areas of
15 improvement for both companies. In this proceeding, I propose changes to the following
16 components of PTWP's EHF: 1) Acceleration of the Arrearage Forgiveness Program; 2)
17 Modification to the recertification process; and 3) Modification to default provisions. I
18 am also recommending a change in the name of the program from EHF to CAP.

19

20 **Q. PLEASE DESCRIBE THE ACCELERATION OF ARREARAGE FORGIVENESS**
21 **THAT YOU ARE PROPOSING.**

22 **A.** When a customer enters the EHF program, their pre-program balance is frozen. The
23 customer is responsible for a monthly payment based on their household income as I

1 described earlier and the customer also pays \$5 per month towards their pre-program
2 balance. If the customer meets this payment obligation, they receive a \$15 credit to their
3 pre-EHF balance each month. This is known as the “Arrearage Forgiveness Credit.”
4 Over time, with regular payments, the pre-program arrears can be completely paid
5 through the combination of the customer’s portion (\$5) and the Arrearage Forgiveness
6 Credit (\$15). Unfortunately, if a customer has a moderately high balance, it could take
7 many years to pay off the entire pre-program balance. Peoples’ CAP currently offers a
8 three year program for Arrearage Forgiveness. I am proposing the same time frame for
9 PTWP. Under this program, PTWP customers will pay \$5 towards their pre-program
10 balance each month in addition to their percentage of income payment for current
11 charges. When their required payment is received each month, 1/36 of their pre-program
12 balance is ‘forgiven.’ If a customer makes all of the required payments under this
13 program, the customer can extinguish their entire pre-program balance within three years.
14 This program encourages better payment habits and increases compliance with payment
15 terms. Arrearage forgiveness information is a major component of the new CAP bill and
16 will require modifications to PTWP’s existing EHF bill. Peoples’ bill has been
17 redesigned to prominently display this benefit to customers, further encouraging regular
18 payments. As part of PTWP’s upcoming conversion to the billing system currently
19 utilized by Peoples, we will be able to incorporate the use of its customized CAP bill
20 format for EHF customers. An explanation of the new bill will be sent to all CAP
21 customers in order to provide information on the changes.

1 **Q. PLEASE DESCRIBE THE MODIFICATION TO THE RECERTIFICATION**
2 **PROCESS YOU ARE RECOMMENDING.**

3 **A.** Recertification is a process in which we review a customer's income information to
4 determine if they remain eligible for EHF and if their current percentage of income
5 payment amount is still appropriate. The recertification process is an essential
6 component to maintain program integrity. We require customers to provide proof of
7 income as part of this process. PTWP currently recertifies customers every three years.
8 Given that customers' income can change significantly in that period of time, I am
9 proposing that we reduce the recertification time period. For customers who received
10 LIHEAP benefits or are on fixed incomes such as pensions, social security, and public
11 assistance, I am proposing a two year recertification period. I believe this is a reasonable
12 approach because customers must provide proof of income during the LIHEAP
13 application process and the income levels of those customers with fixed incomes do not
14 generally change on a regular basis. Approximately two-thirds of the active EHF
15 participants received LIHEAP last year. For all other customers, I am recommending an
16 annual recertification. Since the recertification process will require the use of additional
17 resources, I recommend that we consider contracting with Dollar Energy Fund to perform
18 the recertification process. Dollar Energy Fund currently provides a similar service for
19 Peoples customers and has the infrastructure in place to conduct recertifications for
20 PTWP's customers with minimal program modifications. Based on our current contract
21 with Dollar Energy Fund, we anticipate that the incremental cost for PTWP's CAP
22 recertifications to be approximately \$12,000 per year.

23

1 **Q. YOU ARE PROPOSING A CHANGE IN THE DEFAULT PROVISIONS FOR**
2 **EHF. PLEASE DESCRIBE THIS MODIFICATION.**

3 **A.** Under PTWP’s current program provisions, customers are removed from EHF, and
4 returned to regular residential rates, once they have missed two payments. Collection
5 activities are engaged at that time and can include termination of service. The Bureau of
6 Consumer Services (“BCS”) has provided guidelines for CAP default provisions which
7 establish that upon missing a payment(s), a customer should remain in CAP but have
8 service terminated. Under PTWPs current provisions, a customer is removed from CAP
9 and can then be terminated for non-payment. I propose that PTWP modify its default
10 provisions to be consistent with the BCS guidelines which allow customers to remain
11 active in EHF even if they become delinquent. With this modification, the account will
12 remain in the EHF program and active collection and termination can occur if the
13 customer does not bring the account up to date. Allowing the customer to remain on the
14 EHF payment plan encourages the customer to bring their payment plan up to date in
15 order to continue to receive the benefits of the EHF program. Our proposal to terminate
16 customers and to allow them to be restored after making their missed payments is more
17 beneficial to the customer because it not only encourages timely payments; it affords
18 them with the opportunity to remain in CAP.

19

20 **Q. PLEASE DESCRIBE THE MODIFICATION TO EHF YOU ARE PROPOSING**
21 **RELATED TO LATE PAYMENT CHARGES.**

22 **A.** If an EHF customer is late in making their required payment, late payment charges can be
23 added to their bill. I am proposing that we eliminate this provision from PTWP’s tariff.

1 EHF participants are low income and payment troubled and the purpose of the program is
2 to provide an affordable payment that encourages timely payments. Removing the late
3 payment penalties maintains the affordable payment designed on the customer's income.
4 The CAP Credits offer an incentive for timely payment and, therefore, should offset the
5 disincentive of a late payment charge.

6
7 **Q. YOU ALSO STATED THAT YOU WOULD PROPOSE CHANGING THE NAME**
8 **OF THE PROGRAM FROM EHF TO CAP. WHY WOULD THIS CHANGE BE**
9 **BENEFICIAL?**

10 **A.** CAP is the common term used in the industry to refer to a Customer Assistance Program
11 such as PTWP's EHF. It is used by BCS, most utilities, and by programs such as
12 LIHEAP. And, the term 'Energy Help Fund' can be misleading. It may be mistaken for
13 an energy assistance or grant program. Changing the name will allow for easier
14 recognition for utility personnel, such as customer contact representatives, customers and
15 governmental/human service agencies. Furthermore, by using a standard term, customers
16 will not be confused should they move to another utility company.

17
18 **Q. IN THE PTWP 2010 BASE RATE CASE SETTLEMENT AGREEMENT, PTWP**
19 **AGREED TO PRESENT A PROPOSAL FOR A CAP-PLUS PROGRAM.**
20 **PLEASE DESCRIBE THE STATUS OF THAT PROPOSAL.**

21 **A.** In the 2010 Base Rate Case Settlement Agreement (Docket No. R-2010-2167797),
22 PTWP agreed that the revised percent-of-income EHF was to become effective May 1,
23 2011. PTWP further agreed to file with the Commission a proposal for a CAP-plus

1 program taking into consideration the input of the parties to the Settlement Agreement.
2 The CAP-plus proposal was as a result of the Department of Public Welfare's ("DPW")
3 policy change which required all utilities to post a LIHEAP payment as an offset to CAP
4 customer's required customer monthly payment, rather than as a credit against the
5 customers' bill. The release of PTWP's EHF was delayed on two occasions. First, the
6 company requested an extension of the implementation date for the new EHF from May
7 1, 2011 until September 1, 2011 and an extension for filing the CAP-Plus proposal from
8 March 1, 2011 to July 1, 2011 (Docket P-2011-2224331). The Company then requested
9 a further extension for the implementation of the new EHF from September 1, 2011 to
10 January 1, 2012 (Docket No 2011-2257454). The PA Department of Public Welfare's
11 (DPW's) 2012-2013 fiscal year Final Plan included language which would reverse their
12 prior requirement that LIHEAP payment must be applied such that it offset a CAP
13 customer's required customer monthly payment, rather than as a credit against the
14 customers' bill. At this time, DPW has not issued a final decision on the implementation
15 of changes in the application of LIHEAP grants for CAP participants. PTWP will
16 commence the program changes upon final approval by DPW.

17
18 **Q. MOVING ON TO PTWP'S LIURP PROGRAM, PLEASE DESCRIBE THE**
19 **CHANGE TO THE ANNUAL LIURP BUDGET THAT YOU ARE PROPOSING.**

20 **A.** In the settlement reached in the sale of PTWP to LDC Holdings II LLC, an indirect
21 subsidiary of SteelRiver Infrastructure North American LP (Docket A-2010-2210326),
22 beginning January 1, 2012, PTWP shareholders agreed to support an increase in annual
23 LIURP funding by \$10,000 per year until the effective date of rates in the next base rate

1 case. The \$10,000 increase per year was not recoverable through Rider USP. In
2 addition, the settlement requires any leftover funds from the current year's annual budget
3 are carried over to the following year.

4 To determine the appropriate annual budget amount for LIURP, I looked at PTWP's data
5 on low income customers with high usage patterns. We currently provide weatherization
6 services to eligible customers at or below 300% of the Federal Poverty Level. However,
7 the majority of the customers who receive weatherization services are at or below 200%
8 of the Federal Poverty Level which is consistent with industry standards. Only five
9 customers with incomes from 201-300% of the Federal Poverty Level have actually
10 received weatherization services in the past several years. We believe that that there is
11 considerable need to provide these essential services to customers in accordance with the
12 Low Income Usage Reduction Program regulations. (52 PA Code,58.2) There are
13 approximately 1,900 customers with incomes at or below 150% of the Federal Poverty
14 Level who meet the usage criteria of 120 mcf/year. Based on this information, I am
15 proposing to maintain an annual LIURP budget of \$240,000 and to provide
16 weatherization services to customers at or below 150% of the Federal Poverty Level and
17 to allow up to 20% of the program funds to be used for special needs customers from
18 151-200% of the Federal Poverty Level. Unused funds from the current year will
19 continue to be rolled over into the, next year. While we believe that a need for LIURP
20 services continues to exist, and that maintaining the program at the current level will
21 assure that our resources are being more fully utilized. I am proposing that the newly
22 developed LIURP annual budget be recovered fully through Rider USP. Any rollover in

2013 related to the \$10,000 addition will not be recovered through the Rider. Please see the following table for LIURP spending for the past several years:

Program Year	LIURP Budget	Actual Spending	Number of Homes Weatherized
2010	\$191,250	\$182,731	29
2011	\$230,000	\$230,918	28
2012	\$240,000*	\$217,242	28
2013	\$273,558*		

Notes: The 2013 budget includes \$10,000 in non-recoverable funds and unspent funding from 2012.

Q. WHAT STEPS ARE BEING TAKEN TO ENSURE THAT THE 2013 BUDGET IS SPENT?

A. We work closely with our weatherization contractors and have met with them early this year to encourage them to prioritize the provision of weatherization services to eligible customers. By monitoring the program closely and maintaining ongoing communications with the contractors, we hope to spend all of our funds in 2013.

Q. PLEASE DESCRIBE THE PROPOSED EMERGENCY FURNACE AND HOUSE/SERVICE LINE REPAIR PROGRAM.

A. Low income customers are a vulnerable population and an unexpected service line leak or furnace failure can significantly impact a household. There are some programs available to assist customers who face these types of emergency situations, but their funding and availability are limited. The LIHEAP Crisis program offers help to eligible customers from November through March. Eligibility for this program is limited to customers at or below 150% of FPL and LIHEAP Crisis does not always cover

1 excavation costs for service line leaks which can be substantial. I am proposing a new
2 emergency funding source to be used for furnace repair or replacement and line repairs
3 for homeowners whose household income is at or below 200% of FPL. These customers
4 must demonstrate a verifiable heating emergency and have exhausted all other forms of
5 assistance prior to receiving assistance through this program and be a homeowner. The
6 goal for this program is to put in place a safety net for customers who are just above the
7 150% LIHEAP-Crisis income guideline or those who meet the guidelines but are not able
8 to receive assistance due to limited funding. I am proposing an initial budget of \$50,000
9 for this program. This funding is consistent with similar programs at Peoples and
10 Columbia of PA and is scaled according to the size of PTWP's eligible customer base.

11
12 **Q. YOU REFERRED TO THE EMERGENCY FURNACE AND LINE REPAIR**
13 **PROGRAM CURRENTLY OFFERED BY PEOPLES. WHEN WAS THIS**
14 **PROGRAM INTRODUCED AND WHAT HAS BEEN THE RESPONSE?**

15 **A.** Peoples' received approval for the Emergency Furnace and Line Repair program in its
16 2010 base rate proceeding. Within a few months of opening the program, the initial
17 funding level was exhausted. In 2012, Peoples increased the annual budget for the
18 program to \$400,000. Programs of this type are typically well utilized because there are
19 few other resources to help customers with critical heating needs. As I explained,
20 LIHEAP Crisis offers some assistance, but the income guidelines are lower, the program
21 is only open November through March, and not all costs are covered. We have found
22 that offering an Emergency Furnace and Line Repair program provides an important
23 safeguard for vulnerable households in our service area. This program is especially

1 critical for older adults with limited incomes. In order to receive assistance from the
2 Furnace/Houseline Repair Program, customers must meet the following requirements:

- 3 • Must be a homeowner.
- 4 • Must have heating related emergency-broken heating equipment or service lines
5 in need of repair.
- 6 • Must have exhausted all other forms of assistance including LIHEAP Crisis.
- 7 • Must provide proof of income.

8
9 **Q. PLEASE DESCRIBE HOW THE EMERGENCY FURNACE AND LINE REPAIR**
10 **PROGRAM WILL BE FUNDED.**

11 **A.** I am proposing that the funding for this program should be included in the Universal
12 Service Rider (Rider USP), which is applied to all residential, non-EHF (non-CAP)
13 customer bills. This rider is developed using annual projections for each of the
14 component programs. This Rider has been existence since the Company's last base rate
15 case. This rider is described in more detail in the testimony of Andrew Wachter at
16 Peoples TWP Statement No. 13.

17
18 **Q. IN YOUR OPENING REMARKS, YOU MENTIONED THE BENEFITS OF THE**
19 **PARTENSHIP BETWEEN PEOPLES AND PTWP IN DEVELOPING AND**
20 **ADMINISTERING UNIVERSAL SERVICE PROGRAMS. IN ADDITION TO**
21 **THE PROGRAM MODIFICATIONS YOU ARE PROPOSING, ARE THERE**
22 **OTHER AREAS THAT BENEFIT FROM THIS COLLABORATION?**

1 A. Yes. In addition to the proposals I have made, there are also more subtle improvements
2 that I think are very important. One good example is the introduction of a new bill for
3 EHF customers. CAP customers will receive a new bill that will highlight the new
4 arrearage forgiveness component. Peoples implemented a simplified billing statement for
5 its CAP participants. This bill was introduced to participating customers through a
6 customer education brochure. Our customer contact staff was also trained on the new
7 format prior to its roll-out to ensure they were ready to answer customer questions. This
8 bill emphasizes the benefits of making regular payments because it clearly shows the
9 customer the Arrearage Forgiveness and CAP credits they will receive. **Peoples TWP**
10 **Exhibit SJK-2** provides a sample explanation of the bill that will be sent to PTWP
11 customers when the customized bill is introduced.

12

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

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

Appendix A

Filing Requirements Sponsored by
Sadie J. Kroeck

Volume
III B

Filing Requirement
53.53.III.E.7

Peoples TWP Exhibit SJK-1

June 1, 2012

VIA OVERNIGHT MAIL

Rosemary Chlavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Second Floor North
Harrisburg, PA 17105

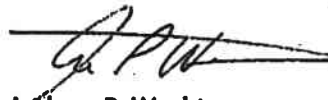
Re: 2012 Triennial Report on Peoples TWP LLC's Universal Service and Energy Conservation Plan
Submitted pursuant to 52 PA Code §62.7

Dear Secretary Chlavetta:

Enclosed for filing are the original and three copies of the 2012 Triennial Report on Peoples TWP LLC's (Peoples TWP) Universal Service and Energy Conservation Plan, in accordance with 52 PA Code §62.7. Because Peoples TWP serves fewer than 100,000 residential accounts, this filing is made in lieu of the reporting requirements set forth at 52 PA Code §§62.4 – 62.6.

If you have any questions about the enclosed Plan, please feel free to contact me at 724-431-4935. Thank you.

Very truly yours,
Peoples TWP LLC



Andrew P. Wachter
Vice President – Finance and Rates

Enclosures

cc: Bryan Colbert
Lisa Weary, Bureau of Consumer Services

**2012 TRIENNIAL REPORT ON
UNIVERSAL SERVICE AND
ENERGY CONSERVATION PLAN**

June 1, 2012

TABLE OF CONTENTS

I.	Introduction.....	2
II.	Overview of Peoples TWP Universal Service and Energy Conservation Plan.....	2
III.	Peoples TWP Universal Service Programs – Actual and Projected Annual Expenses.....	4
IV.	Detailed Description of Peoples TWP Universal Service Programs	4
	A. CARES	4
	1. Butler County Emergency Relief Initiative.....	6
	B. Wise Choice Low Income Usage Reduction Program	7
	C. Energy Help Fund.....	10
V.	Report on Customers Served and Dollar Amount of Benefits Delivered by Peoples TWP Universal Service Programs	15
VI.	Conclusion.....	17

Peoples TWP's 2012 Triennial Report on its Universal Services and Energy Conservation Plan

I. INTRODUCTION

Peoples TWP ("Peoples TWP") hereby submits its Universal Service and Energy Conservation Plan ("Universal Service Plan") and the programs offered to help meet the needs of its eligible low-income residential customers. This Plan been submitted pursuant to the regulations at 52 PA Code §62.7, in lieu of the reporting requirements set forth at 52 PA Code §§62.4–62.6, because Peoples TWP serves fewer than 100,000 residential customer accounts.

II. OVERVIEW OF PEOPLES TWP UNIVERSAL SERVICE AND ENERGY CONSERVATION PLAN

Peoples TWP serves a total of 62,802 customers across its western Pennsylvania service territory, as stated in its Annual Report to the Pennsylvania Public Utility Commission ("PUC") for the year ended December 31, 2011. Approximately 58,350 are residential customers. Peoples TWP estimates that approximately 6,500 of its residential customers are low income or income disadvantaged at any given time. However, not all customers who are income disadvantaged are also payment troubled. A significant number of Peoples TWP Income disadvantaged customers pay their gas bills on a regular basis. Peoples TWP has identified approximately 6,000 residential low-income customers on its system who are or may be payment troubled from time to time and utilize the available assistance programs available, including those which comprise Peoples TWP Universal Service Plan.

To assist its income disadvantaged customers and others who may have difficulty paying their gas bills, Peoples TWP offers three primary Universal Service and Energy Conservation programs, consistent with regulatory requirements and good business practices. Those programs are: Customer Assistance Referral and Evaluation Services or CARES; Wise Choice Low Income Usage Reduction Program; and, Energy Help Fund. Peoples TWP also informs its low-income customers regularly about available programs and assists them in applying for the help that is available from a variety of community-based organizations, including local groups such as the Butler County Emergency Relief Initiative, the Dollar Energy Fund, Inc. ("Dollar Energy"), federally-funded programs such as the Low Income Home Energy Assistance Program ("LIHEAP"), and Company-sponsored Universal Service and Energy Conservation programs. Program information is distributed to customers through bill inserts and direct mail pieces; automated messages through the Company's Voice Response Unit; brochures that are distributed at a variety of locations and events throughout Peoples TWP service territory and periodically advertised through local media outlets. Peoples TWP also provides toll-free telephone numbers for customers to obtain program information and assistance.

Since 2009, Peoples TWP has deployed its own internal LIHEAP outreach and referral program. Every year, Peoples TWP has hired temporary personnel to contact our customers who are identified in our billing system as possibly LIHEAP eligible. The purpose of these calls is to advise the customer of the LIHEAP program, the application requirements and

deadlines. Peoples TWP will mail a LIHEAP application to customers upon request. If, during the outreach phone call, it is determined that a customer may not be able to complete the LIHEAP application, a referral to Peoples TWP's CARES Program is made.

In 2011, Peoples TWP joined with Columbia Gas, Equitable Gas and Peoples Natural Gas in the Partners for Warmth Program. The program is designed to provide outreach through local media including radio and Television as to the opening of LIHEAP and is promoted by Hall of Famer, Franco Harris. Customers can access information through its website: www.partnersforwarmth.org and by telephone: 1-866-827-1281.

Peoples TWP Universal Service programs include:

- i. **Customer Assistance Referrals and Evaluation Services ("CARES")** program designed to provide low-income and other special needs populations with referral resources.
- ii. **Energy Help Fund ("EHF")** program to lower the cost of current gas service, reduce account arrearages and encourage the habit of regular payments.
- iii. **Wise Choice Low Income Usage Reduction ("Wise Choice")** program established to help low income customers lower their gas bills by reducing their gas usage and promoting energy conservation.
- iv. **Other programs** include the Dollar Energy Fund and Low Income Home Energy Assistance Program-LIHEAP Cash and Crisis components, which provide vitally important assistance to address emergency situations including restoration gas service.

Peoples TWP Shareholders will provide Dollar Energy Fund with an administrative donation of \$15,000 annually for three consecutive years beginning in 2012. This fund is to cover administrative expenses associated with Peoples TWP's hardship fund program managed by Dollar Energy Fund, Inc. In addition to the administrative funding, Peoples TWP will contribute to the customer hardship fund a minimum of \$35,000 to match customer contributions annually for three consecutive years beginning in 2012. These monies are to be given to those eligible customers who apply for and are accepted by Dollar Energy Fund, Inc. for a hardship fund grant. If Peoples TWP's customer contributions exceed \$35,000, Peoples TWP will match those additional customer contributions dollar for dollar.

In 2011, the company redesigned its Universal Services brochure. This brochure is distributed to company employees, customers, social service agencies, offices of elected officials and the other utility companies in Western Pennsylvania. The brochure is also mailed to every residential customer in the Peoples TWP service territory in November of each year. A copy is attached in Exhibit "A".

The table sets forth in Section III shows the Company's Universal Service and Energy Conservation program annual expenditures for the past three years, along with expenditures to date for 2012.

III. PEOPLES TWP UNIVERSAL SERVICE AND ENERGY CONSERVATION PROGRAMS FOR LOW-INCOME CUSTOMERS – ACTUAL AND PROJECTED ANNUAL EXPENDITURES

Program Name	Annual Expenditures			
	2009	2010	2011	2012
Customer Assistance and Referral Services ("CARES") including LIHEAP outreach efforts	\$10,449	\$10,050	\$11,267	\$3,729 ¹
Energy Help Fund	\$741,560	\$786,391	\$992,087	\$260,374 ²
WISE CHOICE - Low Income Usage Reduction Program	\$181,585	\$182,731	\$224,312	\$108,299 ³
Dollar Energy Fund, Inc.	\$34,411	\$39,785	\$35,720	\$29,993
LIHEAP Outreach Calls	\$6,400	\$6,000	\$23,000 ⁴	\$6,000

¹ Actual Expenditures thru March 31, 2012.

² Actual Expenditures thru March 31, 2012.

³ Actual Expenditures thru May 4, 2012.

⁴ Increased expenditures reflect the change to a new billing system and multiple manual work processes that were required to handle Utility File Transfer, Direct Referral Program, LIHEAP phone line voice mail retrievals and staff training due to the new billing system installation.

IV. DETAILED DESCRIPTION OF PEOPLES TWP UNIVERSAL SERVICE AND ENERGY CONSERVATION PROGRAMS

Customer Assistance and Referral Evaluation Services ("CARES")

Peoples TWP CARES program was developed as part of the Company's ongoing effort to identify customers with significant needs and direct them to the resources that provide the most assistance. The CARES program is designed to give personalized assistance to customers through counseling and referral services provided by trained in-house Customer Service Representatives, with essential support from one

highly experienced outside expert under an agreement with Essential Energy. CARES is also intended to encourage the participation by eligible customers in all of the assistance programs available to them, including the EHF program, LIHEAP (Cash and Crisis), Dollar Energy and the Wise Choice weatherization/usage reduction program.

In its use of Customer Service Representatives as CARES representatives, Peoples TWP has a group of frontline personnel who are trained to be sensitive, receptive and responsive to a variety of customer needs, including income disadvantages, age-related illnesses or circumstances, physical and mental disabilities, and other factors. Specifically, each Customer Service Representative has participated in an in-depth training session on CARES program principles and practical implementation under the direction of Essential Energy. As a result of such training, these representatives are encouraged to seek ways to help people improve their quality of life. Outside agencies and organizations are also educated and informed about Peoples TWP CARES program's purpose and objectives. Customers are referred to Peoples TWP CARES program by community agencies, Public Utility Commission (PUC), other utilities and by Peoples TWP field employees, who have also received training regarding the CARES program.

Every customer referral into Peoples TWP CARES program is initially reviewed by one of Peoples TWP's trained Customer Service Representatives. The representative contacts the customer and assesses needs. He or she then reviews the range of assistance programs for the customer's particular needs and discusses the case with Peoples TWP's Universal Service Coordinator, who serves as the Company's point of contact with community service agencies. Based upon the information, an assessment is made as to how the Company can best assist the customer and whether the customer's need(s) can be resolved with a one-time communication or will require longer term CARES interaction. A decision on whether a CARES home visit is necessary depends upon each customer's particular circumstances. A home visit may be made for a variety of reasons, including the need to assess the situation so that adequate follow up can be conducted.

A home visit may be required to confirm information given by the customer, to provide budget counseling, energy conservation education, and/or education about the range of outside agency programs that are available to help them. A home visit may be needed to assist the customer in the completion of applications for LIHEAP, Dollar Energy, or the EHF program. Home visits are conducted by Peoples TWP's CARES expert, Essential Energy.

Monitoring and follow-up of customers in the CARES program are provided through a cooperative effort of Essential Energy and Peoples TWP Universal Services Coordinator, as required to meet each participant's individual needs. Peoples TWP's Universal Services Coordinator also participates on behalf of the Company, in an informal network of assistance programs and agencies which range from other utility programs, to local, state and federal government-sponsored assistance agencies of various kinds, to a variety of private programs (i.e. church organizations, community service groups, etc.) established to help people facing difficult circumstances.

Butler County Emergency Relief Initiative

One example of a vital local organization that reaches out to people in need is the Butler County Emergency Relief Initiative (BERI). BERI is a collaboration of individuals, organizations and agencies dedicated to improving the efficient delivery and maximization of the impact of assistance programs available to needy residents of Butler County. Peoples TWP has provided direct assistance to that organization and will continue to do so in various ways in the future. Peoples TWP Universal Services Coordinator is a member of the BERI Oversight Committee. This committee assists in the effort of providing informed leadership to the task of making sure that best advantage is taken of the assistance programs available to Butler County residents.

Peoples TWP will make a charitable contribution in the amount of \$5,000 to the Butler Emergency Relief Initiative each year for three consecutive years commencing 2012. This contribution is funded by the company shareholders and is not recoverable from ratepayers.

Wise Choice Low Income Usage Reduction Program

Program Overview

Peoples TWP Wise Choice program is a weatherization and conservation education program targeted to low-income, high usage, payment troubled customers. Peoples TWP program was initiated in 1987, in response to PUC regulations at 52 PA Code §58.1 – §58.18.

Program Goals

The primary goal of the Wise Choice program is to weatherize homes occupied by income disadvantaged customers who use higher than average volumes of gas and to educate customers in ways to conserve energy, and thereby, reduce their energy bills. The secondary goal is to reduce the number of delinquent and uncollectible residential accounts.

The Wise Choice program attempts to reduce a payment troubled customer's gas bill to the point where it is more affordable. If income disadvantaged customers can maintain their gas service throughout the year, especially with the support of outside assistance that is available to such customers, the customer may be able to establish or maintain a good payment history with the Company. This benefits not only the Wise Choice participant as well as the Company and all other ratepayers.

Program Description

Each Wise Choice participant is provided with a home energy audit, a gas appliance safety inspection, and an energy conservation education session. Conservation education stresses simple, but effective actions that a family can take to control the amount of energy that is consumed in the home. Conservation tips are given to help reduce the use of gas, electricity and water. Program participants learn which appliances consume the most energy.

Instruction is also given on the proper maintenance of physical conservation measures that are actually installed in customer residences by the Wise Choice weatherization providers.

In an attempt to improve payment behavior, customers are encouraged to communicate with the Company to discuss payment problems before they become serious. Limited budget counseling is also provided as a supplement to the assistance offered by the CARES program.

During the energy audit, a Wise Choice auditor inspects the home from the basement to the attic, looking for areas where heat may be escaping (exfiltration) and where cold air may be leaking in (infiltration). If circumstances permit, the auditor also conducts a pre-weatherization blower door test to measure how "leaky" a home is at the time of the audit. Any existing insulation or weatherization measures are noted.

Upon completion of the audit, the auditor creates a work order listing all recommended weatherization measures and submits the work order to Peoples TWP for approval. The scope of work to be performed at Peoples TWP's expense is determined by reference to the customer's gas usage. In most cases, customers who exhibit high gas usage will qualify for more weatherization measures than customers who use lesser volumes of gas.

WISE CHOICE Weatherization Measures

Typically, weatherization measures installed under Peoples TWP Wise Choice program include, but are not limited to the following:

Furnace/Heating System

- Tune up
- Repairs
- Replacements
- Spark Ignition
- Thermostat
- Duct Wrap
- Filter Rack Installation/Repair
- Duct Repair
- Flue Repair/Replacement
- Chimney Liner Installation
- Shut-Off Valve Repair/Installation

Hot Water Systems

- Pipe Insulation
- Replacements
- Flue Repair/Replacement
- Gas Supply Line Repair/Replacement
- Water Supply Line Repair/Replacement
- Shut-Off Valve Repair/Installation

Insulation

- Attic insulation
- Knee-wall insulation
- Sidewall insulation
- Sill plate insulation
- Insulation between heated and non-heated areas
- Vapor barriers
- Venting
- Attic access work (if necessary)

Infiltration Reduction

- Extensive caulking and "blower door" air sealing
- Weather-stripping
- Door sweeps
- Electrical switch and outlet gaskets
- Limited use of storm windows
- Sealing unused fireplaces
- Sealing of recessed pocket doors

Miscellaneous Minor Repairs

- Repairing interior wall cracks and holes
- Window glass replacement
- Exterior door repairs
- Door and window locks

Program Participation Guidelines

Customers must satisfy the following qualifications to be eligible for Peoples TWP Wise Choice weatherization program:

- Total family income may not exceed the following limits (300% of 2012 Federal Poverty Guidelines):

<u>Family Size</u>	<u>Yearly Income</u>
1	\$33,504
2	\$45,384
3	\$57,264
4	\$69,114
5	\$81,024
6	\$92,904

- The customer must have a residential gas heating account.
- The customer must not have moved or had an extended break in service during the last 12 months.
- The customer must plan to live at the same address for the next 12 months.
- The customer must have annual gas usage of at least 120 Mcf/year.
- Renters must have the gas account in their name. Rental units must be metered separately and have individual heating systems. Landlord permission is also required.
- Special consideration is given to low-income customers who may not necessarily meet the usage eligibility guidelines, but have demonstrated other needs which suggest that energy conservation would be useful. (i.e. medical condition, medical bills, etc.)

Outreach, Enrollment and Application Procedures

- Peoples TWP Universal Services Coordinator facilitates the program outreach and enrollment procedures for both the Wise Choice program and the EHF program to maximize administrative efficiencies and identify eligible Wise Choice participants from among those applying for and being referred to the EHF program.
- Application procedures for the EHF and Wise Choice programs are coordinated and run in tandem as much as possible to facilitate the most efficient use of resources to serve residential customers in need.
- The program administrator coordinates the acquisition of necessary agreements/ consents for the installation of Wise Choice program weatherization and energy conservation measures with participating customers and their landlords.

Wise Choice Program Limitations

- Based upon Peoples TWP 2010 base rate case settlement at Docket No. R-2010-2167797, the annual expenditure allowance for the Wise Choice program is \$230,400, of which 15 percent can be applied to administrative service costs. As per the Joint Petition of Approval of Settlement of All Issues: A-2010-2210326, commencing January 1, 2012, the shareholders began a support of an increase in the current funding for Peoples TWP's Wise Choice Weatherization Program of \$10,000 per year until the effective date of rates in Peoples TWP's next base rate case. This \$10,000 is not recoverable by manner of any Riders. In addition, any unused funds will roll over to the next year.

- To the extent that the Company does not utilize the full annual allowance for Wise Choice program services in any calendar year, after a good faith effort to identify and secure the cooperation of a sufficient number of eligible low-income customers, the unexpended Wise Choice allowance shall be transferred to and used in the next upcoming Wise Choice budget year.

Energy Help Fund

Peoples TWP's Energy Help Fund ("EHF") is a low income assistance program designed to help eligible residential customers pay their gas bills. Three levels or tiers of assistance are available to eligible customers, based on their annual household income as outlined below. EHF assistance is provided by requiring eligible residential customers to make payments under a percentage of income plan. The Company will retire fifteen dollars (\$15.00) of a customers' existing arrearage balance for every on-time monthly payment made by the customer. In addition, the customer will be required to make an additional five dollar (\$5.00) per monthly payment if there is an arrearage until the arrearage is paid in full. The Company will require a minimum monthly payment of twenty five dollars (\$25.00). Because a portion of the EHF benefit is an arrearage reduction component, eligible low-income customers with an account arrearage of at least two hundred dollars \$200 will be preferred but not required. The Energy Help Fund will not require security deposits of new, reconnected or reinstated EHF customers. To provide the EHF customer with all of the information needed regarding the EHF program, a newly designed EHF gas bill was developed in 2011. Attached to this document is a copy of a brochure that was mailed to every EHF customer explaining the newly designed EHF gas bill. This is Exhibit "B."

The terms and conditions of the EHF program are described as follows:

Category 1: Annual Income At or Below 50% of Federal Poverty Level

Residential customers with an annual income at or below fifty percent (50%) of the Federal Poverty Level will qualify for assistance as follows:

- A reduction in their bill for current usage with a required payment of seven percent (7%) of the household's monthly income, as set forth in Rate Schedule RUS – Residential Universal Service.
- Customers may obtain forgiveness from the Company of their outstanding arrearages by an amount of fifteen dollars (\$15) for every on-time monthly payment made by the customer. The customer will be required to make an additional five dollar (\$5.00) per month payment until the arrearage is paid in full.
- Eligible customers will be enrolled in the EHF program for a 36 month period. At the end of 36 months, they may re-enroll if they establish that they still satisfy the annual income requirements. Customers with outstanding arrearages will be preferred, but an arrearage is not a precondition to EHF program participation. Monthly arrearage forgiveness credits will not be available to customers who have no account arrearage.

- Low Income Home Energy Assistance Program (LIHEAP) benefits will be applied in accordance with the process approved by the Pennsylvania Department of Public Welfare. Dollar Energy and other assistance grants can also be used to offset the remainder of the participating customer's bill.

Category 2: Annual Income Between 51% and 100% of Federal Poverty Level

Residential customers with an annual income greater than fifty percent (50%) and up to and including one hundred percent (100%) of the Federal Poverty Level will qualify for a two-part program of assistance as follows:

- A reduction in their bill for current usage with a required payment of eight percent (8%) of the household's monthly income, as set forth in Rate Schedule RUS – Residential Universal Service.
- Customers may obtain forgiveness from the Company of their outstanding arrearages by an amount of fifteen dollars (\$15) for every on-time monthly payment made by the customer. The customer will be required to make an additional five dollar (\$5.00) per month payment until the arrearage is paid in full.
- Eligible customers will be enrolled in the EHF program for a 36 month period. At the end of 36 months, they may re-enroll if they establish that they still satisfy the annual income requirements. Customers with outstanding arrearages will be preferred, but an arrearage is not a precondition to EHF program participation. Monthly arrearage forgiveness credits will not be available to customers who have no account arrearage.
- Low Income Home Energy Assistance Program (LIHEAP) benefits will be applied in accordance with the process approved by the Pennsylvania Department of Public Welfare. Dollar Energy and other assistance grants can also be used to offset the remainder of the participating customer's bill.

Category 3: Annual Income from 101% to 150% of Federal Poverty Level

Residential Customers with an annual income of more than one hundred percent (100%) and up to and including one hundred fifty percent (150%) of the Federal Poverty Level will qualify for a program of assistance as follows:

- A reduction in their bill for current usage with a required payment of nine percent (9%) of the household's monthly income, as set forth in Rate Schedule RUS – Residential Universal Service.
- Customers may obtain forgiveness from the Company of their outstanding arrearages by an amount of fifteen dollars (\$15) for every on-time monthly payment made by the customer. The customer will be required to make an additional five dollar (\$5.00) per month payment until the arrearage is paid in full.
- Eligible customers will be enrolled in the EHF program for a 36 month period. At the end of 36 months, they may re-enroll if they establish that they still satisfy the annual income requirements. Customers with outstanding arrearages will be preferred, but an arrearage is not a precondition to EHF program participation. Low Income Home Assistance Program (LIHEAP)

benefits will be applied in accordance with the process approved by the Pennsylvania Department of Public Welfare. Dollar Energy and other assistance grants can also be used to offset the remainder of the participating customer's bill.

As of May 1, 2012, Peoples TWP had 1,229 active participants in the EHF program.

The Company's collections treatment of non-payment by EHF program participants shall conform to the requirements of all applicable Commission regulations and statutory requirements.

Outreach and Enrollment Procedures

- The Company's EHF program administrator, who also serves as the Universal Service Coordinator, sends targeted mailings with information and program applications to existing potentially eligible residential customers.
- Assistance agencies and staff members from the elected officials' offices are regularly informed about and provided with written materials describing the EHF program and encouraged to refer qualified low-income residential customers/constituents to the EHF program administrator.
- The Company's EHF program administrator is actively involved in a number of special organizations and initiatives designed to ensure that local citizens in need receive assistance, including Peoples TWP's EHF program. These special outreach efforts include, but are not limited to the Butler County Stay Warm Summit, Butler County Utility Crisis Cooperative and the Butler County Center for Community Resources. Peoples TWP's active participation in BERI has also served to increase knowledge of the EHF program among Butler County's low-income customers.
- The EHF program administrator also speaks to a variety of community groups to provide information about Peoples TWP's Universal Service Programs.
- The EHF program administrator makes direct contact with low-income residential customers of the Company who have qualified for and received Dollar Energy and LIHEAP grants in the previous year to encourage their participation in the EHF program. Peoples TWP's own Customer Service Representatives also refer eligible low-income customers to the EHF program administrator.

Application/Screening Procedures

- Energy Help Fund is available to qualified residential customers, who use natural gas as their main heating source, with an annual income at or below one hundred-fifty percent (150%) of the Federal Poverty Level. The gas meter at the premise must serve only the customer's dwelling space. The account must be residential and the customer is permitted to have only one account in the Energy Help Fund. Both direct referrals and

referrals from customer service are sent to the program administrator. Company's Customer Service Department refers potentially eligible customers to the program administrator for pre-screening. Residential customers are pre-screened for EHF program eligibility by the EHF program administrator.

- Information gathered in the prescreening process is used to facilitate application/qualification procedures for both the EHF program and the WISE CHOICE program. Customers who have received LIHEAP grants in the immediately preceding 12 months are automatically enrolled in the EHF and/or WISE CHOICE. Customers who have not received LIHEAP grants in the immediate preceding 12 months will be required to submit proof of income as outlined in the following paragraph.
- After telephonic prescreening, the program administrator will send customers applications to the EHF program, with a letter describing the required proof of income needed to complete the application. The letter directs potential program participants to complete the application, provide current income information in order to confirm eligibility, and return the application. Information received from customers is also used to determine eligibility for participation in the WISE CHOICE program.
- The EHF program administrator reviews the completed applications to determine whether applicants are eligible to participate in the EHF program, and, if so, in what Income Category. Letters of acceptance are sent to eligible customers.
- Customers who do not satisfy the program requirements are so notified in writing.
- Customers who do not return completed applications on a timely basis are contacted by the EHF program administrator to encourage their participation and response.
- Eligible customers whose completed application and/or prescreening process reveal needs that might benefit from the Company's CARES program are referred to the Universal Service Coordinator for evaluation and further communication or, where appropriate, to Essential Energy for the purpose of scheduling home visits.
- Information gathered for purposes of determining customer eligibility to participate in the EHF program is also used to determine customer eligibility to participate in the Company's Wise Choice program to maximize the efficient operation of both assistance programs.

EHF Program Operation and Customer Responsibilities

- The EHF program administrator closely monitors the payment performance of every participating customer and contacts them promptly if required payments are missed.
- The EHF program administrator also monitors participant account records regularly to (i) confirm that arrearage credits are properly applied after the Company's receipt of each participant's monthly payment, as described in the applicable letter of acceptance, and (ii) ensure proper application of LIHEAP, Dollar Energy and other grants received by EHF participants to further reduce their monthly payment.

- The customer is advised to notify the Company of any changes to income, household size or residence.
- The customer must make timely monthly EHF payments including a \$5.00 monthly payment on arrears if applicable.
- The customer will apply for Low Income Home Energy Assistance Program (LIHEAP) benefits and direct the payment of LIHEAP to the Company. The Company will apply the LIHEAP benefits to the customer's account in accordance to all applicable Department of Public Welfare Rules and Regulations.
- The customer is encouraged to apply for Low Income Usage Reduction Program (LIURP) weatherization.
- The customer must allow the Company to purchase gas on the customer's behalf.

End of Program Term Activities

- The Company will determine a participant's eligibility to continue participation in the program after the initial 36-month term.
- A re-enrollment application will be mailed to the participant prior to the end of the thirty days prior to the customer's date of program completion.
- If the EHF customer received LIHEAP benefits in the current heating season, then proof of income is waived. This is applicable only when LIHEAP income eligibility is set at 150% of the Federal Poverty Level.
 - The customer is to complete and return the application, re-enrollment form and provide photocopy proof of income.
 - If the EHF customer received LIHEAP benefits in the current heating season, then proof of income is waived. This is applicable only when LIHEAP income eligibility is set at 150% of the Federal Poverty Level.
- Upon confirmation of income eligibility, the administrator will re-certify the customer for another 36 month term.
- A customer, who has been removed from EHF for failure to re-enroll prior to the end of a 36 month term, will be entered into the EHF program once the company receives proof of income and a completed EHF application.

Default Provisions

- A customer may request removal from the EHF program. The customer must sign a waiver form acknowledging that the customer is not eligible to re-enroll into EHF within one year after the time of the requested removal.
- A customer is considered in default after two consecutive missed EHF payments and can be removed from the program. The customer could be eligible for termination of service in accordance with all applicable laws and regulations.
- A customer can be re-instated, once annually, upon making the current and any missed EHF payments.
- A customer who is removed from EHF due to non-payment and the gas service is subsequently terminated, the customer will be required to remit all missed payments and re-certify the household's income. Additionally,

a reconnection fee will be required.

Customer Consumption Responsibilities

- The Company will monitor EHF customers who use more than 120% of the historical average usage taking into account significant weather changes for three consecutive months. Once a customer exceeds such usage level, the Company will implement a progressive consumption monitoring protocol.
- The Company will inform the EHF customer of the increased usage and educate the participant on energy conservation measures and shall encourage that customer to employ conservation measures.
- The Company will encourage the customer to apply for the Company's Wise Choice Weatherization Program.
- If high usage continues, the Company will notify the EHF customer, including an attempt at personal contact if that EHF customer's high usage continues, it may result in the customer being removed from the EHF program. The Company will inquire as to the reasons for the persistent high usage. The reasons offered by the customer will be considered before taking any further action with respect to the customer.
- If continued unexplained and unreasonable high usage continues, the Company reserves the right to remove the customer from EHF.

V. UNIVERSAL SERVICE AND ENERGY CONSERVATION PROGRAM SERVICES / BENEFITS

Program	Customers Receiving Benefits				
	2009	2010	2011	2012	2012 Projected
Customer Assistance and Referral Services ("CARES") including LIHEAP outreach efforts	9,809	7,707	6,949	4304 ¹	6,000
Dollar Energy Fund, Inc.	157	156	152	124 ²	130
WISE CHOICE - Low Income Usage Reduction Program	32	28	30	15 ³	30
Energy Help Fund	1448	1603	1470	1229 ⁴	1400

Program	Customers Receiving Benefits/Participating Customers at Year End			
	2009	2010	2011	2012
Customer Assistance and Referral Services ("CARES") Including LIHEAP outreach efforts	9,809	7,707	6,949	4,304 ¹
Dollar Energy Fund, Inc.	157	156	152	124 ²
WISE CHOICE - Low Income Usage Reduction Program	32	28	30	15 ³
Energy Help Fund	1448	1603	1470	1229 ^{4,5}

¹ Reporting data through April 30, 2012

² Reporting data through May 11, 2012

³ Reporting data through May 11, 2012

⁴ Reporting data through May 1, 2012

Program	Dollar Amount of Benefits Provided				
	2009	2010	2011	2012	2012 Projection
Customer Assistance Referral and Evaluation Services ("CARES") Including LIHEAP outreach efforts	\$3,605,607	\$2,548,430	\$2,737,300	\$855,275 ₁	\$1,000,000
Dollar Energy Fund, Inc.	\$61,233	\$65,432	\$59,640	\$544,982 ₂	\$57,300
WISE CHOICE - Low Income Usage Reduction Program	\$181,585	\$182,731	\$224,312	\$108,299 ₃	\$240,400
Energy Help Fund Program	\$741,676	\$786,391	\$992,087	\$260,374 ₄	\$995,000

¹ Reporting data through April 30, 2012

² Reporting data through April 30, 2012

³ Reporting data through May 11, 2012

⁴ Reporting data through March 30, 2012

VI. CONCLUSION

Peoples TWP appreciates the opportunity to submit this Triennial Report on the operation, administration and practical impact of its Universal Service and Energy Conservation Plan. Peoples TWP continues in its effort to improve the effectiveness of the programs described in this Report, by communicating to eligible low-income customers about program availability, improving the practical benefits that they deliver, and directing the program services to eligible customers.

Respectfully submitted
PEOPLES TWP

June 1, 2012

Andrew Wachter
V.P. Finance & Rates



Bryan Colbert
Customer Relations Specialist

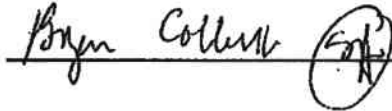


EXHIBIT "A"



UNIVERSAL SERVICE PROGRAMS

Peoples TWP understands that customers sometimes experience problems paying their energy bills. Universal Service Programs were created to help eligible payment-troubled customers on limited or fixed incomes reduce their energy usage and their energy bills.

Dollar Energy Fund

The Dollar Energy Fund helps families and individuals experiencing difficulty paying their utility bills. The Dollar Energy Fund gives grants to customers in danger of losing their utility service. Individuals may apply once a year for each utility (gas, electric and water).

TO QUALIFY, CUSTOMERS MUST:

- Fall within 200% of Federal Poverty Income Guidelines.
- Apply for LIHEAP and Crisis before applying for Dollar Energy Fund if the programs are open at time of application and the customer is eligible.
- Have made a sincere effort of payment.



Universal Services

Making energy affordable for those in need.



Universal Service Programs help customers:

- Reduce energy usage to a more affordable level.
- Apply for grants and assistance from other agencies.
- Establish payment arrangements to maintain gas service.

To Learn More or Apply:

Call the Universal Service Office at 1-866-276-4055 and a Universal Service Coordinator will process your application over the phone or refer you to a screening agency in your area that will help you complete an application.

2011-2012

Federal Income Guidelines

Number of Household Members	LIURP	Dollar Energy	EHF	LIHEAP
	300% of Poverty Level	200% of Poverty Level	150% of Poverty Level	150% of Poverty Level
	Maximum Monthly Income			
1	\$2,724	\$1,815	\$1,361	\$1,361
2	\$3,678	\$2,452	\$1,839	\$1,839
3	\$4,632	\$3,088	\$2,316	\$2,316
4	\$5,589	\$3,725	\$2,794	\$2,794
5	\$6,543	\$4,362	\$3,271	\$3,271
6	\$7,497	\$4,999	\$3,749	\$3,749
7	\$8,454	\$5,635	\$4,226	\$4,226
8	\$9,408	\$6,272	\$4,704	\$4,704
For each additional person, add	\$954	\$637	\$478	\$478

Call us today!
1-866-276-4055

Monday through Friday
8:00 a.m. – 5:00 p.m.



PEOPLES TWP

Universal Service Programs

MAKING ENERGY AFFORDABLE FOR THOSE IN NEED

The information in this booklet describes the Universal Service Programs available to Peoples TWP customers and the guidelines for program eligibility.

Low-Income Home Energy Assistance Program (LIHEAP)

LIHEAP helps customers who are on a fixed income or who have low-income pay their heating bills through energy assistance grants. A LIHEAP grant is not a welfare program or a loan. LIHEAP is a federally funded program. You do not have to have a past due balance to receive LIHEAP.

Crisis grants are available to income eligible customers for emergency such as a shut off notice or to repair your furnace or gas lines.

TO QUALIFY, CUSTOMERS MUST:

- Fall within 150 % of Federal Poverty Income Guidelines.
- Be the person whose name appears on the gas bill.

TO APPLY:

Call or visit your local County Assistance Office. If you do not know how to contact your local County Assistance Office, please call our Universal Service Office and a Universal Service Representative will help you. Funds for this program are limited and are available on a first come-first served basis. Program dates are set by the government.



TO APPLY, YOU WILL NEED TO HAVE:

- PROOF OF MONTHLY AND/OR YEARLY INCOME FOR ALL MEMBERS OF YOUR HOME.
- NAMES, BIRTH DATES AND SOCIAL SECURITY NUMBERS FOR ALL HOUSEHOLD MEMBERS
- MONTHLY EXPENSES SUCH AS RENT, UTILITY BILLS, FOOD AND INSURANCE PAYMENTS.
- A RECENT HEATING BILL.

Energy Help Fund (EHF)

Peoples TWP's EHF is a low-income assistance program that will offer eligible residential customers a discounted monthly payment. Participants may be eligible for not only a discounted monthly payment, but also an opportunity to reduce any past due balances that they may owe Peoples TWP.

TO QUALIFY, CUSTOMERS MUST:

- Complete the EHF application.
- Fall within 150% of Federal Poverty Income Guidelines.
- Provide proof of income.

TO REMAIN IN THE PROGRAM, CUSTOMERS MUST:

- Pay their EHF payment by the due date.
- Notify a Universal Service Representative of any change in income, residence, or number of household members.
- Make a sincere effort to conserve natural gas.

Low Income Usage Reduction Program (LIURP)

Peoples TWP's LIURP is a weatherization program aimed at helping customers weatherize their home to reduce energy costs. Customers may qualify for improvements such as safety inspection and tune up of their gas furnace and hot water tank and insulation.

TO QUALIFY, CUSTOMERS MUST:

- Fall within 300% of Federal Poverty Income Guidelines.
- Have lived in the home at least one year.
- Plan to continue to live in the home for one year.
- Usage guidelines apply.

Peoples TWP CARES (Customer Assistance Referral Evaluation Services). We recognize that temporary hardships, such as loss of employment or loss of income caused by injury, illness, or the death of a wage earner may result in payment problems. Peoples TWP's CARES representatives help those customers by referring them to assistance programs specific to the customer's needs. There are no income guidelines to qualify for the CARES program.

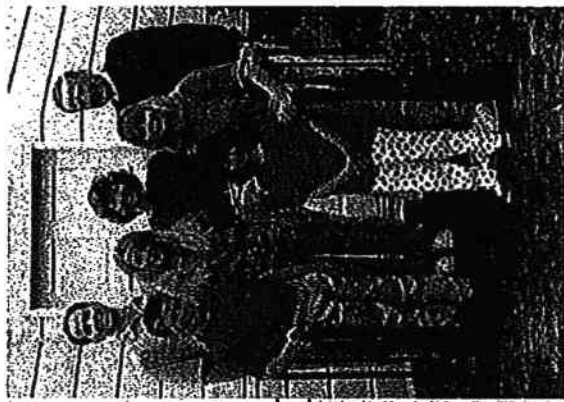


EXHIBIT "B"

CUSTOMER SERVICE
INFORMATION



Presenting your
new gas bill –
easier to read
and helps you track
your payments
and credits.



PEOPLES TWP

205 N. Main Street
Butler, PA 16001
www.twpPhillips.com

10 **EFFORTLESSLY**
Make calls, the American way.
A 100% monthly obligation.

PEOPLES TWP

Contact Information
Phone: 724-287-5220
E-mail: Support@PeoplesTwp.com
24 Hours a Day, 7 Days a Week
1-800-222-6161

Customer Account Number **Service Location Number** **Current Bill Date** **Payment Due Date**

Emergency
Call 24 Hours a Day
24 Hours a Day
1-800-222-6161

Service Address

General Information
Natural Gas Distribution Company (NGDC)
For the NGDC portion of your bill notify:
T. W. Phillips Gas and Oil Co.
205 North Main St.
Butler, PA 16001
1-800-222-6161
www.twpPhillips.com

Automated Billing Information
24 Hours a Day
1-800-222-6161

Summary of Your Recent EFF Activity

Included in Please Pay This Amount
EFF Monthly Amount
EFF Arrears Payment Amount
EFF Cash-By Amount
Please Pay This Amount

Arrears Forgiveness Information
Initial Arrears Amount
Ending Arrears Amount
Customer Payment Applied to Arrears
Company Arrears Forgiveness
Remaining Arrears Amount

Rate Discount Information
Pending Rate Discount Credit For This Bill
Total Rate Discount Credit Applied to Date

LHEAP Cash Grant Summary
Total LHEAP Cash Grants Received
Total LHEAP Cash Grants Used
Grant Amount Used This Month
Remaining Grant Amount

265.00	5322.28	26.00
55.00	5292.08	26.00
50.00	5242.00	26.00
50.00	5192.00	26.00
50.00	5142.00	26.00
50.00	5092.00	26.00
50.00	5042.00	26.00
50.00	4992.00	26.00
50.00	4942.00	26.00
50.00	4892.00	26.00
50.00	4842.00	26.00
50.00	4792.00	26.00
50.00	4742.00	26.00
50.00	4692.00	26.00
50.00	4642.00	26.00
50.00	4592.00	26.00
50.00	4542.00	26.00
50.00	4492.00	26.00
50.00	4442.00	26.00
50.00	4392.00	26.00
50.00	4342.00	26.00
50.00	4292.00	26.00
50.00	4242.00	26.00
50.00	4192.00	26.00
50.00	4142.00	26.00
50.00	4092.00	26.00
50.00	4042.00	26.00
50.00	3992.00	26.00
50.00	3942.00	26.00
50.00	3892.00	26.00
50.00	3842.00	26.00
50.00	3792.00	26.00
50.00	3742.00	26.00
50.00	3692.00	26.00
50.00	3642.00	26.00
50.00	3592.00	26.00
50.00	3542.00	26.00
50.00	3492.00	26.00
50.00	3442.00	26.00
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50.00	3242.00	26.00
50.00	3192.00	26.00
50.00	3142.00	26.00
50.00	3092.00	26.00
50.00	3042.00	26.00
50.00	2992.00	26.00
50.00	2942.00	26.00
50.00	2892.00	26.00
50.00	2842.00	26.00
50.00	2792.00	26.00
50.00	2742.00	26.00
50.00	2692.00	26.00
50.00	2642.00	26.00
50.00	2592.00	26.00
50.00	2542.00	26.00
50.00	2492.00	26.00
50.00	2442.00	26.00
50.00	2392.00	26.00
50.00	2342.00	26.00
50.00	2292.00	26.00
50.00	2242.00	26.00
50.00	2192.00	26.00
50.00	2142.00	26.00
50.00	2092.00	26.00
50.00	2042.00	26.00
50.00	1992.00	26.00
50.00	1942.00	26.00
50.00	1892.00	26.00
50.00	1842.00	26.00
50.00	1792.00	26.00
50.00	1742.00	26.00
50.00	1692.00	26.00
50.00	1642.00	26.00
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50.00	1342.00	26.00
50.00	1292.00	26.00
50.00	1242.00	26.00
50.00	1192.00	26.00
50.00	1142.00	26.00
50.00	1092.00	26.00
50.00	1042.00	26.00
50.00	992.00	26.00
50.00	942.00	26.00
50.00	892.00	26.00
50.00	842.00	26.00
50.00	792.00	26.00
50.00	742.00	26.00
50.00	692.00	26.00
50.00	642.00	26.00
50.00	592.00	26.00
50.00	542.00	26.00
50.00	492.00	26.00
50.00	442.00	26.00
50.00	392.00	26.00
50.00	342.00	26.00
50.00	292.00	26.00
50.00	242.00	26.00
50.00	192.00	26.00
50.00	142.00	26.00
50.00	92.00	26.00
50.00	42.00	26.00
50.00	0.00	26.00

11 **COMPANY (ARRANGE) FORGIVENESS**
Peoples TWP applies credits to your monthly bill when you make your EFF payment in full and on time.

12 **ARRANGE FORGIVENESS INFORMATION (NEW)**
Tracks your monthly arrange forgiveness activity including customer payments and Company credits towards the Initial Arrears Amount (see definitions below).

13 **RATE DISCOUNT INFORMATION (NEW)**
This is the portion of the new EFF bills that you do not have to pay when you pay the Please Pay This Amount in full and on time.

14 **LHEAP CASH GRANT SUMMARY (NEW)**
Tracks your LHEAP Cash grant activity including monthly grants applied and the remaining grant amount available to you.

Sample bill only

SEE IMPORTANT NEW BENEFITS TO HELP IN DIFFICULT TIMES.

- Affordable monthly payments based on your income...not your gas usage.
- Protects you against increases due to gas costs and the weather.
- Arreage Forgiveness program offered upon EHF enrollment.

1 ACCOUNT MESSAGES

See program and relevant messages on your account. Please be sure to read these messages each month.

2 PLEASE SEE PAGE 2 FOR DETAILS ABOUT THIS EHF BILL

Page 2 provides a summary of your EHF: arreage forgiveness, rate discount, LIFEAP, Cash grant and other special programs. (See the back of this brochure.)

3 INITIAL ARREAGE AMOUNT TRANSFERRED TO PAGE 2

Includes all owed balances, current and arrears, from bills before EHF enrollment. This is the amount eligible for EHF forgiveness.

4 LIFEAP CASH GRANT

The amount of the LIFEAP grant applied to your monthly bill will be the amount of the grant. Available to eligible customers. For more information, visit www.naturalgas.com.

5 RATES COUNT CREDIT APPLIED

This reflects the credit for the local Gas Charge, including taxes and surcharges, and the amount of the credit. This amount is applied to your bill. This amount is applied to your bill.

6 BALANCE TRANSFERRED TO ARREAGE ON PAGE 2

This portion of the EHF Monthly Plan Amount payment that is applied to arrears.

7 BALANCE BROUGHT FORWARD

If you made partial or no payments toward previous bills, the amount you owe is carried forward and will show here.

8 EHF MONTHLY PLAN AMOUNT

A percentage of income or a special budget amount that is part of your monthly payment amount.

9 PLEASE PAY THIS AMOUNT

Includes any catch-up amount, the customer portion of arreage forgiveness, and the EHF Monthly Plan Amount.

PEOPLES TWP

Customer Account Number: 07457446

Service Location Number: 30

Current Bill Date: 06/17/2011

Payments Due Date: 07/15/2011

Pay This Amount: \$600.00

Account Summary

Previous Account Balance: \$132.28

Payments & Adjustments: (\$132.28)

Initial Gas Grant: \$0.00

Arreage Forgiveness Credit Applied: \$0.00

Balance Brought Forward: \$0.00

NODC Gas Service Charges-ES: \$12.75

Administrative: \$25.00

Commodity: \$13.00

Gas Cost Adjustment: \$0.00

Delivery: \$4.14

Overhead: \$9.16

Total Gas Charges: \$64.05

Taxes and Surcharges: \$0.00

State Tax Adjustment: \$0.78

Other TFC: \$0.78

Total Taxes and Surcharges: \$1.56

TOTAL OTHER CHARGES & CREDITS (from Page 2): \$0.00

TOTAL ACCOUNT BALANCE: \$64.61

SEE PAGE 2 FOR DETAILS ABOUT YOUR EHF PROGRAM

EHF Monthly Plan Amount: \$0.00

NODC PAY THIS AMOUNT: \$600.00

Service Address: 2810 N. Philadelphia St., Suite 100, Philadelphia, PA 19101

Current Gas Usage: Meter: 07457446 (last read 06/17/2011)

Prior Month	Current Month	Current Month	Type	Actual	Estimated
05/15/11	06/17/11	354	Read	354	
05/15/11	06/17/11	361	Estimate		361

Gas Usage History in Brief: (Bar chart showing usage from May 15 to June 17, 2011)

Usage (in Brief) and Temperature Information:

Comparative Usage	Average Usage	Avg. Daily Temp.
May-10	354	58
May-11	354	58
May-11	361	58

General Information: Natural Gas Distribution Company (NODC), 200 N. Philadelphia St., Suite 100, Philadelphia, PA 19101. 1-800-225-5191

Please pay along perforation and return stub with your payment.

Sample bill only.

Peoples TWP Exhibit SJK-2

CUSTOMER ASSISTANCE PROGRAM INFORMATION



Presenting your new CAP gas bill

easier to read
and helps you track
your payments
and credits.



1-800-400-WARM

GAS BILL PAGE 1.

PEOPLES TWP
Bob C. Customer
100 Main Street
PITTSBURGH PA 15264-4760

Questions about this bill?
Please contact us before the due date on your bill at:
1-800-222-5101
Monday through Friday
(8:00 a.m. to 5:30 p.m.)

To Report an Emergency:
Call 1-800-222-5101
Answers 24 hours a day.

Write to us at:
Peoples TWP
205 N. Main Street
Butler, PA 16001
or www.peoples-twp.com

Hearing Impaired Customers:
Call 711 or 1-800-654-5988

Account Information
Customer Assistance Program (CAP) is a special payment plan that allows income eligible customers to make monthly payments based on their income and family size.

Pre-CAP amount you owe when you joined CAP \$319.28. Your pre-CAP balance is \$319.28.

Page 1

Bill Prepared: Dec 16, 2011
Account Number
000000000000
CAP BILL

Current Payments & Charges - Oct 18 - Nov 14

CAP Balance From Previous Bill	\$80.00
Your Monthly CAP Amount	\$89.00
Other Credits (see back for detail)	\$2.00
Other Charges (see back for detail)	\$0.00
Total Peoples Natural Gas Charges	\$91.00
Pay This Amount No Later Than Jan 9, 2012	\$91.00

Account Information
Actual Usage Billed \$153.00
Total Actual Usage Balance \$153.00
Monthly CAP Amount Due \$89.00
Pending CAP Credit \$64.00
CAP Program Credit Applied \$0.00

Other important information on back

Other important information on back
L.I.H.E.A.P., a federally funded program, provides energy assistance grants for income-eligible customers. The program opens November 1 and funds are limited. If you are out of work or on a low or fixed income, you should apply now. For details, call 1-800-400-WARM (9276).

Return this part to address below with a check made payable to Peoples Natural Gas.

Account Information
DUE DATE: Jan 9, 2012 / Account No.: 000000000000
Amount Enclosed: \$91.00
CAP Amount Due: \$91.00

PEOPLES TWP
205 N. Main Street
Butler, PA 16001

Bob C. Customer
100 Main Street
PITTSBURGH PA 15264-4760

1

Your account number.

2

Your payment based on your income.

3

Credit you will receive upon payment of the CAP amount

4

Pay this amount to stay in the program.

5

Pay this amount to stay in the program.

6

Current charges for the gas you used.

Sample bill only.

THE LAYOUT OF YOUR CAP BILL HAS CHANGED.

These changes have been made to:

- Make the bill easier to read and understand.
- Provide you with more information on the Customer Assistance Program (CAP).
- Give you important information on your CAP account.



GAS BILL PAGE 2.

PEOPLES TWP

Bob C. Customer
100 Main Street
PITTSBURGH PA 15264-4760

Questions about this bill?
Please contact us before the due date on your bill at 1-800-222-5101 Monday through Friday (8:00 a.m. to 5:30 p.m.)

To Report an Emergency:
Call 1-800-222-5101
Answers 24 hours a day.

Write to us at:
Peoples Twp
205 N. Main Street
Butler, PA 16001
or www.peoplesntp.com

Hearing Impaired Customers
Call 711 or 1-800-654-5888

Page 2

Bill Prepared: Dec 16, 2011
Account Number: 000000000000
CAP BILL

Credits and Charges Since Last Bill

Credits: _____

Charges: _____

Understanding Your Bill

Natural Gas Use
This graph shows your natural gas use over the last 13 months.
Next meter reading on 12/14 - 12/16/2012.

Actual Charges for 17 MCF Gas Use in MCF

Average - Dec

Temperature	2010	2011
MCF per Day	47°F	48°F
Average Monthly Use:	0.0	0.2
Total Annual Use:	2.9 MCF	27.6 MCF

Meter Reading Information

Meter # 2141033	247.0
DEC 14, 2011 Estimate	290.0
NOV 17, 2011 Estimate	290.0
28 Days of MCF Billed	17

Types of Meter Readings

Actual - A reading by Peoples Natural Gas Co.
Estimated - Usage based on the weather and your past energy use.
Customer - A reading you give the Peoples Natural Gas Co.
Adjusted - We determine your usage from our actual reading we got close to the billing date.

How to Pay Your Bill

Online - Make your payments online. Visit our website at www.peoplesntp.com. Fees apply.
Bank Draft - Deducts the amount of your monthly gas bill directly from your checking or savings account. For more information, visit our website at www.peoplesntp.com.
Payment Agencies - Find a list of approved Payment Agencies in your area on our website at www.peoplesntp.com or call us at 1-800-400-WAFM(9276) for the list.
US Mail - Mail your payment to: Peoples TWP, 205 N. Main Street, Butler, PA 16001. **Please do not send cash.**

7

Your account number.

8

Lists any payments, credits or adjustments made to your account.

9

Lists any charges made to your account.

Sample bill only.

St. 6

P. Moul

Peoples TWP LLC
Direct Testimony of Paul R. Moul
Table of Contents

	<u>Page No.</u>
INTRODUCTION AND SUMMARY OF RECOMMENDATION	1
NATURAL GAS RISK FACTORS	6
FUNDAMENTAL RISK ANALYSIS	9
CAPITAL STRUCTURE RATIOS.....	17
COST OF SENIOR CAPITAL.....	19
COST OF EQUITY – GENERAL APPROACH	21
DISCOUNTED CASH FLOW	21
RISK PREMIUM ANALYSIS	35
CAPITAL ASSET PRICING MODEL	39
COMPARABLE EARNINGS	43
CONCLUSION ON COST OF EQUITY.....	46
Appendix A - Educational Background, Business Experience and Qualifications	

GLOSSARY OF ACRONYMS AND DEFINED TERMS

ACRONYM	DEFINED TERM
AFUDC	Allowance for Funds Used During Construction
β	Beta
b	Represents the retention rate that consists of the fraction of earnings that are not paid out as dividends
b x r	Represents internal growth
CAPM	Capital Asset Pricing Model
CCR	Corporate Credit Rating
CE	Comparable Earnings
DCF	Discounted Cash Flow
FOMC	Federal Open Market Committee
IGF	Internally Generated Funds
LDC	local distribution companies
LT	Long Term
NAIC	National Association of Insurance Commissioners
NARUC	National Association of Regulatory Utility Commissioners
PPUC	Pennsylvania Public Utility Commission
r	represents the expected rate of return on common equity
Rf	Risk-free rate of return
Rm	Return on the market
RP	Risk Premium
s	Represents the new common shares expected to be issued by a firm
S&P	Standard & Poor's
SBBI	Stocks, Bonds, Bills and Inflation
s x v	Represents external growth
SVO	Securities Valuation Office
v	Represents the value that accrues to existing shareholders from selling stock at a price different from book value
ytm	Yield to maturity

DIRECT TESTIMONY OF PAUL R. MOUL

INTRODUCTION AND SUMMARY OF RECOMMENDATION

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Paul Ronald Moul. My business address is 251 Hopkins Road,
3 Haddonfield, New Jersey 08033-3062. I am Managing Consultant at the firm P. Moul
4 & Associates, an independent financial and regulatory consulting firm. My
5 educational background, business experience and qualifications are provided in
6 Appendix A, which follows my direct testimony.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony presents evidence, analysis and a recommendation concerning the
9 appropriate cost of equity and overall rate of return that the Pennsylvania Public Utility
10 Commission (“PPUC” or the “Commission”) should recognize in the determination of
11 the revenues that Peoples TWP LLC (“PTWP” or the “Company”) should realize as a
12 result of this proceeding. My analysis and recommendation are supported by the
13 detailed financial data contained in Exhibit No. 110, which is a multi-page document
14 divided into fourteen (14) schedules.

15 **Q. Based upon your analysis, what is your conclusion concerning the appropriate
16 rate of return and cost of common equity for the Company?**

17 A. My conclusion is that the Company’s cost of common equity is 11.25%. As shown on
18 Schedule 1, I have presented the weighted average cost of capital for PTWP, which is
19 7.97%, and includes the 11.25% return on equity that I recommend. The resulting
20 overall cost of capital, which is the product of weighting the individual capital costs by
21 the proportion of each respective type of capital, should, if adopted by the
22 Commission, establish a compensatory level of return for the use of capital and

DIRECT TESTIMONY OF PAUL R. MOUL

1 provide the Company with the ability to attract capital on reasonable terms.

2 **Q. What background information have you considered in reaching a conclusion**
3 **concerning the Company's cost of capital?**

4 A. The Company provides natural gas service to approximately 60,000 customers in ten
5 counties in southwestern Pennsylvania. In 2011, gas throughput (both sales and
6 transportation) for PTWP was comprised of approximately 22% to residential, 12% to
7 commercial, and 66% to industrial customers. Overall, the Company's throughput is
8 represented by 33% to sales customers and 67% to transportation customers. The
9 heavy concentration of throughput to just 17 industrial customers (both sales and
10 transportation), which represents 13.3 million Mcf of throughput, signifies a high risk
11 profile for the Company. The Company obtains the majority of its natural gas supply
12 from local Pennsylvania producers and supplements that supply primarily with
13 interstate storage service. PTWP is a wholly-owned subsidiary of SteelRiver
14 Infrastructure Fund North America LP, which a privately held company.

15 **Q. How have you determined the cost of common equity in this case?**

16 A. The cost of common equity is established using capital market and financial data relied
17 upon by investors to assess the relative risk, and hence the cost of equity, for a natural
18 gas utility, such as PTWP. In this regard, I relied on four well-recognized measures of
19 the cost of equity: the Discounted Cash Flow ("DCF") model, the Risk Premium
20 ("RP") analysis, the Capital Asset Pricing Model ("CAPM"), and the Comparable
21 Earnings ("CE") approach. By considering the results of a variety of approaches, I
22 determined that the cost of common equity is 11.25%.

23 **Q. In your opinion, what factors should the Commission consider when determining**

DIRECT TESTIMONY OF PAUL R. MOUL

1 **the Company's cost of capital in this proceeding?**

2 A. The Commission's rate of return allowance must be set to cover the Company's
3 interest and dividend payments, provide a reasonable level of earnings retention,
4 produce an adequate level of internally generated funds to meet capital requirements,
5 be commensurate with the risk to which the Company's capital is exposed, assure
6 confidence in the financial integrity of the Company, support reasonable credit quality,
7 and allow the Company to raise capital on reasonable terms. The return that I propose
8 fulfills these established standards of a fair rate of return set forth by the landmark
9 Bluefield and Hope cases.¹

10 That is to say, my proposed rate of return is commensurate with returns
11 available on investments having corresponding risks.

12 **Q. How have you measured the cost of equity in this case?**

13 A. It is necessary to use a proxy group of companies to measure the Company's cost of
14 equity because its stock is not traded. The use of a proxy group to measure the
15 Company's current cost of equity is a common practice of analysts performing these
16 types of studies. The models that I used to measure the cost of common equity for the
17 Company were applied with market and financial data developed from a group of nine
18 (9) gas companies. The companies are: AGL Resources, Inc., Atmos Energy Corp.,
19 Laclede Group, Inc., New Jersey Resources Corp., Northwest Natural Gas, Piedmont
20 Natural Gas Co., South Jersey Industries, Inc., Southwest Gas Corporation, and WGL
21 Holdings, Inc. I will refer to these companies as the "Gas Group" throughout my
22 testimony.

¹Bluefield Water Works & Improvement Co. v. P.S.C. of West Virginia, 262 U.S. 679 (1923) and F.P.C. v. Hope Natural Gas Co., 320 U.S. 591 (1944).

DIRECT TESTIMONY OF PAUL R. MOUL

1 **Q. Please explain the selection process used to assemble the Gas Group?**

2 A. I began with the universe of gas utilities contained in the basic service of The Value
3 Line Investment Survey, which consists of eleven companies. Value Line is an
4 investment advisory service that is a widely used source in public utility rate cases.
5 Value Line is a database that is familiar to the Commission, and is widely available to
6 investors. Value Line is frequently used by utility witnesses and witnesses
7 representing opposing parties in public utility rate cases. I eliminated two companies
8 from the Value Line group when I assembled my Gas Group. The eliminations were
9 NiSource due to its electric operations and its natural gas pipeline and storage
10 operations and UGI Corporation because of its highly diversified businesses. The
11 remaining nine companies are included in my Gas Group.

12 **Q. How have you performed your cost of equity analysis with the market data for
13 the Gas Group?**

14 A. I have applied the models/methods for estimating the cost of equity using the average
15 data for the Gas Group. The use of a group average (or portfolio) of utilities will
16 reduce the effect that anomalous results for an individual company may have on the
17 rate of return determination. That is to say, by employing group average data, rather
18 than individual company analyses, I have helped to minimize the effect of extraneous
19 influences on the market data for an individual company.

20 **Q. Please summarize your cost of equity analysis.**

21 A. My cost of equity determination was derived from the results of the methods/models
22 identified above. In general, the use of more than one method provides a superior
23 foundation to arrive at the cost of equity. At any point in time, reliance on a single

DIRECT TESTIMONY OF PAUL R. MOUL

1 method can provide an incomplete measure of the cost of equity depending upon
2 extraneous factors that may influence market sentiment. The specific application of
3 these methods/models will be described later in my testimony. The following table
4 provides a summary of the indicated costs of equity using each of these approaches.

	<u>Gas Group</u>
DCF	10.21%
RP	12.66%
CAPM	11.07%
Comparable Earnings	12.85%

5 Viewing the results of the DCF and Risk Premium models the indicated cost of equity
6 is 11.44% ($10.21\% + 12.66\% = 22.87\% \div 2$). An alternative cost of equity
7 determination is 10.64% ($10.21\% + 11.07\% - 12.85\% \div 2$) using the DCF and CAPM
8 measures of the cost of equity. Using these indications the range of the cost of equity
9 is 10 $\frac{5}{8}$ % to 11 $\frac{1}{2}$ %, on a rounded basis. Within this range I recommend that PTWP's
10 rate be set at 11.25%, which represents the midpoint of the range (i.e., 11.06%) plus
11 0.19% in recognition of the exemplary performance of the Company's management.
12 The 11.25% return on equity satisfies a number of factors that influence the equity
13 return for PTWP. First, as I will discuss below, PTWP has more risk than the Gas
14 Group attributed to its smaller size, its more variable returns, its weaker credit quality,
15 and operational factors. As described in the testimony of Mr. Robert M. Hovanec, the
16 Company has undertaken many initiatives that have produced high quality service. In
17 recognition of its outstanding performance, the Company should be granted an

DIRECT TESTIMONY OF PAUL R. MOUL

1 opportunity to earn an 11.25% rate of return on common equity. My recommended
2 rate of return on common equity of 11.25% makes no provision for the prospect that
3 the rate of return may not be achieved due to unforeseen events, such as unexpected
4 spikes in the cost of purchased products and other expenses. To obtain new capital and
5 retain existing capital, the rate of return on common equity must be high enough to
6 satisfy investors' requirements. Indeed, in a study dated December 9, 2008, prepared
7 for the American Gas Foundation, it was noted that allowed equity returns below the
8 level required by investors may lessen a utility's ability to maintain and develop
9 systems that are necessary to provide natural gas service efficiently. Furthermore, the
10 report specifically found that returns below 10% would trigger broad disenchantment
11 with LDC investment.

NATURAL GAS RISK FACTORS

12
13 **Q. What factors currently affect the business risk of the natural gas utilities?**

14 A. Gas utilities face risks arising from competition, economic regulation, the business
15 cycle, and customer usage patterns. Today, they operate in a more complex
16 environment with time frames for decision-making considerably shortened. Their
17 business profile is influenced by market-oriented pricing for the commodity distributed
18 to customers and open access for the transportation of natural gas for large volume
19 customers.

20 Natural gas utilities have focused increased attention on safety and reliability
21 issues. In order to address these issues and to comply with new and pending pipeline
22 safety regulations, natural gas companies are now allocating more of their resources to
23 addressing aging infrastructure issues.

DIRECT TESTIMONY OF PAUL R. MOUL

1 **Q. Does the Company face competition in its natural gas business?**

2 A. Yes. PTWP operates in a market area that contains intense competition in all aspects
3 of its business. First, the existence of local gas production provides a bypass threat to
4 the Company. This situation will only become more intense with the development of
5 additional production from the Marcellus Shale formation. Second, four interstate
6 pipelines traverse the Company's service territory. This situation exposes the
7 Company to bypass for certain large volume customers. Third, the western area of
8 Pennsylvania is unique in that local distribution companies ("LDCs") operate with
9 overlapping service territories, which enable LDCs to compete with one another for
10 customers. Overall, the Company's risk of competition is considerably higher than
11 that faced by many LDCs, including the components of the Gas Group that I used to
12 measure the Company's cost of equity.

13 **Q. How does the Company's throughput to large volume customers affect its risk**
14 **profile?**

15 A. The Company's risk profile is strongly influenced by natural gas sold/delivered to
16 large volume customers. These customers are engaged in automotive, steel, chemical,
17 and other process endeavors. The threat of bypass is a common characteristic of large
18 volume users. In fact, most of the Company's largest customers are in close proximity
19 to bypass threats, such as local natural gas wells and interstate pipeline. The testimony
20 of Mr. Hovanec discusses this situation and its impact on the Company. Success in
21 this aspect of the Company's market is subject to the business cycle, the price of
22 alternative energy sources, and pressures from the competitors. Moreover, external
23 factors can also influence the Company's throughput to these customers which face

DIRECT TESTIMONY OF PAUL R. MOUL

1 competitive pressure on their operations from facilities located outside the Company's
2 service territory.

3 **Q. Are there other specific features of the Company's business that should be**
4 **considered when assessing the Company's risk?**

5 A. Yes. The Company has traditionally had low customer growth in its service territory.
6 Also, many of the Company's residential customers use natural gas for space heating
7 purposes. This indicates that a large proportion of the Company's residential
8 customers present a low load factor profile and that their energy demands are
9 significantly influenced by temperature conditions, over which the Company has
10 absolutely no control. For these sales, the Company's revenues are subject to
11 variations caused by weather abnormalities. All of the companies in the Gas Group
12 have tariff provisions that deal with these issues through various forms of revenue
13 decoupling. Without revenue decoupling or a weather normalization feature in its
14 tariff, PTWP operates with a higher risk profile.

15 **Q. Please indicate how its construction program affects the Company's risk profile.**

16 A. The Company is faced with the requirement to undertake major investments to
17 maintain and upgrade existing facilities in its service territory. To maintain safe and
18 reliable service to existing customers, the Company must invest to upgrade its
19 infrastructure. The rehabilitation of the Company's infrastructure represents a non-
20 revenue producing use of capital, especially in the context of very low customer
21 growth. For PTWP, it had 946.92 miles of its distribution mains constructed of
22 unprotected steel pipe as of year-end 2012. This represented 35% of its total
23 distribution system. Regarding its services, 10,966 or 18% of them are constructed of

DIRECT TESTIMONY OF PAUL R. MOUL

1 bare steel. While the Company has been steadily reducing the percentage of
2 unprotected steel over the years, additional capital will be required in the future for this
3 non-revenue producing investment. To maintain safe and reliable service to existing
4 customers, the Company projects its capital expenditures will be approximately \$99.1
5 million during the period 2013-2017. These expenditures represent approximately
6 58% (\$99.1 million ÷ \$169.5 million) of PTWP's net utility plant at December 31,
7 2012.

8 **Q. How should the Commission respond to the issues facing the natural gas utilities
9 and in particular PTWP?**

10 A. The Commission should recognize and take into account the competitive environment
11 in the natural gas business in determining the cost of capital for the Company and
12 provide a reasonable opportunity for the Company to actually achieve its cost of
13 capital. Such opportunity is critical for the Company in the situation where it must
14 raise capital to replace aging infrastructure and to meet safety requirements.

FUNDAMENTAL RISK ANALYSIS

16 **Q. Is it necessary to conduct a fundamental risk analysis to provide a framework for
17 a determination of a utility's cost of equity?**

18 A. Yes. It is necessary to establish a company's relative risk position within its industry
19 through a fundamental analysis of various quantitative and qualitative factors that bear
20 upon investors' assessment of overall risk and are detailed in the testimony of Messrs.
21 Hovanec, Wachter and Folks. The qualitative factors that bear upon the Company's
22 risk have already been discussed. The quantitative risk analysis follows. For this
23 purpose, I compared PTWP to the S&P Public Utilities, an industry-wide proxy

DIRECT TESTIMONY OF PAUL R. MOUL

1 consisting of various regulated businesses, and to the Gas Group.

2 **Q. What are the components of the S&P Public Utilities?**

3 A. The S&P Public Utilities is a widely recognized index that is comprised of electric
4 power and natural gas companies. These companies are identified on page 3 of
5 Schedule 4.

6 **Q. Is knowledge of a utility's bond rating an important factor in assessing its risk
7 and cost of capital?**

8 A. Yes. Knowledge of a company's credit quality rating is important because the cost of
9 each type of capital is directly related to the associated risk of the firm. So while a
10 company's credit quality risk is shown directly by the rating and yield on its bonds,
11 these relative risk assessments also bear upon the cost of equity. This is because a
12 firm's cost of equity is represented by its borrowing cost plus compensation to
13 recognize the higher risk of an equity investment compared to debt.

14 **Q. How do the bond ratings compare for PTWP, the Gas Group, and the S&P Public
15 Utilities?**

16 A. Bond ratings are a measure of a company's credit quality and represent one indication
17 of risk. I used bond ratings along with other measures of risk in analyzing PTWP, the
18 Gas Group, and the S&P Public Utilities. The ratings I obtained were those of
19 Standard and Poor's Corporation ("S&P"), Moody's Investors Services ("Moody's"),
20 and the National Association of Insurance Commissioners ("NAIC"). Both S&P and
21 Moody's are profit-making corporations. The corporate credit rating ("CCR"), a
22 designation by S&P, and Long Term ("LT") issuer rating used by Moody's focus upon
23 the credit quality of the issuer of the debt, rather than upon the debt obligation itself.

DIRECT TESTIMONY OF PAUL R. MOUL

1 **Q. Why is a NAIC rating an appropriate metric for bond ratings?**

2 A. The NAIC is a non-profit organization that is comprised of the chief insurance
3 regulators of the fifty states, the District of Columbia, and four U.S. territories.
4 Essentially, it is a trade association of insurance regulators, much like the National
5 Association of Regulatory Utility Commissioners (“NARUC”) is for the public utility
6 industry. But, the NAIC is more than merely a trade organization, i.e. it conducts
7 analysis that aids the state regulators in performing their oversight of the insurance
8 companies. As the NAIC has stated:

9 The quality of the assets of an insurance company has long been a key
10 concern to state insurance regulators. As the chief public officials charged
11 with the responsibility for monitoring the financial condition of insurers, state
12 regulators must keep a close watch on both the credit quality and the value of
13 those assets.

14
15 As noted, the valuation of the assets of insurance companies has been a matter of
16 concern to the NAIC for a very long period of time. The NAIC recognized the need
17 for the standardization of securities valuation across the U.S. and published its first
18 volume of *Valuation of Securities* in 1908. Later, in 1949, the NAIC set up the
19 Securities Valuation Office (“SVO”) to perform analytical valuations of the growing
20 number of securities owned by insurance companies that were acquired through
21 private placement. Privately placed securities owned by insurance companies typically
22 do not have credit quality ratings from Moody’s or S&P, other than in a few cases
23 where they obtain a private rating. The mission of the SVO is to provide state
24 insurance regulators and insurance companies with a uniform source of prices and
25 quality ratings for securities holdings in the portfolios of insurance companies. These
26 prices and quality ratings form what are known as “Association Values” that are used

DIRECT TESTIMONY OF PAUL R. MOUL

1 by insurance companies in their Annual Statements filed with state insurance
 2 regulators. The NAIC uses a six-category system for bond ratings.

3 **Q. Are NAIC designations comparable to S&P and Moody's?**

4 A. Yes. The NAIC designations provide credit quality ratings for privately placed debt
 5 securities that are not rated by Moody's and S&P. The chart below summarizes the
 6 alignment between the different ratings by S&P, Moody's and NAIC:

S&P	Moody's	NAIC	
AAA	Aaa	1	Investment Grade
AA+	Aa1	1	
AA	Aa2	1	
AA-	Aa3	1	
A+	A1	1	
A	A2	1	
A-	A3	1	
BBB+	Baa1	2	
BBB	Baa2	2	
BBB-	Baa3	2	↑
BB+	Ba1	3	Non- Investment Grade
BB	Ba2	3	
BB-	Ba3	3	
B+	B1	4	
B	B2	4	
B-	B3	4	
CCC	Caa	5	
CC	Ca	5	
C	C	5	↓
D	D	6	

7 **Q. What is PTWP's long-term debt designation on the NAIC scale?**

8 A. The long-term debt of PTWP carries a designation of "2" from the NAIC, which is at
 9 the bottom of the investment grade credit quality categories that would correspond
 10 with the BBB/Baa bond rating. It is important, therefore, that the Company experience
 11 an opportunity to achieve an adequate rate of return so that its credit quality conforms

DIRECT TESTIMONY OF PAUL R. MOUL

1 with the standards for stronger A credit quality. Presently, the average CCR for the
2 Gas Group is A- from S&P and the LT issuer rating is A3 from Moody's. For the S&P
3 Public Utilities, the average composite rating is BBB+ by S&P and Baa1 by Moody's.
4 Many of the financial indicators that I will subsequently discuss are considered during
5 the rating process.

6 **Q. How do the financial data compare for PTWP, the Gas Group, and the S&P**
7 **Public Utilities?**

8 A. The broad categories of financial data that I will discuss are shown on Schedules 2, 3,
9 and 4. The data cover the five-year period 2007-2011. This historical time period was
10 chosen because the 2012 annual data is presently unavailable from the S&P Utility
11 Compustat database that I used as a source for these schedules. The important
12 categories of relative risk may be summarized as follows:

13 Size. In terms of capitalization, PTWP is much smaller than the average size of
14 the Gas Group. The average size of the S&P Public Utilities is much larger than the
15 Gas Group, and the Gas Group is much larger than PTWP. All other things being
16 equal, a smaller company is riskier than a larger company because a given change in
17 revenue and expense has a proportionately greater impact on a small firm. As I will
18 demonstrate later, the size of a firm can impact its cost of equity. This is the case for
19 PTWP and the Gas Group.

20 Market Ratios. Market-based financial ratios provide a partial indication
21 of the investor-required cost of equity. If all other factors are equal, investors will
22 require a higher rate of return on equity for companies that exhibit greater risk, in
23 order to compensate for that risk. That is to say, a firm that investors perceive to have

DIRECT TESTIMONY OF PAUL R. MOUL

1 higher risks will experience a lower price per share in relation to expected earnings
2 and hence; a lower price-earnings ratio.²

3 There are no market ratios available for PTWP because the Company's
4 stock is not traded. The five-year average price-earnings multiple for the Gas Group
5 was slightly higher than that of the S&P Public Utilities. The five-year average
6 dividend yield was lower for the Gas Group as compared to the S&P Public Utilities.
7 The average market-to-book ratios were somewhat higher for the Gas Group compared
8 to the S&P Public Utilities.

9 Common Equity Ratio. The level of financial risk is measured by the
10 proportion of long-term debt and other senior capital that is contained in a company's
11 capitalization. Financial risk is also analyzed by comparing common equity ratios (the
12 complement of the ratio of debt and other senior capital). That is to say, a firm with a
13 high common equity ratio has lower financial risk, while a firm with a low common
14 equity ratio has higher financial risk. The five-year average common equity ratios,
15 based on permanent capital, were 50.2% for PTWP, 54.8% for the Gas Group, and
16 44.8% for the S&P Public Utilities. The financial risk for PTWP is fairly comparable
17 to that of the Gas Group.

18 Return on Book Equity. Greater variability (i.e., uncertainty) of a firm's earned
19 returns signifies relatively greater levels of risk, as shown by the coefficient of
20 variation (standard deviation ÷ mean) of the rate of return on book common equity.

21 The higher the coefficients of variation, the greater degree of variability. For the five-

²For example, two otherwise similarly situated firms each reporting \$1.00 earnings per share would have different market prices at varying levels of risk, i.e., the firm with a higher level of risk will have a lower share value, while the firm with a lower risk profile will have a higher share value.

DIRECT TESTIMONY OF PAUL R. MOUL

1 year period, the coefficients of variation were 0.429 (3.0% ÷ 7.0%) for PTWP, 0.063
2 (0.7% ÷ 11.1%) for the Gas Group, and 0.107 (1.2% ÷ 11.2%) for the S&P Public
3 Utilities. The earnings variability for PTWP was much higher than the Gas Group, and
4 hence the Company's risk is greater.

5 Operating Ratios. I have also compared operating ratios (the percentage of
6 revenues consumed by operating expense, depreciation and taxes other than income
7 taxes).³ The five-year average operating ratios were 89.2% for PTWP, 88.7% for the
8 Gas Group, and 82.8% for the S&P Public Utilities. The operating risk for PTWP is
9 similar, albeit slightly higher, than that of the Gas Group.

10 Coverage. The level of fixed charge coverage (i.e., the multiple by which
11 available earnings cover fixed charges, such as interest expense) provides an indication
12 of the earnings protection for creditors. Higher levels of coverage, and hence earnings
13 protection for fixed charges, are usually associated with superior grades of
14 creditworthiness. The five-year average interest coverage (excluding Allowance for
15 Funds Used During Construction ("AFUDC")) was 2.75 times for PTWP, 4.33 times
16 for the Gas Group, and 3.19 times for the S&P Public Utilities. The credit risk of
17 PTWP is well above that of the Gas Group, due to its much lower interest coverages.

18 Quality of Earnings. Measures of earnings quality usually are revealed by the
19 percentage of AFUDC related to income available for common equity, the effective
20 income tax rate, and other cost deferrals. These measures of earnings quality usually
21 influence a firm's internally generated funds because poor quality of earnings would
22 not generate high levels of cash flow. Quality of earnings has not been a significant

³ The complement of the operating ratio is the operating margin which provides a measure of profitability. The higher the operating ratio, the lower the operating margin.

DIRECT TESTIMONY OF PAUL R. MOUL

1 concern for PTWP, the Gas Group, and the S&P Public Utilities.

2 Internally Generated Funds. Internally generated funds (“IGF”) provide an
3 important source of new investment capital for a utility and represent a key measure of
4 credit strength. Historically, the five-year average percentage of IGF to capital
5 expenditures was 115.8% for PTWP, 106.4% for the Gas Group, and 93.0% for the
6 S&P Public Utilities. The cash flow for PTWP was somewhat stronger than that of the
7 Gas Group, thus pointing to lower risk.

8 Betas. The financial data that I have been discussing relate primarily to
9 company-specific risks. Market risk for firms with publicly-traded stock is measured
10 by beta coefficients. Beta coefficients attempt to identify systematic risk, i.e., the risk
11 associated with changes in the overall market for common equities. Value Line
12 publishes such a statistical measure of a stock’s relative historical volatility to the rest
13 of the market.⁴ A comparison of market risk is shown by the Value Line beta of .66 as
14 the average for the Gas Group (see page 2 of Schedule 3), and .76 as the average for
15 the S&P Public Utilities (see page 3 of Schedule 4).

16 **Q. Please summarize your risk evaluation of the Company and the Gas Group.**

17 A. The risk of PTWP is somewhat greater than that of the Gas Group. PTWP has higher
18 credit risk given its lower interest coverage and the “2” designation on its debt in the
19 NAIC classification system. Also, the Company’s small size and its highly variable
20 earnings add to its risk. Its IGF to construction is somewhat stronger thus pointing to

⁴ Beta is a relative measure of the historical sensitivity of the stock’s price to overall fluctuations in the New York Stock Exchange Composite Index. The “Beta coefficient” is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. The betas are adjusted for their long-term tendency to converge toward 1.00.

DIRECT TESTIMONY OF PAUL R. MOUL

1 lower risk. Other measures, e.g. financial risk, operating risk and quantity of earnings,
2 indicate that its risk is similar to the Gas Group. Further, based on the Company's
3 business risk characteristics, especially with regard to the threat of bypass from the
4 interstate pipelines and from natural gas that is available from the Marcellus Shale, its
5 high percentage of throughput to high volume customers, and its infrastructure needs
6 regarding a relatively high percentage of unprotected steel pipe, the Company's overall
7 risk is at the high end of the spectrum using the Gas Group data as a basis to measure
8 the Company's cost of equity. As such, the cost of equity derived from the Gas Group
9 would tend to understate the Company's cost of equity.

CAPITAL STRUCTURE RATIOS

11 **Q. Please explain the selection of capital structure ratios for PTWP.**

12 A. It is appropriate that PTWP's capital structure ratios be employed for rate of return
13 purposes. In the situation where the operating public utility raises its own debt directly
14 in the capital markets, as is the case for the Company, it is proper to employ the capital
15 structure ratios and senior capital cost rates of the regulated public utility for rate of
16 return purposes. Furthermore, consistency requires that the embedded cost rate of the
17 Company's senior securities also be employed. This procedure is consistent with the
18 ratesetting procedures used by the Commission in prior rate cases for PTWP.

19 **Q. Does Schedule 5 provide the Company's capitalization and capital structure
20 ratios?**

21 A. Yes. Schedule 5 presents the Company's capitalization and related capital structure
22 ratios based upon investor-provided capital. The December 31, 2012 capitalization
23 corresponds with the end of the historic test year in this case.

DIRECT TESTIMONY OF PAUL R. MOUL

1 The December 31, 2013 capitalization is estimated at the end of what was formerly
2 known as the future test year and the January 31, 2015 capitalization is at the end of
3 the fully forecast test year. The forecast capital structure reflects the planned issuance
4 of \$30 million of new long-term debt, the maturity of \$2.5 million of long-term debt,
5 and sinking fund payments on existing debt of \$11.818 million over a two-year period.
6 A forecast increase in retained earnings has also been recognized.

7 **Q. Should short-term debt be included in the capital structure for rate of return**
8 **purposes?**

9 A. Perhaps, but only after a thorough analysis. Short-term debt serves several purposes
10 for a public utility. Principally, it provides bridge financing for construction work in
11 progress, until the magnitude of short-term debt reaches a point where a permanent
12 financing with long-term debt and equity is economic. That is to say, short-term debt
13 is temporary financing pending the issuance of long-term debt and equity in the
14 desired proportions that support the Company's capital structure goals. For natural gas
15 utilities, short-term debt is also used to meet seasonal working capital needs related to
16 stored gas inventory that accumulates during the summer and early fall prior to the
17 send out to customers in the heating session. Short-term debt then declines after
18 customers pay for the gas sold to them. The cycle then repeats. Another use of short-
19 term debt by some natural gas utilities relates to the temporary financing of regulatory
20 assets, such as under-recovered purchased gas costs, deferred environmental
21 remediation costs, and other costs incurred but not yet paid by customers. The bottom
22 line is that short-term debt should be included in the capital structure for rate of return
23 purposes only after a detailed analysis.

DIRECT TESTIMONY OF PAUL R. MOUL

1 **Q. Does Schedule 5 include a provision for short-term debt?**

2 A. Yes. I have included the average balance of stored gas inventory and the non-working
3 capital balance of the revolving unsecured line of credit in the capital structure. The
4 twelve month average balance is used in the case of stored gas inventory and the end
5 of period balance is used for the non-working capital revolver. These amounts are
6 obtained from the respective test years.

7 **Q. What capital structure ratios do you recommend be adopted for rate of return
8 purposes in this proceeding?**

9 A. Since ratesetting is prospective, the rate of return should, at a minimum, reflect known
10 or reasonably foreseeable changes which will occur during the course of the future test
11 year, as well as those that are known to occur shortly thereafter. As a result, I will
12 adopt the Company's fully forecast test year-end capital structure ratios of 40.71%
13 long-term debt, 9.28% short-term debt and 50.01% common equity. These capital
14 structure ratios are the best approximation of the mix of capital the Company will
15 employ to finance its rate base during the period new rates are in effect.

16 COST OF SENIOR CAPITAL

17 **Q. What cost rate have you assigned to the debt portion of PTWP's capital
18 structure?**

19 A. Consistency with the capital structure ratios for the Company requires that the
20 embedded cost rates of PTWP's senior securities must also be employed. This
21 procedure is consistent with the ratesetting procedures used by the Commission in
22 prior PTWP rate cases. The determination of the cost of debt is essentially an
23 arithmetic exercise. This is due to the fact that the Company has contracted for the use

DIRECT TESTIMONY OF PAUL R. MOUL

1 of this capital for a specific period of time at a specified cost rate. As shown on page 1
2 of Schedule 6, the actual embedded cost rate of long-term debt was 5.71% on
3 December 31, 2012. By January 31, 2015, the embedded debt cost rate is estimated to
4 be 5.21%, as shown on page 3 of Schedule 6. The future test year and fully forecasted
5 test year costs of long-term debt reflects the estimated cost for the new \$30 million of
6 unsecured notes. That rate is estimated to be 4.50%. The effective cost is slightly
7 higher to reflect estimated issuance costs. The details leading to the development of
8 the individual effective cost rates for each series of long-term debt, using the cost rate
9 to maturity technique, are shown on page 4 of Schedule 6. The cost rate, or yield to
10 maturity (“ytm”), is the rate of discount that equates the present value of all future
11 interest and principal payments with the net proceeds of the bond.

12 I will adopt the 5.21% prospective embedded cost of debt for rate of return
13 purposes. The 5.21% debt cost rate is related to the amount of long-term debt shown
14 on Schedule 5 which provides the basis for the 40.71% long-term debt ratio.

15 **Q. What cost rate have you assigned to the short-term debt?**

16 A. I have used a cost of short-term debt of 2.35%, which represents the estimate for the
17 fully forecast rate year. The Company obtains its short-term debt from two major
18 banks and it pays a rate of interest equal to the one-month LIBOR plus 175 basis
19 points. For this case, a 0.60% LIBOR for the year 2014 was employed based upon the
20 forecast from the Blue Chip Financial Forecast dated December 1, 2012. Hence, the
21 estimate for short-term debt is comprised of the 0.60% LIBOR plus the spread, i.e.,
22 $0.60\% + 1.75\% = 2.35\%$.

DIRECT TESTIMONY OF PAUL R. MOUL

COST OF EQUITY – GENERAL APPROACH

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Q. Please describe the process you employed to determine the cost of equity for PTWP.

A. Although my fundamental financial analysis provides the required framework to establish the risk relationships among PTWP, the Gas Group, and the S&P Public Utilities, the cost of equity must be measured by standard financial models that I identified above. Differences in risk traits, such as size, business diversification, geographical diversity, regulatory policy, financial leverage, and bond ratings must be considered when analyzing the cost of equity.

It is also important to reiterate that no one method or model of the cost of equity can be applied in an isolated manner. Rather, informed judgment must be used to take into consideration the relative risk traits of the firm. It is for this reason that I have used more than one method to measure the Company's cost of equity. As I describe below, each of the methods used to measure the cost of equity contains certain incomplete and/or overly restrictive assumptions and constraints that are not optimal. Therefore, I favor considering the results from a variety of methods. In this regard, I applied each of the methods with data taken from the Gas Group and provided in recognition of the Company's greater risk and the exemplary performance of its management to arrive at a cost of equity of 11.25%.

DISCOUNTED CASH FLOW

Q. Please describe your use of the Discounted Cash Flow approach to determine the cost of equity.

A. The DCF model seeks to explain the value of an asset as the present value of future

DIRECT TESTIMONY OF PAUL R. MOUL

1 expected cash flows discounted at the appropriate risk-adjusted rate of return. In its
2 simplest form, the DCF return on common stock consists of a current cash (dividend)
3 yield and future price appreciation (growth) of the investment. The dividend discount
4 equation is the familiar DCF valuation model and assumes future dividends are
5 systematically related to one another by a constant growth rate. The DCF formula is
6 derived from the standard valuation model: $P = D/(k-g)$, where P = price, D =
7 dividend, k = the cost of equity, and g = growth in cash flows. By rearranging the
8 terms, we obtain the familiar DCF equation: $k = D/P + g$. All of the terms in the DCF
9 equation represent investors' assessment of expected future cash flows that they will
10 receive in relation to the value that they set for a share of stock (P). The DCF equation
11 is sometimes referred to as the "Gordon" model.⁵ My DCF results are provided on
12 page 2 of Schedule 1 for the Gas Group. The DCF return is 9.55%.

13 Among other limitations of the model, there is a certain element of circularity
14 in the DCF method when applied in rate cases. This is because investors' expectations
15 for the future depend upon regulatory decisions. In turn, when regulators depend upon
16 the DCF model to set the cost of equity, they rely upon investor expectations that
17 include an assessment of how regulators will decide rate cases. Due to this circularity,
18 the DCF model may not fully reflect the true risk of a utility.

19 **Q. Please explain the dividend yield component of a DCF analysis.**

20 A. The DCF methodology requires the use of an expected dividend yield to establish the
21 investor-required cost of equity. For the twelve months ended January 2013, the
22 monthly dividend yields are shown on Schedule 7 and reflect an adjustment to the

⁵Although the popular application of the DCF model is often attributed to the work of Myron J. Gordon in the mid-1950's, J. B. Williams explicated the DCF model in its present form nearly two decades earlier.

DIRECT TESTIMONY OF PAUL R. MOUL

1 month-end prices to reflect the buildup of the dividend in the price that has occurred
2 since the last ex-dividend date (i.e., the date by which a shareholder must own the
3 shares to be entitled to the dividend payment – usually about two to three weeks prior
4 to the actual payment).

5 For the twelve months ended January 2013, the average dividend yield was
6 3.80% for the Gas Group based upon a calculation using annualized dividend
7 payments and adjusted month-end stock prices. The dividend yields for the more
8 recent six- and three-month periods were 3.82% and 3.90%, respectively. I have used,
9 for the purpose of the DCF model, the six-month average dividend yield of 3.82% for
10 the Gas Group. The use of this dividend yield will reflect current capital costs, while
11 avoiding spot yields. For the purpose of a DCF calculation, the average dividend yield
12 must be adjusted to reflect the prospective nature of the dividend payments, i.e., the
13 higher expected dividends for the future. Recall that the DCF is an expectational
14 model that must reflect investor anticipated cash flows for the Gas Group. I have
15 adjusted the six-month average dividend yield in three different, but generally accepted
16 manners, and used the average of the three adjusted values as calculated in the lower
17 panel of data presented on Schedule 7. That adjusted dividend yield is 3.92% for the
18 Gas Group.

19 **Q. Please explain the underlying factors that influence investor's growth**
20 **expectations.**

21 A. As noted previously, investors are interested principally in the future growth of their
22 investment (i.e., the price per share of the stock). Future earnings per share growth
23 represent the DCF model's primary focus because under the constant price-earnings

DIRECT TESTIMONY OF PAUL R. MOUL

1 multiple assumption of the model, the price per share of stock will grow at the same
2 rate as earnings per share. In conducting a growth rate analysis, a wide variety of
3 variables can be considered when reaching a consensus of prospective growth,
4 including: earnings, dividends, book value, and cash flow stated on a per share basis.
5 Historical values for these variables can be considered, as well as analysts' forecasts
6 that are widely available to investors. A fundamental growth rate analysis also can be
7 formulated, which consists of internal growth (" $b \times r$ "), where " r " represents the
8 expected rate of return on common equity and " b " is the retention rate that consists of
9 the fraction of earnings that are not paid out as dividends. The internal growth rate can
10 be modified to account for sales of new common stock -- this is called external growth
11 (" $s \times v$ "), where " s " represents the new common shares expected to be issued by a firm
12 and " v " represents the value that accrues to existing shareholders from selling stock at
13 a price different from book value. Fundamental growth, which combines internal and
14 external growth, provides an explanation of the factors that cause book value per share
15 to grow over time.

16 Growth also can be expressed in multiple stages. This expression of growth
17 consists of an initial "growth" stage where a firm enjoys rapidly expanding markets,
18 high profit margins, and abnormally high growth in earnings per share. Thereafter, a
19 firm enters a "transition" stage where fewer technological advances and increased
20 product saturation begin to reduce the growth rate and profit margins come under
21 pressure. During the "transition" phase, investment opportunities begin to mature,
22 capital requirements decline, and a firm begins to pay out a larger percentage of
23 earnings to shareholders. Finally, the mature or "steady-state" stage is reached when a

DIRECT TESTIMONY OF PAUL R. MOUL

1 firm's earnings growth, payout ratio, and return on equity stabilizes at levels where
2 they remain for the life of a firm. The three stages of growth assume a step-down of
3 high initial growth to lower sustainable growth. Even if these three stages of growth
4 can be envisioned for a firm, the third "steady-state" growth stage, which is assumed to
5 remain fixed in perpetuity, represents an unrealistic expectation because the three
6 stages of growth can be repeated. That is to say, the stages can be repeated where
7 growth for a firm ramps-up and ramps-down in cycles over time.

8 **Q. What investor-expected growth rate is appropriate in a DCF calculation?**

9 A. Investors consider both company-specific variables and overall market sentiment (i.e.,
10 level of inflation rates, interest rates, economic conditions, etc.) when balancing their
11 capital gains expectations with their dividend yield requirements. I follow an approach
12 that is not rigidly formatted because investors are not influenced by a single set of
13 company-specific variables weighted in a formulaic manner. Therefore, in my
14 opinion, all relevant growth rate indicators using a variety of techniques must be
15 evaluated when formulating a judgment of investor-expected growth.

16 **Q. What data for the proxy group have you considered in your growth rate analysis?**

17 A. I have considered the growth in the financial variables shown on Schedules 8 and 9.
18 The historical growth rates were taken from the Value Line publication that provides
19 these data. As shown on Schedule 8, the historical growth of earnings per share was in
20 the range of 5.22% to 6.39% for the Gas Group.

21 Schedule 9 provides projected earnings per share growth rates taken from
22 analysts' forecasts compiled by IBES/First Call, SNL Financial, Zacks, Morningstar,
23 and Value Line. IBES/First Call, SNL Financial, Zacks, and Morningstar represent

DIRECT TESTIMONY OF PAUL R. MOUL

1 reliable authorities of projected growth upon which investors rely. The IBES/First
2 Call, SNL Financial, and Zacks growth rates are consensus forecasts taken from a
3 survey of analysts that make projections of growth for these companies. The
4 IBES/First Call, SNL Financial, Zacks, and Morningstar estimates are obtained from
5 the Internet and are widely available to investors. First Call probably is quoted most
6 frequently in the financial press when reporting on earnings forecasts. The Value Line
7 forecasts also are widely available to investors and can be obtained by subscription or
8 free-of-charge at most public and collegiate libraries. The IBES/First Call, SNL
9 Financial, Zacks, and Morningstar forecasts are limited to earnings per share growth,
10 while Value Line makes projections of other financial variables. The Value Line
11 forecasts of dividends per share, book value per share, and cash flow per share have
12 also been included on Schedule 9 for the Gas Group.

13 **Q. What specific evidence have you considered in the DCF growth analysis?**

14 A. As to the five-year forecast growth rates, Schedule 9 indicates that the projected
15 earnings per share growth rates for the Gas Group are 5.08% by IBES/First Call,
16 4.64% by SNL Financial, 4.51% by Zacks, 4.27% by Morningstar, and 4.94% by
17 Value Line. The Value Line projections indicate that earnings per share for the Gas
18 Group will grow prospectively at a more rapid rate (i.e., 4.94%) than the dividends per
19 share (i.e., 3.89%), which translates into a declining dividend payout ratio for the
20 future. As noted earlier, with the constant price-earnings multiple assumption of the
21 DCF model, growth for these companies will occur at the higher earnings per share
22 growth rate, thus producing the capital gains yield expected by investors.

23 **Q. What conclusion have you drawn from these data regarding the applicable**

DIRECT TESTIMONY OF PAUL R. MOUL

1 **growth rate to be used in the DCF model?**

2 A. A variety of factors should be examined to reach a conclusion on the DCF growth rate.
3 However, certain growth rate variables should be emphasized when reaching a
4 conclusion on an appropriate growth rate. First, historical and projected earnings per
5 share, dividends per share, book value per share, cash flow per share, and retention
6 growth represent indicators that could be used to provide an assessment of investor
7 growth expectations for a firm. However, although history cannot be ignored, it
8 cannot receive primary emphasis. This is because an analyst, when developing a
9 forecast of future earnings growth, would first apprise himself/herself of the historical
10 performance of a company. Hence, there is no need to count historical growth rates
11 separately, because historical performance already is reflected in analysts' forecasts.
12 Second, from the various alternative measures of growth identified above, earnings per
13 share should receive greatest emphasis. Earnings per share growth are the primary
14 determinant of investor expectations regarding their total returns in the stock market.
15 This is because the capital gains yield (i.e., price appreciation) will track earnings
16 growth with a constant price earnings multiple (a key assumption of the DCF model).
17 Moreover, earnings per share (derived from net income) are the source of dividend
18 payments, and are the primary driver of retention growth and its surrogate, i.e., book
19 value per share growth. As such, under these circumstances, greater emphasis must be
20 placed upon projected earnings per share growth. In this regard, it is worthwhile to
21 note that Professor Myron Gordon, the foremost proponent of the DCF model in rate
22 cases, concluded that the best measure of growth in the DCF model is a forecast of

DIRECT TESTIMONY OF PAUL R. MOUL

1 earnings per share growth.⁶ Hence, to follow Professor Gordon's findings, projections
2 of earnings per share growth, such as those published by IBES/First Call, SNL
3 Financial, Zacks, Morningstar, and Value Line, represent a reasonable assessment of
4 investor expectations.

5 The forecasts of earnings per share growth, as shown on Schedule 9, provide
6 a range of growth rates of 4.27% to 5.08%. Although the DCF growth rates cannot be
7 established solely with a mathematical formulation, it is my opinion that an investor-
8 expected growth rate of 5.00% is within the array of earnings per share growth rates
9 shown by the analysts' forecasts. While the growth rate that I determined for the DCF
10 analysis is higher than the midpoint of the range noted above, it is reflective of growth
11 that is associated with improving business conditions. The stellar performance of the
12 stock market in 2013 points to an improving economy, as it is one of the leading
13 economic indicators compiled by The Conference Board. In fact, the Leading
14 Economic Index of which the financial components include the stock market has
15 increased in five of the last six months. In addition, "the strengths among the leading
16 indicators have become more widespread in recent months," said The Conference
17 Board. The Value Line forecast of dividend per share growth is inadequate in this
18 regard due to the forecasted decline in the dividend payout ratio. Moreover, the
19 restructuring and consolidation now taking place in the utility industry will provide
20 additional risks and opportunities as the utility industry adapts to the evolving business
21 environment. These changes in growth fundamentals will undoubtedly develop
22 beyond the next five years typically considered in the analysts' forecasts, and will

⁶Gordon, Gordon & Gould, "Choice Among Methods of Estimating Share Yield," The Journal of Portfolio Management (Spring 1989).

DIRECT TESTIMONY OF PAUL R. MOUL

1 enhance the growth prospects for the future. Further, additional growth will develop
2 beyond the next five years that is not reflected in the analysts' growth forecasts today.
3 In my opinion, a 5.00% growth rate will accommodate all these factors considering
4 that analyst's growth forecasts are currently depressed.

5 **Q. Are the dividend yield and growth components of the DCF adequate to explain**
6 **the rate of return on common equity when it is used in the calculation of the**
7 **weighted average cost of capital?**

8 A. Only if the capital structure ratios are measured with the market value of debt and
9 equity. In the case of the Gas Group, those capital structure ratios are 33.55% long-
10 term debt, 0.11% preferred stock, and 66.34% common equity, as shown on Schedule
11 10. If book values are used to compute the capital structure ratios, then an adjustment
12 is required.

13 **Q. Please explain why.**

14 A. If regulators use the results of the DCF (which are based on the market price of the
15 stock of the companies analyzed) to compute the weighted average cost of capital
16 based on a book value capital structure used for ratesetting purposes, the utility will
17 not, by definition, recover its risk-adjusted capital cost. This is because market
18 valuations of equity are based on market value capital structures, which in general
19 have more equity and less debt and therefore reflect less risk than book value capital
20 structures (see Schedule 10 for the comparison). The utility's risk-adjusted cost of
21 equity will necessarily be lower with the market value capital structure than it is
22 relative to the book value capital structure. The difference represents that portion of
23 the utility's cost of equity that it will not recover unless either the market value cost of

DIRECT TESTIMONY OF PAUL R. MOUL

1 equity is applied to the utility's market value capital structure or it is adjusted to reflect
2 the higher risk associated with the book value capital structure. By the same token, if
3 the utility's market value capital structure is less than its book value structure, then the
4 utility's market cost of equity should be adjusted downward to reflect the lower risk
5 associated with the book value capital structure, or else the utility will over-recover its
6 total cost of equity.

7 This shortcoming of the DCF has persuaded the Pennsylvania Public Utility
8 Commission to adjust the DCF determined cost of equity upward to make the return
9 consistent with the book value capital structure. Specific adjustments to recognize this
10 risk difference were made in the following cases:

- 11 • January 10, 2002 for Pennsylvania-American Water Company in Docket No.
12 R-00016339 -- 60 basis points adjustment.
- 13 • August 1, 2002 for Philadelphia Suburban Water Company in Docket No.
14 R-00016750 -- 80 basis points adjustment.
- 15 • January 29, 2004 for Pennsylvania-American Water Company in Docket No.
16 R-00038304 (affirmed by the Commonwealth Court on November 8, 2004) -- 60
17 basis points adjustment.
- 18 • August 5, 2004 for Aqua Pennsylvania, Inc. in Docket No. R-00038805 -- 60
19 basis points adjustment.
- 20 • December 22, 2004 for PPL Electric Utilities Corporation in Docket No.
21 R-00049255 -- 45 basis points adjustment.
- 22 • February 8, 2007 for PPL Gas Utilities Corporation in Docket No. R-00061398 --
23 70 basis points adjustment.

24
25 In order to make the DCF results relevant to the capitalization measured at book value
26 (as is done for rate setting purposes), the market-derived cost rate cannot be used
27 without modification.

28 **Q. Is your leverage adjustment dependent upon the market valuation or book**
29 **valuation from an investor's perspective?**

30 **A.** The only perspective that is important to investors is the return that they can realize on

DIRECT TESTIMONY OF PAUL R. MOUL

1 the market value of their investment. As I have measured the DCF, the simple yield
2 (D/P) plus growth (g) provides a return applicable strictly to the price (P) that an
3 investor is willing to pay for a share of stock. The need for the leverage adjustment
4 arises when the results of the DCF model (k) are to be applied to a capital structure
5 that is different than indicated by the market price (P). From the market perspective,
6 the financial risk of the Gas Group is accurately measured by the capital structure
7 ratios calculated from the market capitalization of a firm. If the ratesetting process
8 utilized the market capitalization ratios, then no additional analysis or adjustment
9 would be required, and the simple yield (D/P) plus growth (g) components of the DCF
10 would satisfy the financial risk associated with the market value of the equity
11 capitalization. Because the ratesetting process uses a different set of ratios calculated
12 from the book value capitalization, then further analysis is required to synchronize the
13 financial risk of the book capitalization with the required return on the book value of
14 the equity. This adjustment is developed through precise mathematical calculations,
15 using well recognized analytical procedures that are widely accepted in the financial
16 literature. To arrive at that return, the rate of return on common equity is the
17 unleveraged cost of capital (or equity return at 100% equity) plus one or more terms
18 reflecting the increase in financial risk resulting from the use of leverage in the capital
19 structure. The calculations presented in the lower panel of data shown on Schedule 10,
20 under the heading "M&M," provides a return of 7.70% when applicable to a capital
21 structure with 100% common equity.

22 **Q. How is the DCF-determined cost of equity adjusted for the financial risk**
23 **associated with the book value of the capitalization?**

DIRECT TESTIMONY OF PAUL R. MOUL

1 A. In pioneering work, Nobel laureates Modigliani and Miller developed several theories
2 about the role of leverage in a firm's capital structure. As part of that work, Modigliani
3 and Miller established that, as the borrowing of a firm increases, the expected return on
4 stockholders' equity also increases. This principle is incorporated into my leverage
5 adjustment, which recognizes that the expected return on equity increases to reflect the
6 increased risk associated with the higher financial leverage shown by the book value
7 capital structure, as compared to the market value capital structure that contains lower
8 financial risk. Modigliani and Miller proposed several approaches to quantify the
9 equity return associated with various degrees of debt leverage in a firm's capital
10 structure. These formulas point toward an increase in the equity return associated with
11 the higher financial risk of the book value capital structure. Simply stated, the
12 leverage adjustment contains no factor for a particular market-to-book ratio. It merely
13 expresses the cost of equity as the unleveraged return plus compensation for the
14 additional risk of introducing debt and/or preferred stock into the capital structure.
15 There can be no dispute that a firm's financial risk varies with the relative amount of
16 leverage contained in its capital structure.

17 **Q. Is the leverage adjustment that you propose designed to transform the market**
18 **return into one that is designed to produce a particular market-to-book ratio?**

19 A. No, it is not. The adjustment that I label as a "leverage adjustment" is merely a
20 convenient way of showing the amount that must be added to (or subtracted from) the
21 result of the simple DCF model (i.e., $D/P + g$), in the context of a return that applies to
22 the capital structure used in ratemaking, which is computed with book value weights
23 rather than market value weights, in order to arrive at the utility's total cost of equity.

DIRECT TESTIMONY OF PAUL R. MOUL

1 I specify a separate factor, which I call the leverage adjustment, but there is no need to
2 do so other than providing identification for this factor. If I expressed my return solely
3 in the context of the book value weights that we use to calculate the weighted average
4 cost of capital, and ignore the familiar $D/P + g$ expression entirely, then there would be
5 no separate element to reflect the financial leverage change from market value to book
6 value capitalization. As shown in the bottom panel of data on Schedule 10, the equity
7 return applicable to the book value common equity ratio is equal to 7.70%, which is
8 the return for the Gas Group applicable to its equity with no debt in its capital structure
9 (i.e., the cost of capital is equal to the cost of equity with a 100% equity ratio) plus
10 1.84% compensation for having a 43.21% debt ratio, plus 0.01% for having a 0.17%
11 preferred stock ratio. The sum of the parts is 9.55% ($7.70\% + 1.84\% + 0.01\%$) and
12 there is no need to even address the cost of equity in terms of $D/P + g$. To express this
13 same return in the context of the familiar DCF model, I summed the 3.92% dividend
14 yield, the 5.00% growth rate, and the 0.63% for the leverage adjustment in order to
15 arrive at the same 9.55% ($3.92\% + 5.00\% + 0.63\%$) return. I know of no means to
16 mathematically solve for the 0.63% leverage adjustment by expressing it in the terms
17 of any particular relationship of market price to book value. The 0.63% adjustment is
18 merely a convenient way to compare the 9.55% return computed directly with the
19 Modigliani & Miller formulas to the 8.92% return generated by the DCF model based
20 on a market value capital structure. My point is that when we use a market-determined
21 cost of equity developed from the DCF model, it reflects a level of financial risk that is
22 different (in this case, lower) from the capital structure stated at book value. This
23 process has nothing to do with targeting any particular market-to-book ratio. Each of

DIRECT TESTIMONY OF PAUL R. MOUL

1 the calculations that I describe above apply to the market returns associated with the
2 holding companies from which the DCF is derived. It is well understood that the
3 leverage employed by the utility subsidiaries of those holding companies is reflective
4 of the risks associated with the utility business.

5 **Q. Is an adjustment to the DCF results for the Gas Group required to account for**
6 **the weaker credit quality of PTWP?**

7 A. Yes. As noted previously, the “2” designation on the Company’s debt places it in the
8 BBB credit quality category as compared to the A-rated credit quality of the Gas
9 Group. The DCF returns that are produced for the Gas Group relate to the average
10 credit quality of that group. In order to provide some recognition of the additional
11 return that is required to compensate PTWP for its higher risk, I have reviewed the
12 difference in yields on A-rated and Baa-rated public utility debt. The yield difference
13 is related to the additional return required when risk increases, i.e., generally bond
14 yields increase as credit quality declines. The yield difference between A-rated and
15 Baa-rated public utility bonds is used as a proxy for quantifying this additional risk.

16 As shown by the data presented on page 1 of Schedule 11, the difference in
17 yields between A-rated and Baa-rated public utility bonds was 0.66% (4.65% - 3.99%)
18 for the six-months ended January 2013. This yield difference should be added to the
19 DCF calculation for the Gas Group to provide some recognition of the higher risk of
20 PTWP due to its weaker credit quality risk. As such, the DCF return requires an
21 adjustment to provide a 10.21% (9.55% + 0.66%) return that will recognize the higher
22 risk of PTWP, as revealed on page 2 of Schedule 1.

DIRECT TESTIMONY OF PAUL R. MOUL

RISK PREMIUM ANALYSIS

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Q. Please describe your use of the risk premium approach to determine the cost of equity.

A. With the Risk Premium approach, the cost of equity capital is determined by corporate bond yields plus a premium to account for the fact that common equity is exposed to greater investment risk than debt capital. The result of my Risk Premium study is shown on page 2 of Schedule 1. That result is 12.00%. As with other models used to determine the cost of equity, the Risk Premium approach has its limitations, including potential imprecision in the assessment of the future cost of corporate debt and the measurement of the risk-adjusted common equity premium.

Q. What long-term public utility debt cost rate did you use in your risk premium analysis?

A. In my opinion, a 5.00% yield represents a reasonable estimate of the prospective yield on long-term A-rated public utility bonds.

Q. What forecasts of interest rates have you considered in your analysis?

A. I have determined the prospective yield on A-rated public utility debt by using the Blue Chip Financial Forecasts (“Blue Chip”) along with the spread in the yields that I describe below. The Blue Chip is a reliable authority and contains consensus forecasts of a variety of interest rates compiled from a panel of banking, brokerage, and investment advisory services. In early 1999, Blue Chip stopped publishing forecasts of yields on A-rated public utility bonds because the Federal Reserve deleted these yields from its Statistical Release H.15. To independently project a forecast of the yields on A-rated public utility bonds, I have combined the forecast yields on long-term

DIRECT TESTIMONY OF PAUL R. MOUL

1 Treasury bonds published on February 1, 2013, and a yield spread of 1.50%, derived
2 from historical data.

3 **Q. What historical data have you analyzed?**

4 A. I have analyzed the historical yields on the Moody's index of long-term public utility
5 debt and are shown on page 1 of Schedule 11. For the twelve months ended January
6 2013, the average monthly yield on Moody's index of A-rated public utility bonds was
7 4.11%. For the six and three-month periods ended January 2013, the yields were
8 3.99% and 4.00%, respectively. During the twelve-months ended January 2013, the
9 range of the yields on A-rated public utility bonds was 3.84% to 4.48%. Page 2 of
10 Schedule 11 shows the long-run spread in yields between A-rated public utility bonds
11 and long-term Treasury bonds. As shown on page 3 of Schedule 11, the yields on A-
12 rated public utility bonds have exceeded those on Treasury bonds by 1.57% on a
13 twelve-month average basis, 1.50% on a six-month average basis, and 1.48% on a
14 three-month average basis. From these averages, 1.50% represents a reasonable spread
15 for the yield on A-rated public utility bonds over Treasury bonds.

16 **Q. How have you used these data to project the yield on A-rated public utility bonds
17 for the purpose of your Risk Premium analyses?**

18 A. Shown below, is my calculation of the prospective yield on A-rated public utility
19 bonds using the building blocks discussed above, i.e., the Blue Chip forecast of
20 Treasury bond yields and the public utility bond yield spread. For comparative
21 purposes, I also have shown the Blue Chip forecasts of Aaa-rated and Baa-rated
22 corporate bonds. These forecasts are:

DIRECT TESTIMONY OF PAUL R. MOUL

		<u>Blue Chip Financial Forecasts</u>			<u>A-rated Public Utility</u>	
<u>Year</u>	<u>Quarter</u>	<u>Corporate</u>		<u>30-Year Treasury</u>	<u>Spread</u>	<u>Yield</u>
		<u>Aaa-rated</u>	<u>Baa-rated</u>			
2013	First	3.7%	4.7%	3.0%	1.50%	4.50%
2013	Second	3.8%	4.8%	3.1%	1.50%	4.60%
2013	Third	3.8%	4.9%	3.2%	1.50%	4.70%
2013	Fourth	3.9%	4.9%	3.3%	1.50%	4.80%
2014	First	4.1%	5.1%	3.4%	1.50%	4.90%
2014	Second	4.2%	5.2%	3.5%	1.50%	5.00%

1 **Q. Are there additional forecasts of interest rates that extend beyond those shown**
 2 **above?**

3 A. Yes. Twice yearly, Blue Chip provides long-term forecasts of interest rates. In its
 4 December 1, 2012 publication, Blue Chip published longer-term forecasts of interest
 5 rates, which were reported to be:

<u>Blue Chip Financial Forecasts</u>			
<u>Averages</u>	<u>30-Year Treasury</u>	<u>Corporate</u>	
		<u>Aaa-rated</u>	<u>Baa-rated</u>
2014-18	4.7%	5.4%	6.4%
2019-23	5.5%	6.1%	7.1%

6 Given these forecasted interest rates, a 5.00% yield on A-rated public utility bonds
 7 represents a reasonable expectation.

8 **Q. What equity risk premium have you determined for this case?**

9 A. To develop an appropriate equity risk premium, I analyzed the results from the 2012
 10 Classic Yearbook for Stocks, Bonds, Bills and Inflation (“SBBI”) published by
 11 Ibbotson Associates that is part of Morningstar. My investigation reveals that the
 12 equity risk premium varies according to the level of interest rates. That is to say, the
 13 equity risk premium increases as interest rates decline and it declines as interest rates
 14 increase. This inverse relationship is revealed by the summary data presented below

DIRECT TESTIMONY OF PAUL R. MOUL

1 and shown on page 1 of Schedule 12.

Common Equity Risk Premiums

Low Interest Rates	7.04%
Average Across All Interest Rates	5.41%
High Interest Rates	3.77%

2
3 Based on my analysis of the historical data, the equity risk premium was
4 7.04% when the marginal cost of long-term government bonds was low (i.e., 3.05%,
5 which was the average yield during periods of low rates). Conversely, when the yield
6 on long-term government bonds was high (i.e., 7.35% on average during periods of
7 high interest rates) the spread narrowed to 3.77%. Over the entire spectrum of interest
8 rates, the equity risk premium was 5.41% when the average government bond yield
9 was 5.20%. With the current low interest rates today, an equity risk premium of
10 7.00% is indicated today.

11 **Q. Does your Risk Premium approach require a separate adjustment to account for**
12 **the credit quality risk of PTWP?**

13 A. Yes. As I noted previously, PTWP carries a "2" designation on its debt in the NAIC
14 system of measuring credit quality. This means that the Risk Premium cost rate shown
15 on page 2 of Schedule 1 would understate the Company's cost of equity by 0.66%
16 (4.65% - 3.99%), because the 12.00% return shown there is based on the yield on A-
17 rated public utility debt. As such, the Risk Premium cost rate for PTWP is 12.66%
18 (12.00% + 0.66%) when accounting for the higher yield associated with Baa-rated
19 public utility debt.

DIRECT TESTIMONY OF PAUL R. MOUL

1

CAPITAL ASSET PRICING MODEL

2 **Q. What are the features of the CAPM as you have used it?**

3 A. The CAPM uses the yield on a risk-free interest bearing obligation plus a rate of return
4 premium that is proportional to the systematic risk of an investment. The result of the
5 CAPM is 11.07% as shown on page 2 of Schedule 1. To compute the cost of equity
6 with the CAPM, three components are necessary: a risk-free rate of return (“Rf”), the
7 beta measure of systematic risk (“ β ”), and the market risk premium (“ $R_m - R_f$ ”) derived
8 from the total return on the market of equities reduced by the risk-free rate of return.
9 The CAPM specifically accounts for differences in systematic risk (i.e., market risk as
10 measured by the beta) between an individual firm or group of firms and the entire
11 market of equities.

12 **Q. What betas have you considered in the CAPM?**

13 A. For my CAPM analysis, I initially considered the Value Line betas. As shown on
14 Schedule 10, the average beta is 0.66 for the Gas Group.

15 **Q. What betas have you used in the CAPM determined cost of equity?**

16 A. The betas must be reflective of the financial risk associated with the ratesetting capital
17 structure that is measured at book value. Therefore, Value Line betas cannot be used
18 directly in the CAPM, unless the cost rate developed using those betas is applied to a
19 capital structure measured with market values. To develop a CAPM cost rate
20 applicable to a book-value capital structure, the Value Line (market value) betas have
21 been unleveraged and releveraged for the book value common equity ratios using the

DIRECT TESTIMONY OF PAUL R. MOUL

1 Hamada formula,⁷ as follows:

$$2 \quad \beta_l = \beta_u [1 + (1 - t) D/E + P/E]$$

3 where β_l = the leveraged beta, β_u = the unleveraged beta, t = income tax rate, D = debt
4 ratio, P = preferred stock ratio, and E = common equity ratio. The betas published by
5 Value Line have been calculated with the market price of stock and, therefore, are
6 related to the market value capitalization. By using the formula shown above and the
7 capital structure ratios measured at market value, the beta would become 0.50 for the
8 Gas Group if it employed no leverage and was 100% equity financed. Those
9 calculations are shown on Schedule 10 under the category "Hamada" who is credited
10 with developing those formulas. With the unleveraged beta as a base, I calculated the
11 leveraged beta of 0.75 for the book value capital structure of the Gas Group. The book
12 value leveraged beta that I will employ in the CAPM cost of equity is 0.75 for the Gas
13 Group.

14 **Q. What risk-free rate have you used in the CAPM?**

15 A. As shown on page 1 of Schedule 13, I provided the historical yields on Treasury notes
16 and bonds. For the twelve months ended January 2013, the average yield on 30-year
17 Treasury bonds was 2.93%. For the six- and three-months ended January 2013, the
18 yields on 30-year Treasury bonds were 2.89% and 2.92%, respectively. During the
19 twelve-months ended January 2013, the range of the yields on 30-year Treasury bonds
20 was 2.59% to 3.28%. The recent low yields on Treasury bonds can be traced to events
21 that have occurred during the past several years that included the financial crisis and its
22 aftermath. The resulting decline in the yields on Treasury obligations can be attributed

⁷Robert S. Hamada, "The Effects of the Firm's Capital Structure on the Systematic Risk of Common Stocks" *The Journal of Finance* Vol. 27, No. 2, Papers and Proceedings of the Thirtieth Annual Meeting of the American Finance Association, New Orleans, Louisiana, December 27-29, 1971. (May 1972), pp.435-452

DIRECT TESTIMONY OF PAUL R. MOUL

1 to a number of factors, including: the sovereign debt crisis in the euro zone, concern
2 over a possible double dip recession, the potential for deflation, and the Federal
3 Reserve's large balance sheet that has been expanded through the purchase of Treasury
4 obligations and mortgage-backed securities (also known as QEI, QEII, and QEIII), and
5 the reinvestment of the proceeds from maturing obligations and the lengthening of the
6 maturity of the Fed's bond portfolio through the sale of short-term Treasuries and the
7 purchase of long-term Treasury obligations (also known as "operation twist").
8 Essentially, low interest rates are the product of the policy of the FOMC in its attempt
9 to deal with stagnant job growth, which is part of its dual mandate. As shown on page
10 2 of Schedule 13, forecasts published by Blue Chip on February 1, 2013 indicate that
11 the yields on long-term Treasury bonds are expected to be in the range of 3.0% to
12 3.5% during the next six quarters. The longer term forecasts described previously
13 show that the yields on 30-year Treasury bonds will average 4.7% from 2014 through
14 2018 and 5.5% from 2019 to 2023. For the reasons explained previously, forecasts of
15 interest rates should be emphasized at this time in selecting the risk-free rate of return
16 in CAPM. Hence, I have used a 3.50% risk-free rate of return for CAPM purposes,
17 which considers not only the Blue Chip forecasts, but also the recent trend in the yields
18 on long-term Treasury bonds.

19 **Q. What market premium have you used in the CAPM?**

20 A. As shown in the lower panel of data presented on page 2 of Schedule 13, the market
21 premium is derived from historical data and the Value Line and S&P 500 returns. For
22 the historically based market premium, I have used the arithmetic mean obtained from
23 the data presented on page 1 of Schedule 12. On that schedule, the market return on

DIRECT TESTIMONY OF PAUL R. MOUL

1 large stocks during periods of low interest rates was 11.62%. During that time, the
2 yield on long-term government bonds was 3.05%. The resulting market premium is
3 8.57% (11.62% - 3.05%) based on historical data. For the forecast returns, I calculated
4 a 12.87% total market return from the Value Line data and a DCF return of 11.25% for
5 the S&P 500. With the average forecast return of 12.06% (12.87% + 11.25% =
6 24.12% ÷ 2), I calculated a market premium of 8.56% (12.06% - 3.50%) using forecast
7 data. The market premium applicable to the CAPM derived from these sources equals
8 8.57% (8.56% + 8.57% = 17.13% ÷ 2).

9 **Q. Are there adjustments to the CAPM that are necessary to fully reflect the rate of**
10 **return on common equity?**

11 A. Yes. The technical literature supports an adjustment relating to the size of the
12 company or portfolio for which the calculation is performed. As the size of a firm
13 decreases, its risk and, hence, its required return increases. Moreover, in his discussion
14 of the cost of capital, Professor Brigham has indicated that smaller firms have higher
15 capital costs than otherwise similar larger firms (see *Fundamentals of Financial*
16 *Management*, fifth edition, page 623). Also, the Fama/French study (see "The Cross-
17 Section of Expected Stock Returns"; *The Journal of Finance*, June 1992) established
18 that the size of a firm helps explain stock returns. In an October 15, 1995 article in
19 *Public Utility Fortnightly*, entitled "Equity and the Small-Stock Effect," it was
20 demonstrated that the CAPM could understate the cost of equity significantly
21 according to a company's size. Indeed, it was demonstrated in the SBBI Yearbook
22 that the returns for stocks in lower deciles (i.e., smaller stocks) had returns in excess of
23 those shown by the simple CAPM. In this regard, the Gas Group has a market-based

DIRECT TESTIMONY OF PAUL R. MOUL

1 average equity capitalization of \$2,190 million, as shown on Schedule 10. For my
2 CAPM analysis, I have adopted the mid-cap adjustment of 1.14%, as revealed on page
3 3 of Schedule 13.

COMPARABLE EARNINGS

5 **Q. How have you applied the Comparable Earnings approach in this case?**

6 A. The Comparable Earnings approach determines the equity return based upon results
7 from non-regulated companies. It is the oldest of all rate of return methods, having
8 been around for about one-century. Because regulation is a substitute for
9 competitively determined prices, the returns realized by non-regulated firms with
10 comparable risks to a public utility provide useful insight into a fair rate of return. In
11 order to identify the appropriate return, it is necessary to analyze returns earned (or
12 realized) by other firms within the context of the Comparable Earnings standard. The
13 firms selected for the Comparable Earnings approach should be companies whose
14 prices are not subject to cost-based price ceilings (i.e., non-regulated firms) so that
15 circularity is avoided.

16 There are two avenues available to implement the Comparable Earnings
17 approach. One method involves the selection of another industry (or industries) with
18 comparable risks to the public utility in question, and the results for all companies
19 within that industry serve as a benchmark. The second approach requires the selection
20 of parameters that represent similar risk traits for the public utility and the comparable
21 risk companies. Using this approach, the business lines of the comparable companies
22 become unimportant. The latter approach is preferable with the further qualification
23 that the comparable risk companies exclude regulated firms in order to avoid the

DIRECT TESTIMONY OF PAUL R. MOUL

1 circular reasoning implicit in the use of the achieved earnings/book ratios of other
2 regulated firms. The United States Supreme Court has held that:

3 A public utility is entitled to such rates as will permit it to earn a return on the
4 value of the property which it employs for the convenience of the public
5 equal to that generally being made at the same time and in the same general
6 part of the country on investments in other business undertakings which are
7 attended by corresponding risks and uncertainties.... The return should be
8 reasonably sufficient to assure confidence in the financial soundness of the
9 utility and should be adequate, under efficient and economical management,
10 to maintain and support its credit and enable it to raise the money necessary
11 for the proper discharge of its public duties. Bluefield Water Works vs.
12 Public Service Commission, 262 U.S. 668 (1923).
13

14 Therefore, it is important to identify the returns earned by firms that compete for
15 capital with a public utility. This can be accomplished by analyzing the returns of non-
16 regulated firms that are subject to the competitive forces of the marketplace.

17 **Q. How have you implemented the Comparable Earnings approach?**

18 A. In order to implement the Comparable Earnings approach, non-regulated companies
19 were selected from The Value Line Investment Survey for Windows that have six
20 categories of comparability designed to reflect the risk of the Gas Group. These
21 screening criteria were based upon the range as defined by the rankings of the
22 companies in the Gas Group. The items considered were: Timeliness Rank, Safety
23 Rank, Financial Strength, Price Stability, Value Line betas, and Technical Rank. The
24 identities of the companies comprising the Comparable Earnings group and their
25 associated rankings within the ranges are identified on page 1 of Schedule 14.

26 Value Line data was relied upon because it provides a comprehensive basis for
27 evaluating the risks of the comparable firms. As to the returns calculated by Value
28 Line for these companies, there is some downward bias in the figures shown on page 2
29 of Schedule 14, because Value Line computes the returns on year-end rather than

DIRECT TESTIMONY OF PAUL R. MOUL

1 average book value. If average book values had been employed, the rates of return
2 would have been slightly higher. Nevertheless, these are the returns considered by
3 investors when taking positions in these stocks. Because many of the comparability
4 factors, as well as the published returns, are used by investors in selecting stocks, and
5 to the extent that investors rely on the Value Line service to gauge returns, it is,
6 therefore, an appropriate database for measuring comparable return opportunities.

7 **Q. What data have you used in your Comparable Earnings analysis?**

8 A. I have used both historical realized returns and forecasted returns for non-utility
9 companies. As noted previously, I have not used returns for utility companies in order
10 to avoid the circularity that arises from using regulatory-influenced returns to
11 determine a regulated return. It is appropriate to consider a relatively long
12 measurement period in the Comparable Earnings approach in order to cover conditions
13 over an entire business cycle. A ten-year period (five historical years and five
14 projected years) is sufficient to cover an average business cycle. Unlike the DCF and
15 CAPM, the results of the Comparable Earnings method can be applied directly to the
16 book value capitalization. In other words, the Comparable Earnings approach does not
17 contain the potential misspecification contained in market models when the market
18 capitalization and book value capitalization diverge significantly. The historical rate
19 of return on book common equity was 12.4% using only the returns that were less than
20 20% as shown on page 2 of Schedule 14. The forecast rates of return as published by
21 Value Line are shown by the 13.3% also using values less than 20%, as provided on
22 page 2 of Schedule 14. Using these data my Comparable Earnings result is 12.85%, as
23 shown on page 2 of Schedule 1.

DIRECT TESTIMONY OF PAUL R. MOUL

1

CONCLUSION ON COST OF EQUITY

2 **Q. What is your conclusion regarding the Company's cost of common equity?**

3 A. Based upon the application of a variety of methods and models described previously, it
4 is my opinion that the reasonable cost of common equity is 11.25% for the Company.
5 My cost of equity recommendation is obtained from a range of results. My cost of
6 equity recommendation should be considered in the context of the Company's risk
7 characteristics, as well as the exemplary performance of the Company's management.
8 It is essential that the Commission employ a variety of techniques to measure the
9 Company's cost of equity because of the limitations/infirmities that are inherent in
10 each method.

11 **Q. Does this complete your Prepared Direct testimony?**

12 A. Yes, however, I reserve the right to file rebuttal testimony if necessary.

DIRECT TESTIMONY OF PAUL R. MOUL

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<u>Volume</u>	<u>Filing Requirement</u>
II	53.53.II.A.1
II	53.53.II.A.2
II	53.53.II.A.3
II	53.53.II.A.4
II	53.53.II.A.5
II	53.53.II.A.6
II	53.53.II.A.7
II	53.53.II.A.12
II	53.53.II.A.19
II	53.53.II.A.25
IX	Exhibit VI.IV.ROR.3
IX	Exhibit VI.IV.ROR.4
IX	Exhibit VI.IV.ROR.6
IX	Exhibit VI.IV.ROR.7
IX	Exhibit VI.IV.ROR.9
IX	Exhibit VI.IV.ROR.10
IX	Exhibit VI.IV.ROR.11
IX	Exhibit VI.IV.ROR.13
IX	Exhibit VI.IV.ROR.17
IX	Exhibit VI.IV.ROR.18
IX	Exhibit VI.IV.ROR.19
IX	Exhibit VI.IV.ROR.20
IX	Exhibit VI.IV.ROR.21
IX	Exhibit VI.IV.ROR.23

APPENDIX A TO DIRECT TESTIMONY OF PAUL R. MOUL

**EDUCATIONAL BACKGROUND, BUSINESS EXPERIENCE
AND QUALIFICATIONS**

1
2
3 I was awarded a degree of Bachelor of Science in Business Administration by Drexel
4 University in 1971. While at Drexel, I participated in the Cooperative Education Program
5 which included employment, for one year, with American Water Works Service Company, Inc.,
6 as an internal auditor, where I was involved in the audits of several operating water companies
7 of the American Water Works System and participated in the preparation of annual reports to
8 regulatory agencies and assisted in other general accounting matters.

9 Upon graduation from Drexel University, I was employed by American Water Works
10 Service Company, Inc., in the Eastern Regional Treasury Department where my duties included
11 preparation of rate case exhibits for submission to regulatory agencies, as well as responsibility
12 for various treasury functions of the thirteen New England operating subsidiaries.

13 In 1973, I joined the Municipal Financial Services Department of Betz Environmental
14 Engineers, a consulting engineering firm, where I specialized in financial studies for municipal
15 water and wastewater systems.

16 In 1974, I joined Associated Utility Services, Inc., now known as AUS Consultants. I
17 held various positions with the Utility Services Group of AUS Consultants, concluding my
18 employment there as a Senior Vice President.

19 In 1994, I formed P. Moul & Associates, an independent financial and regulatory
20 consulting firm. In my capacity as Managing Consultant and for the past twenty-nine years, I
21 have continuously studied the rate of return requirements for cost of service-regulated firms. In
22 this regard, I have supervised the preparation of rate of return studies, which were employed, in
23 connection with my testimony and in the past for other individuals. I have presented direct

APPENDIX A TO DIRECT TESTIMONY OF PAUL R. MOUL

1 testimony on the subject of fair rate of return, evaluated rate of return testimony of other
2 witnesses, and presented rebuttal testimony.

3 My studies and prepared direct testimony have been presented before thirty-seven (37)
4 federal, state and municipal regulatory commissions, consisting of: the Federal Energy
5 Regulatory Commission; state public utility commissions in Alabama, Alaska, California,
6 Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kentucky,
7 Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire,
8 New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South
9 Carolina, Tennessee, Texas, Virginia, West Virginia, Wisconsin, and the Philadelphia Gas
10 Commission, and the Texas Commission on Environmental Quality. My testimony has been
11 offered in over 200 rate cases involving electric power, natural gas distribution and
12 transmission, resource recovery, solid waste collection and disposal, telephone, wastewater, and
13 water service utility companies. While my testimony has involved principally fair rate of return
14 and financial matters, I have also testified on capital allocations, capital recovery, cash working
15 capital, income taxes, factoring of accounts receivable, and take-or-pay expense recovery. My
16 testimony has been offered on behalf of municipal and investor-owned public utilities and for
17 the staff of a regulatory commission. I have also testified at an Executive Session of the State of
18 New Jersey Commission of Investigation concerning the BPU regulation of solid waste
19 collection and disposal.

20 I was a co-author of a verified statement submitted to the Interstate Commerce
21 Commission concerning the 1983 Railroad Cost of Capital (Ex Parte No. 452). I was also co-
22 author of comments submitted to the Federal Energy Regulatory Commission regarding the
23 Generic Determination of Rate of Return on Common Equity for Public Utilities in 1985, 1986

APPENDIX A TO DIRECT TESTIMONY OF PAUL R. MOUL

1 and 1987 (Docket Nos. RM85-19-000, RM86-12-000, RM87-35-000 and RM88-25-000).
2 Further, I have been the consultant to the New York Chapter of the National Association of
3 Water Companies, which represented the water utility group in the Proceeding on Motion of the
4 Commission to Consider Financial Regulatory Policies for New York Utilities (Case 91-M-
5 0509). I have also submitted comments to the Federal Energy Regulatory Commission in its
6 Notice of Proposed Rulemaking (Docket No. RM99-2-000) concerning Regional Transmission
7 Organizations and on behalf of the Edison Electric Institute in its intervention in the case of
8 Southern California Edison Company (Docket No. ER97-2355-000). Also, I was a member of
9 the panel of participants at the Technical Conference in Docket No. PL07-2 on the Composition
10 of Proxy Groups for Determining Gas and Oil Gas Return on Equity.

11 In late 1978, I arranged for the private placement of bonds on behalf of an investor-
12 owned public utility. I have assisted in the preparation of a report to the Delaware Public
13 Service Commission relative to the operations of the Lincoln and Ellendale Electric Company. I
14 was also engaged by the Delaware P.S.C. to review and report on the proposed financing and
15 disposition of certain assets of Sussex Shores Water Company (P.S.C. Docket Nos. 24-79 and
16 47-79). I was a co-author of a Report on Proposed Mandatory Solid Waste Collection
17 Ordinance prepared for the Board of County Commissioners of Collier County, Florida.

18 I have been a consultant to the Bucks County Water and Sewer Authority concerning
19 rates and charges for wholesale contract service with the City of Philadelphia. My municipal
20 consulting experience also included an assignment for Baltimore County, Maryland, regarding
21 the City/County Water Agreement for Metropolitan District customers (Circuit Court for
22 Baltimore County in Case 34/153/87-CSP-2636).

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II	53.53.II.A.7
II	53.53.II.A.12
II	53.53.II.A.19
II	53.53.II.A.25
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IX	Exhibit VI.IV.ROR.7
IX	Exhibit VI.IV.ROR.9
IX	Exhibit VI.IV.ROR.10
IX	Exhibit VI.IV.ROR.11
IX	Exhibit VI.IV.ROR.13
IX	Exhibit VI.IV.ROR.17
IX	Exhibit VI.IV.ROR.18
IX	Exhibit VI.IV.ROR.19
IX	Exhibit VI.IV.ROR.20
IX	Exhibit VI.IV.ROR.21
IX	Exhibit VI.IV.ROR.23

Peoples TWP Exhibit No. PRM-1
Witness: Paul R. Moul

Peoples TWP LLC

EXHIBIT

TO ACCOMPANY

THE DIRECT TESTIMONY

OF

PAUL R. MOUL

CONCERNING
RATE OF RETURN

Peoples TWP LLC
Index of Schedules

	<u>Schedule Number</u>
Summary Cost of Capital and Cost of Equity	1
Peoples TWP LLC Historical Capitalization and Financial Statistics	2
Gas Group Historical Capitalization and Financial Statistics	3
Standard & Poor's Public Utilities Historical Capitalization and Financial Statistics	4
Peoples TWP LLC Capitalization and Capital Structure Ratios	5
Peoples TWP LLC Embedded Cost of Long-term Debt	6
Dividend Yields	7
Historical Growth Rates	8
Projected Growth Rates	9
Financial Risk Adjustment	10
Interest Rates for Investment Grade Public Utility Bonds	11
Common Equity Risk Premiums	12
Component Inputs for the Capital Asset Pricing Model	13
Comparable Earnings Approach	14

Peoples TWP LLC
Summary Cost of Capital
Estimated at January 31, 2015

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-term Debt	40.71%	5.21%	2.12%
Short-term Debt	9.28%	2.35%	0.22%
Equity	<u>50.01%</u>	11.25%	<u>5.63%</u>
Total	<u>100.00%</u>		<u>7.97%</u>

Peoples TWP LLC
Cost of Equity
as of January 31, 2013

Discounted Cash Flow (DCF)	D_1/P_0	⁽¹⁾ +	g	⁽²⁾ +	$lev.$	⁽³⁾ =	k	+	Credit Quality	=	K
Gas Group	3.92%	+	5.00%	+	0.63%	=	9.55%	+	0.66%	=	10.21%
Risk Premium (RP)	I	⁽⁴⁾ +	RP	⁽⁵⁾ =	k	+	Credit Quality	=	K		
Gas Group	5.00%	+	7.00%	=	12.00%	+	0.66%	=	12.66%		
Capital Asset Pricing Model (CAPM)	Rf	⁽⁶⁾ +	β	⁽⁷⁾ x	$(Rm - Rf)$	⁽⁸⁾ +	$size$	⁽⁹⁾ =	K		
Gas Group	3.50%	+	0.75	x	(8.57%)	+	1.14%	=	11.07%		
Comparable Earnings (CE)	Historical	⁽¹⁰⁾	Forecast	⁽¹⁰⁾	Average						
Comparable Earnings Group	12.4%		13.3%		12.85%						

- References
- (1) Schedule 7 page 1
 - (2) Schedule 9 page 1
 - (3) Schedule 10 page 1
 - (4) A-rated public utility bond yield comprised of a 3.50% risk-free rate of return (Schedule 13 page 2) and a yield spread of 1.50% (Schedule 11 page 3)
 - (5) Schedule 12 page 1
 - (6) Schedule 13 pages 1 & 2
 - (7) Schedule 10 page 1
 - (8) Schedule 13 page 2
 - (9) Schedule 13 page 3
 - (10) Schedule 14 page 2

Peoples TWP LLC
Capitalization and Financial Statistics
2007-2011, Inclusive

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	
	(Millions of Dollars)					
Amount of Capital Employed						
Permanent Capital	\$ 160.6	\$ 132.2	\$ 137.7	\$ 139.4	\$ 137.5	
Short-Term Debt	\$ 26.9	\$ 9.4	\$ 7.2	\$ 41.0	\$ 30.4	
Total Capital	<u>\$ 187.5</u>	<u>\$ 141.6</u>	<u>\$ 144.9</u>	<u>\$ 180.4</u>	<u>\$ 167.8</u>	
Capital Structure Ratios						<u>Average</u>
Based on Permanent Capital:						
Long-Term Debt	47.0%	45.9%	48.9%	51.5%	55.6%	49.8%
Common Equity ⁽¹⁾	<u>53.0%</u>	<u>54.1%</u>	<u>51.1%</u>	<u>48.5%</u>	<u>44.4%</u>	<u>50.2%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt, incl. Short Term	54.6%	49.5%	51.4%	62.5%	63.6%	56.3%
Common Equity ⁽¹⁾	<u>45.4%</u>	<u>50.5%</u>	<u>48.6%</u>	<u>37.5%</u>	<u>36.4%</u>	<u>43.7%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity ⁽¹⁾	8.7%	3.7%	4.5%	7.4%	10.9%	7.0%
Operating Ratio ⁽²⁾	85.2%	90.1%	90.2%	91.9%	88.7%	89.2%
Coverage incl. AFUDC ⁽³⁾						
Pre-tax All Interest Charges	3.70 x	2.38 x	2.27 x	2.62 x	2.98 x	2.79 x
Post-tax All Interest Charges	2.66 x	1.64 x	1.66 x	1.96 x	2.25 x	2.03 x
Coverage excl. AFUDC ⁽³⁾						
Pre-tax All Interest Charges	3.67 x	2.34 x	2.23 x	2.57 x	2.96 x	2.75 x
Post-tax All Interest Charges	2.63 x	1.61 x	1.63 x	1.91 x	2.23 x	2.00 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	1.6%	5.7%	5.2%	5.4%	1.8%	3.9%
Effective Income Tax Rate	38.6%	53.2%	47.7%	40.6%	37.0%	43.4%
Internal Cash Generation/Construction ⁽⁴⁾	133.9%	105.3%	98.6%	125.3%	116.0%	115.8%
Gross Cash Flow/ Avg. Total Debt ⁽⁵⁾	14.4%	16.2%	9.3%	13.8%	13.7%	13.5%
Gross Cash Flow Interest Coverage ⁽⁶⁾	3.02 x	3.87 x	2.87 x	4.13 x	3.83 x	3.54 x

See Page 2 for Notes

Peoples TWP LLC.
Capitalization and Financial Statistics
2007-2011, Inclusive

Notes:

- (1) Total operating expenses, maintenance, depreciation and taxes other than income as a percentage of operating revenues.
- (2) Coverage calculations represent the number of times available earnings including AFUDC (allowance for funds used during construction), as reported in its entirety, cover fixed charges.
- (3) Coverage calculations represent the number of times available earnings excluding AFUDC (allowance for funds used during construction), as reported in its entirety, cover fixed charges.
- (4) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally generated funds from operations after payment of all cash dividends.
- (5) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less AFUDC) as a percentage of average total debt.
- (6) Gross Cash Flow plus interest charges divided by interest charges.

Source of Information: Company provided data

Gas Group
Capitalization and Financial Statistics ⁽¹⁾
2007-2011, Inclusive

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	
	(Millions of Dollars)					
Amount of Capital Employed						
Permanent Capital	\$ 2,490.8	\$ 2,079.2	\$ 2,050.6	\$ 1,964.5	\$ 1,897.9	
Short-Term Debt	<u>\$ 285.4</u>	<u>\$ 220.7</u>	<u>\$ 192.9</u>	<u>\$ 311.5</u>	<u>\$ 205.4</u>	
Total Capital	<u>\$ 2,776.2</u>	<u>\$ 2,299.9</u>	<u>\$ 2,243.5</u>	<u>\$ 2,276.0</u>	<u>\$ 2,103.3</u>	
Market-Based Financial Ratios						<u>Average</u>
Price-Earnings Multiple	17 x	15 x	18 x	15 x	17 x	16 x
Market/Book Ratio	182.7%	174.8%	163.2%	171.9%	187.2%	176.0%
Dividend Yield	3.8%	3.9%	4.2%	4.0%	3.6%	3.9%
Dividend Payout Ratio	63.6%	58.1%	73.1%	57.1%	58.8%	62.1%
Capital Structure Ratios						
Based on Permanent Capital						
Long-Term Debt	43.1%	44.1%	45.0%	45.7%	46.8%	44.9%
Preferred Stock	0.2%	0.2%	0.3%	0.3%	0.4%	0.3%
Common Equity ⁽²⁾	<u>56.7%</u>	<u>55.7%</u>	<u>54.7%</u>	<u>54.0%</u>	<u>52.9%</u>	<u>54.8%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt incl. Short Term	48.6%	50.0%	50.6%	53.7%	53.1%	51.2%
Preferred Stock	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%
Common Equity ⁽²⁾	<u>51.3%</u>	<u>49.8%</u>	<u>49.2%</u>	<u>46.0%</u>	<u>46.6%</u>	<u>48.6%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity ⁽²⁾	10.4%	11.5%	10.3%	11.9%	11.4%	11.1%
Operating Ratio ⁽³⁾	87.4%	87.8%	88.9%	89.8%	89.5%	88.7%
Coverage incl. AFUDC ⁽⁴⁾						
Pre-tax: All Interest Charges	4.63 x	4.89 x	4.15 x	4.40 x	3.76 x	4.37 x
Post-tax: All Interest Charges	3.41 x	3.47 x	3.00 x	3.12 x	2.72 x	3.14 x
Overall Coverage: All Int. & Pfd. Div.	3.40 x	3.46 x	2.99 x	3.11 x	2.71 x	3.13 x
Coverage excl. AFUDC ⁽⁴⁾						
Pre-tax: All Interest Charges	4.58 x	4.84 x	4.11 x	4.37 x	3.73 x	4.33 x
Post-tax: All Interest Charges	3.36 x	3.43 x	2.97 x	3.09 x	2.69 x	3.11 x
Overall Coverage: All Int. & Pfd. Div.	3.35 x	3.41 x	2.95 x	3.08 x	2.68 x	3.09 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	2.1%	1.5%	2.1%	1.6%	1.6%	1.8%
Effective Income Tax Rate	35.0%	36.6%	35.3%	37.7%	37.5%	36.4%
Internal Cash Generation/Construction ⁽⁵⁾	94.7%	116.1%	111.3%	108.0%	101.8%	106.4%
Gross Cash Flow/ Avg Total Debt ⁽⁶⁾	26.8%	28.2%	22.4%	21.0%	19.9%	23.7%
Gross Cash Flow Interest Coverage ⁽⁷⁾	6.47 x	6.79 x	5.73 x	5.06 x	4.48 x	5.71 x
Common Dividend Coverage ⁽⁸⁾	4.16 x	4.50 x	4.00 x	3.94 x	3.76 x	4.07 x

See Page 2 for Notes.

Gas Group
Capitalization and Financial Statistics
2007-2011, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group.
- (2) Excluding Accumulated Other Comprehensive Income ("OCI") from the equity account.
- (3) Total operating expenses, maintenance, depreciation and taxes other than income taxes as a percent of operating revenues.
- (4) Coverage calculations represent the number of times available earnings, both including and excluding AFUDC (allowance for funds used during construction) as reported in its entirety, cover fixed charges.
- (5) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally-generated funds from operations after payment of all cash dividends divided by gross construction expenditures.
- (6) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) plus interest charges, divided by interest charges.
- (7) Gross Cash Flow plus interest charges divided by interest charges.
- (8) Common dividend coverage is the relationship of internally-generated funds from operations after payment of preferred stock dividends to common dividends paid.

Basis of Selection:

The Delivery Group includes companies that are contained in The Value Line Investment Survey within the industry group "Natural Gas Utility," they are not currently the target of a publicly-announced merger or acquisition, and after eliminating NiSource due to its electric and natural gas pipeline/storage operations and UGI Corp. due to its highly diversified businesses.

Ticker	Company	Corporate Credit Ratings		Stock Traded	S&P Stock Ranking	Value Line Beta
		Moody's	S&P			
GAS	AGL Resources, Inc.	Baa1	BBB+	NYSE	A	0.75
ATO	Atmos Energy Corp.	Baa1	BBB+	NYSE	A-	0.70
LG	Laclede Group	A2	A	NYSE	B+	0.55
NJR	New Jersey Resources Corp.	Aa3	A	NYSE	B+	0.65
NWN	Northwest Natural Gas	A1	A+	NYSE	A-	0.55
PNY	Piedmont Natural Gas Co.	A3	A	NYSE	A	0.65
SJI	South Jersey Industries, Inc.	A3	BBB+	NYSE	A-	0.65
SWX	Southwest Gas Corporation	Baa1	A-	NYSE	B+	0.75
WGL	WGL Holdings, Inc.	A2	A+	NYSE	B+	0.65
	Average	<u>A3</u>	<u>A-</u>		<u>A-</u>	<u>0.66</u>

Source of Information: Utility COMPUSTAT
Moody's Investors Service
Standard & Poor's Corporation

Standard & Poor's Public Utilities
Capitalization and Financial Statistics ⁽¹⁾
2007-2011, Inclusive

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	\$ 18,977.7	\$ 17,752.9	\$ 16,796.5	\$ 15,750.4	\$ 14,462.0	
Short-Term Debt	\$ 535.7	\$ 421.8	\$ 406.4	\$ 811.2	\$ 600.1	
Total Capital	<u>\$ 19,513.4</u>	<u>\$ 18,174.7</u>	<u>\$ 17,202.9</u>	<u>\$ 16,561.6</u>	<u>\$ 15,062.1</u>	
Market-Based Financial Ratios						<u>Average</u>
Price-Earnings Multiple	15 x	15 x	14 x	14 x	16 x	15 x
Market/Book Ratio	154.9%	142.1%	136.3%	173.4%	215.2%	164.4%
Dividend Yield	4.4%	4.8%	5.3%	4.4%	3.5%	4.5%
Dividend Payout Ratio	66.1%	72.4%	72.6%	62.6%	56.1%	66.0%
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	53.0%	53.4%	54.3%	54.3%	53.5%	53.7%
Preferred Stock	1.3%	1.3%	1.5%	1.7%	1.7%	1.5%
Common Equity ⁽²⁾	<u>45.7%</u>	<u>45.3%</u>	<u>44.2%</u>	<u>44.0%</u>	<u>44.8%</u>	<u>44.8%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Based on Total Capital:						
Total Debt incl. Short Term	54.5%	54.7%	55.6%	57.1%	56.0%	55.6%
Preferred Stock	1.2%	1.2%	1.4%	1.5%	1.7%	1.4%
Common Equity ⁽²⁾	<u>44.2%</u>	<u>44.0%</u>	<u>43.0%</u>	<u>41.4%</u>	<u>42.4%</u>	<u>43.0%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Rate of Return on Book Common Equity ⁽²⁾	10.3%	10.7%	10.1%	12.1%	12.7%	11.2%
Operating Ratio ⁽³⁾	81.4%	81.5%	83.0%	84.0%	84.1%	82.8%
Coverage incl. AFUDC ⁽⁴⁾						
Pre-tax: All Interest Charges	3.31 x	3.33 x	3.05 x	3.37 x	3.41 x	3.29 x
Post-tax: All Interest Charges	2.57 x	2.51 x	2.35 x	2.56 x	2.60 x	2.52 x
Overall Coverage: All Int. & Pfd. Div.	2.54 x	2.48 x	2.32 x	2.52 x	2.56 x	2.48 x
Coverage excl. AFUDC ⁽⁴⁾						
Pre-tax: All Interest Charges	3.21 x	3.23 x	2.95 x	3.25 x	3.32 x	3.19 x
Post-tax: All Interest Charges	2.47 x	2.42 x	2.25 x	2.45 x	2.51 x	2.42 x
Overall Coverage: All Int. & Pfd. Div.	2.45 x	2.39 x	2.22 x	2.40 x	2.48 x	2.39 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	6.3%	6.9%	8.2%	8.1%	5.3%	7.0%
Effective Income Tax Rate	36.7%	34.4%	31.8%	33.8%	34.7%	34.3%
Internal Cash Generation/Construction ⁽⁵⁾	88.7%	107.0%	99.0%	82.3%	88.1%	93.0%
Gross Cash Flow/ Avg. Total Debt ⁽⁶⁾	23.0%	23.8%	22.4%	22.5%	21.5%	22.6%
Gross Cash Flow Interest Coverage ⁽⁷⁾	5.09 x	5.07 x	4.83 x	4.72 x	4.36 x	4.81 x
Common Dividend Coverage ⁽⁸⁾	4.53 x	4.84 x	4.68 x	4.89 x	4.61 x	4.71 x

See Page 2 for Notes.

Standard & Poor's Public Utilities
Capitalization and Financial Statistics
2007-2011, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group.
- (2) Excluding Accumulated Other Comprehensive Income ("OCI") from the equity account
- (3) Total operating expenses, maintenance, depreciation and taxes other than income taxes as a percent of operating revenues.
- (4) Coverage calculations represent the number of times available earnings, both including and excluding AFUDC (allowance for funds used during construction) as reported in its entirety, cover fixed charges.
- (5) Internal cash generation/gross construction is the percentage of gross construction expenditures provided by internally-generated funds from operations after payment of all cash dividends divided by gross construction expenditures.
- (6) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) as a percentage of average total debt.
- (7) Gross Cash Flow (sum of net income, depreciation, amortization, net deferred income taxes and investment tax credits, less total AFUDC) plus interest charges, divided by interest charges.
- (8) Common dividend coverage is the relationship of internally-generated funds from operations after payment of preferred stock dividends to common dividends paid.

Source of Information: Annual Reports to Shareholders
Utility COMPUSTAT

Standard & Poor's Public Utilities
Company Identities

Ticker	Credit Rating ⁽¹⁾		Common Stock Traded	S&P Stock Ranking	Value Line Beta
	Moody's	S&P			
AGL Resources Inc.	GAS	A3	NYSE	A	0.75
Ameren Corporation	AEE	Baa2	NYSE	B	0.80
American Electric Power	AEP	Baa2	NYSE	B	0.70
CMS Energy	CMS	Baa2	NYSE	B	0.75
CenterPoint Energy	CNP	Baa2	NYSE	B	0.80
Consolidated Edison	ED	A3	NYSE	B+	0.60
DTE Energy Co.	DTE	Baa1	NYSE	B+	0.75
Dominion Resources	D	A3	NYSE	A-	0.70
Duke Energy	DUK	A3	NYSE	B	0.65
Edison Int'l	EIX	A3	NYSE	B	0.80
Entergy Corp.	ETR	Baa2	NYSE	A+	0.70
EQT Corp.	EQT	Baa2	NYSE	B+	1.20
Exelon Corp.	EXC	A3	NYSE	B+	0.80
FirstEnergy Corp.	FE	Baa2	NYSE	A-	0.80
Integrus Energy Group	TEG	A2	NYSE	B	0.90
NextEra Energy Inc.	NEE	A2	NYSE	A	0.75
NiSource Inc.	NI	Baa2	NYSE	B	0.85
Northeast Utilities	NU	Baa1	NYSE	B+	0.70
NRG Energy Inc.	NRG	Ba3	NYSE	NR	1.10
ONEOK, Inc.	OKE	Baa2	NYSE	A-	0.95
PEPCO Holdings, Inc.	POM	Baa2	NYSE	B	0.80
PG&E Corp.	PCG	A3	NYSE	B	0.55
PPL Corp.	PPL	Baa2	NYSE	B+	0.65
Pinnacle West Capital	PNW	Baa2	NYSE	B	0.70
Progress Energy, Inc.	PGN	A3	NYSE	B	0.60
Public Serv. Enterprise Inc.	PEG	Baa1	NYSE	B+	0.80
SCANA Corp.	SCG	Baa2	NYSE	B+	0.70
Sempra Energy	SRE	A2	NYSE	A-	0.80
Southern Co.	SO	A3	NYSE	A-	0.55
TECO Energy	TE	Baa1	NYSE	B	0.85
Wisconsin Energy Corp.	WEC	A2	NYSE	A	0.65
Xcel Energy Inc	XEL	A3	NYSE	B	0.65
Average for S&P Utilities	<u>Baa1</u>	<u>BBB+</u>		<u>B+</u>	<u>0.76</u>

Note: ⁽¹⁾ Ratings are those of utility subsidiaries

Source of Information: Moody's Investors Service
Standard & Poor's Corporation
Standard & Poor's Stock Guide
Value Line Investment Survey for Windows

Peoples TWP LLC
Capitalization and Related Capital Structure Ratios
Actual at December 31, 2012 and Estimated at December 31, 2013 and January 31, 2015

	Actual at December 31, 2012			Estimated at December 31, 2013			Estimated at January 31, 2015		
	Amount Outstanding	Ratios		Amount Outstanding	Ratios		Amount Outstanding	Ratios	
		Excl S-T Debt	Incl S-T Debt		Excl S-T Debt	Incl S-T Debt		Excl S-T Debt	Incl S-T Debt
Long-Term Debt	\$ 68,046,735	43 90%	37.46%	\$ 89,637,829 ⁽¹⁾	48 51%	45 16%	\$ 83,728,923 ⁽¹⁾	44 88%	40 71%
Member's equity									
Contributions from member (net)	81,025,466			85,225,466 ⁽²⁾			79,425,466 ⁽²⁾		
Retained earnings	5,932,612			9,906,645 ⁽³⁾			23,418,957 ⁽³⁾		
Total Common Equity	86,958,078	56 10%	47 87%	95,132,111	51 49%	47 93%	102,844,423	55 12%	50 01%
Total Permanent Capital	155,004,813	100 00%	85 33%	184,769,940	100 00%	93 09%	186,573,346	100 00%	90 72%
Short-Term Debt	26,636,585		14 66%	13,708,686		6 91%	19,089,138		9 28%
Total Capital Employed	\$ 181,641,398		99 99%	\$ 198,478,626		100 00%	\$ 205,662,484		100 00%

Notes ⁽¹⁾ Reflects changes in the principal amount of long-term debt as follows

Series	Amount	
6 75% Notes - Unsecured	\$ (2,500,000)	
6 99% Notes - Unsecured	(1,818,000)	\$ (1,818,000)
5 67% Notes - Unsecured	(454,545)	(454,545)
5 99% Notes - Unsecured	(909,091)	(909,091)
5 66% Notes - Unsecured	(1,363,635)	(1,363,635)
6 42% Notes - Unsecured	(1,363,635)	(1,363,635)
Proposed issue	30,000,000	
Total	\$ 21,591,094	\$ (5,908,906)

⁽²⁾ Contributions from member \$ 5,000,000
Distributions to member \$ (5,800,000)

⁽³⁾ Projected increase in retained earnings \$ 3,974,033

Source of Information Company provided data

Peoples TWP LLC
Calculation of the Embedded Cost of Long-Term Debt
Actual at December 31, 2012

<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Percent to Total</u>	<u>Effective Cost Rate</u> ⁽¹⁾	<u>Weighted Cost Rate</u>
6.75% Notes - Unsecured	\$ 2,500,000	3.67%	6.77%	0.25%
6.99% Notes - Unsecured	7,274,000	10.69%	7.02%	0.75%
5.67% Notes - Unsecured	2,727,275	4.01%	5.70%	0.23%
5.99% Notes - Unsecured	10,000,000	14.70%	6.01%	0.88%
5.66% Notes - Unsecured	10,909,095	16.03%	5.69%	0.91%
6.42% Notes - Unsecured	13,636,365	20.04%	6.44%	1.29%
4.50% Notes - Unsecured	<u>21,000,000</u>	<u>30.86%</u>	4.54%	<u>1.40%</u>
Long Term- Debt	<u>\$ 68,046,735</u>	<u>100.00%</u>		<u>5.71%</u>

Note: (1) As calculated on page 4 of this schedule.

Source of Information: Company provided data

Peoples TWP LLC
Calculation of the Embedded Cost of Long-Term Debt
Actual at December 31, 2013

<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Percent to Total</u>	<u>Effective Cost Rate</u> ⁽¹⁾	<u>Weighted Cost Rate</u>
6.99% Notes - Unsecured	\$ 5,456,000	6.09%	7.02%	0.43%
5.67% Notes - Unsecured	2,272,730	2.54%	5.70%	0.14%
5.99% Notes - Unsecured	9,090,909	10.14%	6.01%	0.61%
5.66% Notes - Unsecured	9,545,460	10.65%	5.69%	0.61%
6.42% Notes - Unsecured	12,272,730	13.69%	6.44%	0.88%
4.50% Notes - Unsecured	21,000,000	23.43%	4.54%	1.06%
4.50% Notes - Unsecured	<u>30,000,000</u>	<u>33.47%</u>	4.62%	<u>1.55%</u>
Long Term- Debt	<u>\$ 89,637,829</u>	<u>100.00%</u>		<u>5.28%</u>

Note: (1) As calculated on page 4 of this schedule.

Source of Information: Company provided data

Peoples TWP LLC
Calculation of the Embedded Cost of Long-Term Debt
Actual at January 31, 2015

<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Percent to Total</u>	<u>Effective Cost Rate</u> ⁽¹⁾	<u>Weighted Cost Rate</u>
6.99% Notes - Unsecured	\$ 3,638,000	4.35%	7.02%	0.31%
5.67% Notes - Unsecured	1,818,185	2.17%	5.70%	0.12%
5.99% Notes - Unsecured	8,181,818	9.77%	6.01%	0.59%
5.66% Notes - Unsecured	8,181,825	9.77%	5.69%	0.56%
6.42% Notes - Unsecured	10,909,095	13.03%	6.44%	0.84%
4.50% Notes - Unsecured	21,000,000	25.08%	4.54%	1.14%
4.50% Notes - Unsecured	<u>30,000,000</u>	<u>35.83%</u>	4.62%	<u>1.66%</u>
Long Term- Debt	<u>\$ 83,728,923</u>	<u>100.00%</u>		<u>5.21%</u>

Note: (1) As calculated on page 4 of this schedule.

Source of Information: Company provided data

Peoples TWP LLC

Calculation of the Effective Cost of Long-Term Debt by Series

<u>Series</u>	<u>Coupon Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Principal Amount Issued</u>	<u>Discount and Expense</u>	<u>Net Proceeds</u>	<u>Net Proceeds Ratio</u>	<u>Effective Cost Rate</u> ⁽¹⁾
6.75% Notes - Unsecured	6.75%	02/18/98	02/01/13	\$ 20,000,000	\$ 44,517	\$ 19,955,483	99.78%	6.77%
6.99% Notes - Unsecured	6.99%	11/15/01	11/15/16	20,000,000	51,337	19,948,663	99.74%	7.02%
5.67% Notes - Unsecured	5.67%	10/20/03	10/31/18	5,000,000	14,296	4,985,704	99.71%	5.70%
5.99% Notes - Unsecured	5.99%	10/20/03	10/31/23	10,000,000	28,591	9,971,409	99.71%	6.01%
5.66% Notes - Unsecured	5.66%	10/18/05	10/31/20	15,000,000	38,322	14,961,678	99.74%	5.69%
6.42% Notes - Unsecured	6.42%	12/11/07	12/28/22	15,000,000	35,876	14,964,124	99.76%	6.44%
4.50% Notes - Unsecured	4.50%	11/17/11	11/17/21	21,000,000	70,793	20,929,207	99.66%	4.54%
4.50% Notes - Unsecured ⁽²⁾	4.50%	09/30/13	09/30/28	30,000,000	400,000 ⁽²⁾	29,600,000	98.67%	4.62%

Notes:

⁽¹⁾ The effective cost for each issue is the yield to maturity ("ytm") using as inputs the average term of the issue, the coupon rate, and the net proceeds ratio.

⁽²⁾ Estimated.

Source of Information: Company provided data

Monthly Dividend Yields for
Delivery Group
for the Twelve Months Ending January 2013

Company	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	12-Month Average	6-Month Average	3-Month Average
AGL RES INC (NYSE:GAS)	4.62%	4.72%	4.71%	4.92%	4.78%	4.59%	4.65%	4.52%	4.55%	4.73%	4.63%	4.54%			
ATMOS ENERGY CORP (NYSE:ATO)	4.49%	4.41%	4.27%	4.17%	3.95%	3.88%	3.95%	3.87%	3.92%	4.00%	4.00%	3.77%			
LACLEDE GROUP INC (NYSE:LG)	4.08%	4.27%	4.24%	4.40%	4.18%	4.00%	3.97%	3.87%	4.11%	4.22%	4.42%	4.29%			
NEW JERSEY RES (NYSE:NJR)	3.28%	3.42%	3.53%	3.65%	3.49%	3.50%	3.60%	3.50%	3.61%	3.97%	4.05%	3.83%			
NORTHWEST NAT GAS CO (NYSE:NWN)	3.90%	3.95%	3.90%	3.85%	3.76%	3.66%	3.63%	3.64%	3.91%	4.16%	4.15%	4.01%			
PIEDMONT NAT GAS INC (NYSE:PNT)	3.73%	3.87%	3.95%	3.99%	3.73%	3.79%	3.87%	3.70%	3.78%	3.92%	3.84%	3.92%			
SOUTH JERSEY INDS INC (NYSE:SJI)	3.12%	3.22%	3.28%	3.35%	3.17%	3.06%	3.20%	3.05%	3.52%	3.57%	3.53%	3.28%			
SOUTHWEST GAS CORPORATION (SWX)	2.49%	2.49%	2.82%	2.82%	2.71%	2.66%	2.76%	2.68%	2.73%	2.82%	2.79%	2.66%			
WGL HLDGS INC (NYSE:WGL)	3.82%	3.84%	4.00%	4.13%	4.06%	3.97%	4.12%	4.01%	4.03%	4.12%	4.12%	3.83%			
Average	3.73%	3.80%	3.86%	3.92%	3.76%	3.68%	3.75%	3.65%	3.80%	3.95%	3.95%	3.79%	3.80%	3.82%	3.90%

Note: Monthly dividend yields are calculated by dividing the annualized quarterly dividend by the month-end closing stock price adjusted by the fraction of the ex-dividend.

Source of Information: <http://finance.yahoo.com/>
<http://www.nasdaq.com/symbol/gas/dividend-history>

Forward-looking Dividend Yield $\frac{1}{2}$ Growth

$$D_0/P_0 \quad (.5g) \quad D_1/P_0 \quad 3.91\%$$

$$3.82\% \quad 1.025000 \quad \frac{D_0(1+g)^0 + D_0(1+g)^1 + D_0(1+g)^1 + D_0(1+g)^1}{P_0}$$

Discrete D_0/P_0 Adj. D_1/P_0

$$3.82\% \quad 1.031059 \quad 3.93\%$$

Quarterly D_0/P_0 Adj. D_1/P_0

$$0.9538\% \quad 1.012272 \quad 3.92\%$$

Average $\frac{3.92\%}{3.92\%}$

Growth rate $\frac{5.00\%}{8.92\%}$

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Historical Growth Rates
Earnings Per Share, Dividends Per Share,
Book Value Per Share, and Cash Flow Per Share

Gas Group	Earnings per Share		Dividends per Share		Book Value per Share		Cash Flow per Share	
	5 Year	10 Year	5 Year	10 Year	5 Year	10 Year	5 Year	10 Year
AGL Resources, Inc.	4.50%	9.00%	7.50%	5.00%	5.50%	7.00%	6.00%	6.50%
Atmos Energy Corp.	4.00%	7.00%	1.50%	1.50%	4.50%	6.50%	4.50%	4.50%
Laclede Group	6.00%	6.50%	2.50%	1.50%	6.50%	5.00%	7.00%	5.00%
New Jersey Resources Corp.	7.00%	7.50%	8.00%	6.00%	7.50%	8.00%	4.50%	5.00%
Northwest Natural Gas	4.50%	4.00%	4.50%	3.00%	4.00%	4.00%	3.50%	3.00%
Piedmont Natural Gas Co.	4.50%	5.00%	4.00%	4.50%	3.00%	5.00%	4.00%	5.50%
South Jersey Industries, Inc.	7.00%	9.50%	9.50%	6.50%	7.00%	10.50%	8.00%	8.00%
Southwest Gas Corp.	6.50%	6.00%	4.00%	2.00%	5.00%	4.50%	3.00%	3.50%
WGL Holdings, Inc.	3.00%	3.00%	2.50%	2.00%	5.00%	4.00%	1.50%	3.00%
Average	5.22%	6.39%	4.89%	3.56%	5.33%	6.06%	4.67%	4.89%

Source of Information: Value Line Investment Survey, December 7, 2012

Analysts' Five-Year Projected Growth Rates

Earnings Per Share, Dividends Per Share,
Book Value Per Share, and Cash Flow Per Share

Gas Group	IB/E/S First Call	SNL	Zacks	Morningstar	Earnings Per Share	Dividends Per Share	Value Line		
							Book Value Per Share	Cash Flow Per Share	Percent Retained to Common Equity
AGL Resources, Inc.	NMF	3.80%	3.50%	4.60%	6.00%	1.50%	5.00%	9.00%	6.50%
Atmos Energy Corp.	5.93%	6.60%	6.00%	5.80%	4.00%	1.50%	6.00%	3.50%	3.50%
Laclede Group	5.30%	4.00%	3.00%	-	3.00%	2.50%	4.50%	2.50%	4.50%
New Jersey Resources Corp.	4.00%	1.10%	4.00%	2.60%	5.50%	4.00%	5.50%	5.00%	7.50%
Northwest Natural Gas	4.50%	3.80%	4.20%	3.00%	3.00%	2.50%	1.00%	-0.50%	4.00%
Piedmont Natural Gas Co.	5.57%	4.00%	3.70%	4.60%	2.50%	3.50%	1.50%	2.50%	3.50%
South Jersey Industries, Inc.	6.00%	8.00%	6.00%	-	9.00%	9.00%	6.00%	7.00%	7.50%
Southwest Gas Corp.	4.05%	5.50%	4.90%	-	9.00%	8.00%	6.00%	6.50%	6.00%
WGL Holdings, Inc.	5.25%	5.00%	5.30%	5.00%	2.50%	2.50%	4.00%	1.50%	3.50%
Average	5.08%	4.64%	4.51%	4.27%	4.94%	3.89%	4.39%	4.11%	5.17%

Source of information :

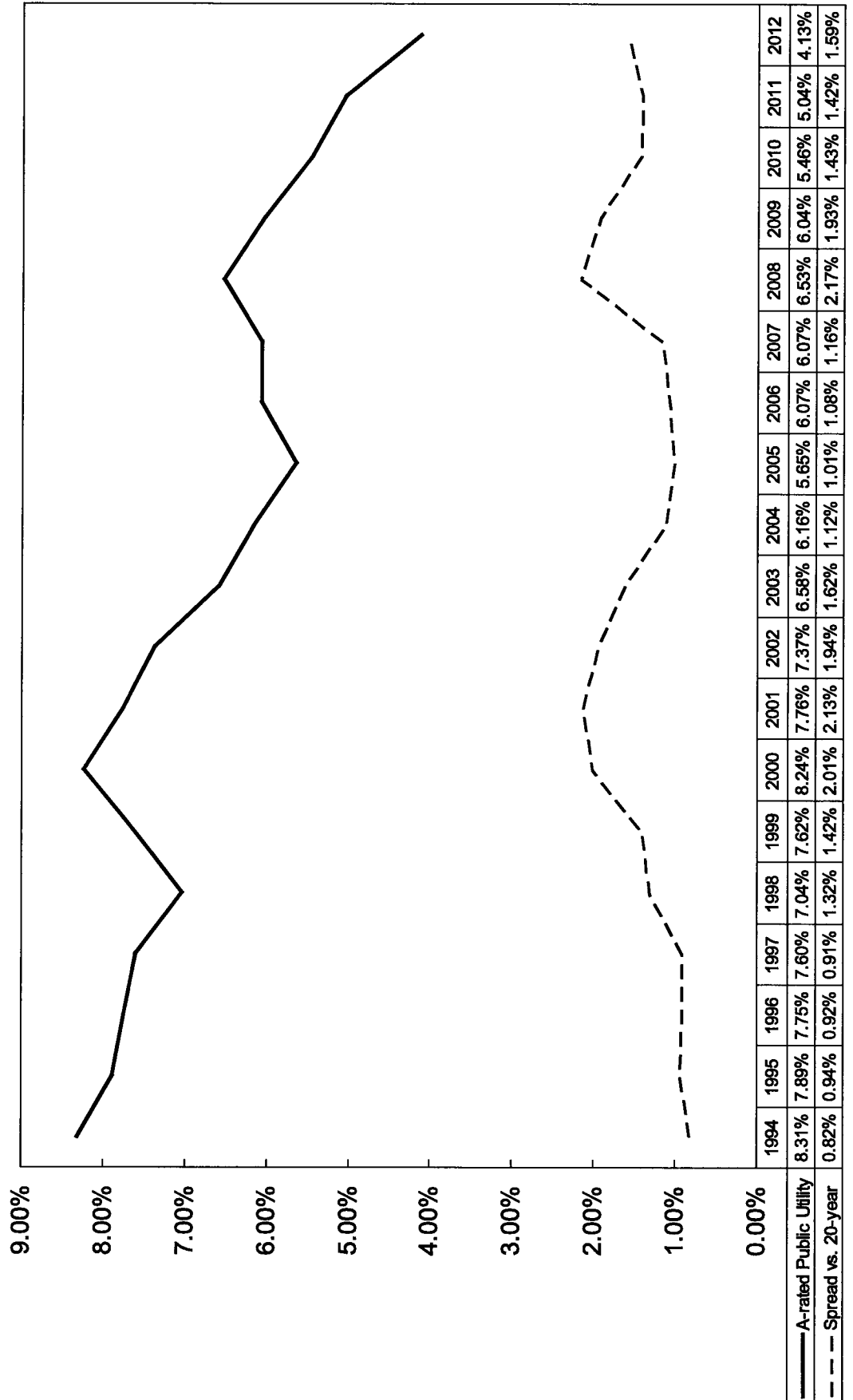
Yahoo Finance, February 20, 2013
Reuters.com, February 20, 2013
Zacks, February 20, 2013
Morningstar, February 20, 2013
Value Line Investment Survey, December 7, 2012

**Interest Rates for Investment Grade Public Utility Bonds
Yearly for 2007-2011 and 2012
and the Twelve Months Ended January 2013**

<u>Years</u>	<u>Aa Rated</u>	<u>A Rated</u>	<u>Baa Rated</u>	<u>Average</u>
2007	5.94%	6.07%	6.33%	6.11%
2008	6.18%	6.53%	7.24%	6.65%
2009	5.75%	6.04%	7.06%	6.28%
2010	5.24%	5.46%	5.96%	5.55%
2011	4.78%	5.04%	5.57%	5.13%
Five-Year Average	<u>5.58%</u>	<u>5.83%</u>	<u>6.43%</u>	<u>5.94%</u>
2012	3.83%	4.13%	4.86%	4.27%
<u>Months</u>				
Feb-12	4.02%	4.36%	5.02%	4.47%
Mar-12	4.16%	4.48%	5.13%	4.59%
Apr-12	4.10%	4.40%	5.11%	4.53%
May-12	3.92%	4.20%	4.97%	4.36%
Jun-12	3.79%	4.08%	4.91%	4.26%
Jul-12	3.58%	3.93%	4.85%	4.12%
Aug-12	3.65%	4.00%	4.88%	4.18%
Sep-12	3.69%	4.02%	4.81%	4.17%
Oct-12	3.68%	3.91%	4.54%	4.04%
Nov-12	3.60%	3.84%	4.42%	3.95%
Dec-12	3.75%	4.00%	4.56%	4.10%
Jan-13	3.90%	4.15%	4.66%	4.24%
Twelve-Month Average	<u>3.82%</u>	<u>4.11%</u>	<u>4.82%</u>	<u>4.25%</u>
Six-Month Average	<u>3.71%</u>	<u>3.99%</u>	<u>4.65%</u>	<u>4.11%</u>
Three-Month Average	<u>3.75%</u>	<u>4.00%</u>	<u>4.55%</u>	<u>4.10%</u>

Source: Mergent Bond Record

Yields on A-rated Public Utility Bonds and Spreads over 20-Year Treasuries



A rated Public Utility Bonds over 20-Year Treasuries

Year	A-rated Public Utility	20-Year Treasuries		Year	A-rated Public Utility	20-Year Treasuries		Year	A-rated Public Utility	20-Year Treasuries	
		Yield	Spread			Yield	Spread			Yield	Spread
Dec-98	6.91%	5.36%	1.55%								
Jan-99	6.97%	5.45%	1.52%	Jan-04	6.15%	5.01%	1.14%	Jan-09	6.39%	3.46%	2.93%
Feb-99	7.09%	5.66%	1.43%	Feb-04	6.15%	4.94%	1.21%	Feb-09	6.30%	3.83%	2.47%
Mar-99	7.26%	5.87%	1.39%	Mar-04	5.97%	4.72%	1.25%	Mar-09	6.42%	3.78%	2.64%
Apr-99	7.22%	5.82%	1.40%	Apr-04	6.35%	5.16%	1.19%	Apr-09	6.48%	3.84%	2.64%
May-99	7.47%	6.08%	1.39%	May-04	6.62%	5.46%	1.16%	May-09	6.49%	4.22%	2.27%
Jun-99	7.74%	6.36%	1.38%	Jun-04	6.46%	5.45%	1.01%	Jun-09	6.20%	4.51%	1.69%
Jul-99	7.71%	6.28%	1.43%	Jul-04	6.27%	5.24%	1.03%	Jul-09	5.97%	4.38%	1.59%
Aug-99	7.91%	6.43%	1.48%	Aug-04	6.14%	5.07%	1.07%	Aug-09	5.71%	4.33%	1.38%
Sep-99	7.93%	6.50%	1.43%	Sep-04	5.98%	4.89%	1.09%	Sep-09	5.53%	4.14%	1.39%
Oct-99	8.06%	6.66%	1.40%	Oct-04	5.94%	4.85%	1.09%	Oct-09	5.55%	4.16%	1.39%
Nov-99	7.94%	6.48%	1.46%	Nov-04	5.97%	4.89%	1.08%	Nov-09	5.64%	4.24%	1.40%
Dec-99	8.14%	6.69%	1.45%	Dec-04	5.92%	4.88%	1.04%	Dec-09	5.79%	4.40%	1.39%
Jan-00	8.35%	6.86%	1.49%	Jan-05	5.78%	4.77%	1.01%	Jan-10	5.77%	4.50%	1.27%
Feb-00	8.25%	6.54%	1.71%	Feb-05	5.61%	4.61%	1.00%	Feb-10	5.87%	4.48%	1.39%
Mar-00	8.28%	6.38%	1.90%	Mar-05	5.83%	4.89%	0.94%	Mar-10	5.84%	4.49%	1.35%
Apr-00	8.29%	6.18%	2.11%	Apr-05	5.64%	4.75%	0.89%	Apr-10	5.81%	4.53%	1.28%
May-00	8.70%	6.55%	2.15%	May-05	5.53%	4.56%	0.97%	May-10	5.50%	4.11%	1.39%
Jun-00	8.36%	6.28%	2.08%	Jun-05	5.40%	4.35%	1.05%	Jun-10	5.46%	3.95%	1.51%
Jul-00	8.25%	6.20%	2.05%	Jul-05	5.51%	4.48%	1.03%	Jul-10	5.26%	3.80%	1.46%
Aug-00	8.13%	6.02%	2.11%	Aug-05	5.50%	4.53%	0.97%	Aug-10	5.01%	3.52%	1.49%
Sep-00	8.23%	6.09%	2.14%	Sep-05	5.52%	4.51%	1.01%	Sep-10	5.01%	3.47%	1.54%
Oct-00	8.14%	6.04%	2.10%	Oct-05	5.79%	4.74%	1.05%	Oct-10	5.10%	3.52%	1.58%
Nov-00	8.11%	5.98%	2.13%	Nov-05	5.88%	4.83%	1.05%	Nov-10	5.37%	3.82%	1.55%
Dec-00	7.84%	5.64%	2.20%	Dec-05	5.80%	4.73%	1.07%	Dec-10	5.56%	4.17%	1.39%
Jan-01	7.80%	5.65%	2.15%	Jan-06	5.75%	4.65%	1.10%	Jan-11	5.57%	4.28%	1.29%
Feb-01	7.74%	5.62%	2.12%	Feb-06	5.82%	4.73%	1.09%	Feb-11	5.68%	4.42%	1.26%
Mar-01	7.68%	5.49%	2.19%	Mar-06	5.98%	4.91%	1.07%	Mar-11	5.56%	4.27%	1.29%
Apr-01	7.94%	5.78%	2.16%	Apr-06	6.29%	5.22%	1.07%	Apr-11	5.55%	4.28%	1.27%
May-01	7.99%	5.92%	2.07%	May-06	6.42%	5.35%	1.07%	May-11	5.32%	4.02%	1.30%
Jun-01	7.85%	5.82%	2.03%	Jun-06	6.40%	5.29%	1.11%	Jun-11	5.26%	3.91%	1.35%
Jul-01	7.78%	5.75%	2.03%	Jul-06	6.37%	5.25%	1.12%	Jul-11	5.27%	3.95%	1.32%
Aug-01	7.59%	5.58%	2.01%	Aug-06	6.20%	5.08%	1.12%	Aug-11	4.69%	3.24%	1.45%
Sep-01	7.75%	5.53%	2.22%	Sep-06	6.00%	4.93%	1.07%	Sep-11	4.48%	2.83%	1.65%
Oct-01	7.63%	5.34%	2.29%	Oct-06	5.98%	4.94%	1.04%	Oct-11	4.52%	2.87%	1.65%
Nov-01	7.57%	5.33%	2.24%	Nov-06	5.80%	4.78%	1.02%	Nov-11	4.25%	2.72%	1.53%
Dec-01	7.83%	5.76%	2.07%	Dec-06	5.81%	4.78%	1.03%	Dec-11	4.33%	2.67%	1.66%
Jan-02	7.66%	5.69%	1.97%	Jan-07	5.96%	4.95%	1.01%	Jan-12	4.34%	2.70%	1.64%
Feb-02	7.54%	5.61%	1.93%	Feb-07	5.90%	4.93%	0.97%	Feb-12	4.36%	2.75%	1.61%
Mar-02	7.76%	5.93%	1.83%	Mar-07	5.85%	4.81%	1.04%	Mar-12	4.48%	2.94%	1.54%
Apr-02	7.57%	5.85%	1.72%	Apr-07	5.97%	4.95%	1.02%	Apr-12	4.40%	2.82%	1.58%
May-02	7.52%	5.81%	1.71%	May-07	5.99%	4.98%	1.01%	May-12	4.20%	2.53%	1.67%
Jun-02	7.42%	5.65%	1.77%	Jun-07	6.30%	5.29%	1.01%	Jun-12	4.08%	2.31%	1.77%
Jul-02	7.31%	5.51%	1.80%	Jul-07	6.25%	5.19%	1.06%	Jul-12	3.93%	2.22%	1.71%
Aug-02	7.17%	5.19%	1.98%	Aug-07	6.24%	5.00%	1.24%	Aug-12	4.00%	2.40%	1.60%
Sep-02	7.08%	4.87%	2.21%	Sep-07	6.18%	4.84%	1.34%	Sep-12	4.02%	2.49%	1.53%
Oct-02	7.23%	5.00%	2.23%	Oct-07	6.11%	4.83%	1.28%	Oct-12	3.91%	2.51%	1.40%
Nov-02	7.14%	5.04%	2.10%	Nov-07	5.97%	4.56%	1.41%	Nov-12	3.84%	2.39%	1.45%
Dec-02	7.07%	5.01%	2.06%	Dec-07	6.16%	4.57%	1.59%	Dec-12	4.00%	2.47%	1.53%
Jan-03	7.07%	5.02%	2.05%	Jan-08	6.02%	4.35%	1.67%	Jan-13	4.15%	2.68%	1.47%
Feb-03	6.93%	4.87%	2.06%	Feb-08	6.21%	4.49%	1.72%				
Mar-03	6.79%	4.82%	1.97%	Mar-08	6.21%	4.36%	1.85%				
Apr-03	6.64%	4.91%	1.73%	Apr-08	6.29%	4.44%	1.85%	Average:			
May-03	6.36%	4.52%	1.84%	May-08	6.28%	4.60%	1.68%	12-months			1.57%
Jun-03	6.21%	4.34%	1.87%	Jun-08	6.38%	4.74%	1.64%	6-months			1.50%
Jul-03	6.57%	4.92%	1.65%	Jul-08	6.40%	4.62%	1.78%	3-months			1.48%
Aug-03	6.78%	5.39%	1.39%	Aug-08	6.37%	4.53%	1.84%				
Sep-03	6.56%	5.21%	1.35%	Sep-08	6.49%	4.32%	2.17%				
Oct-03	6.43%	5.21%	1.22%	Oct-08	7.56%	4.45%	3.11%				
Nov-03	6.37%	5.17%	1.20%	Nov-08	7.60%	4.27%	3.33%				
Dec-03	6.27%	5.11%	1.16%	Dec-08	6.52%	3.18%	3.34%				

Common Equity Risk Premiums
Years 1926-2011

	<u>Large Common Stocks</u>	<u>Long- Term Corp. Bonds</u>	<u>Equity Risk Premium</u>	<u>Long- Term Govt. Bonds Yields</u>
Low Interest Rates	11.62%	4.58%	7.04%	3.05%
Average Across All Interest Rates	11.77%	6.36%	5.41%	5.20%
High Interest Rates	11.92%	8.15%	3.77%	7.35%

Source of Information: 2012 Stocks, Bonds, Bills, and Inflation (SBBI) Classis Yearbook

Basic Series				
Annual Total Returns (except yields)				
Year	Large Common Stocks	Long- Term Corp. Bonds	Stocks vs. Corp. Bonds	Long- Term Govt. Bonds Yields
1940	-9.78%	3.39%	-13.17%	1.94%
1945	36.44%	4.08%	32.36%	1.99%
1941	-11.59%	2.73%	-14.32%	2.04%
1949	18.79%	3.31%	15.48%	2.09%
1946	-8.07%	1.72%	-9.79%	2.12%
1950	31.71%	2.12%	29.59%	2.24%
1939	-0.41%	3.97%	-4.38%	2.26%
1948	5.50%	4.14%	1.36%	2.37%
1947	5.71%	-2.34%	8.05%	2.43%
1942	20.34%	2.60%	17.74%	2.46%
1944	19.75%	4.73%	15.02%	2.46%
1943	25.90%	2.83%	23.07%	2.48%
2011	2.11%	17.95%	-15.84%	2.48%
1938	31.12%	6.13%	24.99%	2.52%
1936	33.92%	6.74%	27.18%	2.55%
1951	24.02%	-2.69%	26.71%	2.69%
1954	52.62%	5.39%	47.23%	2.72%
1937	-35.03%	2.75%	-37.78%	2.73%
1953	-0.99%	3.41%	-4.40%	2.74%
1935	47.67%	9.61%	38.06%	2.76%
1952	18.37%	3.52%	14.85%	2.79%
1934	-1.44%	13.84%	-15.28%	2.93%
1955	31.56%	0.48%	31.08%	2.95%
2008	-37.00%	8.78%	-45.78%	3.03%
1932	-8.19%	10.82%	-19.01%	3.15%
1927	37.49%	7.44%	30.05%	3.16%
1957	-10.78%	8.71%	-19.49%	3.23%
1930	-24.90%	7.98%	-32.88%	3.30%
1933	53.99%	10.38%	43.61%	3.36%
1928	43.61%	2.84%	40.77%	3.40%
1929	-8.42%	3.27%	-11.69%	3.40%
1956	6.56%	-6.81%	13.37%	3.45%
1926	11.62%	7.37%	4.25%	3.54%
1960	0.47%	9.07%	-8.60%	3.80%
1958	43.36%	-2.22%	45.58%	3.82%
1962	-8.73%	7.95%	-16.68%	3.95%
1931	-43.34%	-1.85%	-41.49%	4.07%
2010	15.06%	12.44%	2.62%	4.14%
1961	26.89%	4.82%	22.07%	4.15%
1963	22.80%	2.19%	20.61%	4.17%
1964	16.48%	4.77%	11.71%	4.23%
1959	11.96%	-0.97%	12.93%	4.47%
1965	12.45%	-0.46%	12.91%	4.50%
2007	5.49%	2.60%	2.89%	4.50%
1966	-10.06%	0.20%	-10.26%	4.55%
2009	26.46%	3.02%	23.44%	4.58%
2005	4.91%	5.87%	-0.96%	4.61%
2002	-22.10%	16.33%	-38.43%	4.84%
2004	10.88%	8.72%	2.16%	4.84%
2006	15.79%	3.24%	12.55%	4.91%
2003	28.68%	5.27%	23.41%	5.11%
1998	28.58%	10.76%	17.82%	5.42%
1967	23.98%	-4.95%	28.93%	5.56%
2000	-9.10%	12.87%	-21.97%	5.58%
2001	-11.89%	10.65%	-22.54%	5.75%
1971	14.30%	11.01%	3.29%	5.97%
1968	11.06%	2.57%	8.49%	5.98%
1972	18.99%	7.26%	11.73%	5.99%
1997	33.36%	12.95%	20.41%	6.02%
1995	37.58%	27.20%	10.38%	6.03%
1970	3.86%	18.37%	-14.51%	6.48%
1993	10.08%	13.19%	-3.11%	6.54%
1996	22.96%	1.40%	21.56%	6.73%
1999	21.04%	-7.45%	28.49%	6.82%
1969	-8.50%	-8.09%	-0.41%	6.87%
1976	23.93%	18.65%	5.28%	7.21%
1973	-14.69%	1.14%	-15.83%	7.26%
1992	7.62%	9.39%	-1.77%	7.26%
1991	30.47%	19.89%	10.58%	7.30%
1974	-26.47%	-3.06%	-23.41%	7.60%
1986	18.67%	19.85%	-1.18%	7.89%
1994	1.32%	-5.76%	7.08%	7.99%
1977	-7.16%	1.71%	-8.87%	8.03%
1975	37.23%	14.64%	22.59%	8.05%
1989	31.69%	16.23%	15.46%	8.16%
1990	-3.10%	6.78%	-9.88%	8.44%
1978	6.57%	-0.07%	6.64%	8.98%
1988	16.61%	10.70%	5.91%	9.18%
1987	5.25%	-0.27%	5.52%	9.20%
1985	31.73%	30.09%	1.64%	9.56%
1979	18.61%	-4.18%	22.79%	10.12%
1982	21.55%	42.56%	-21.01%	10.95%
1984	6.27%	16.86%	-10.59%	11.70%
1983	22.56%	6.26%	16.30%	11.97%
1980	32.50%	-2.76%	35.26%	11.99%
1981	-4.92%	-1.24%	-3.68%	13.34%

**Yields for Treasury Constant Maturities
Yearly for 2007-2011 and 2012
and the Twelve Months Ended January 2013**

<u>Years</u>	<u>1-Year</u>	<u>2-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>20-Year</u>	<u>30-Year</u>
2007	4.52%	4.36%	4.34%	4.43%	4.50%	4.63%	4.91%	4.84%
2008	1.82%	2.00%	2.24%	2.80%	3.17%	3.67%	4.36%	4.28%
2009	0.47%	0.96%	1.43%	2.19%	2.81%	3.26%	4.11%	4.08%
2010	0.32%	0.70%	1.11%	1.93%	2.62%	3.21%	4.03%	4.25%
2011	<u>0.18%</u>	<u>0.45%</u>	<u>0.75%</u>	<u>1.52%</u>	<u>2.16%</u>	<u>2.79%</u>	<u>3.62%</u>	<u>3.91%</u>
Five-Year Average	<u>1.46%</u>	<u>1.69%</u>	<u>1.97%</u>	<u>2.57%</u>	<u>3.05%</u>	<u>3.51%</u>	<u>4.21%</u>	<u>4.27%</u>
2012	0.18%	0.28%	0.38%	0.76%	1.22%	1.80%	2.54%	2.92%
<u>Months</u>								
Feb-12	0.16%	0.28%	0.38%	0.83%	1.37%	1.97%	2.75%	3.11%
Mar-12	0.19%	0.34%	0.51%	1.02%	1.56%	2.17%	2.94%	3.28%
Apr-12	0.18%	0.29%	0.43%	0.89%	1.43%	2.05%	2.82%	3.18%
May-12	0.19%	0.29%	0.39%	0.76%	1.21%	1.80%	2.53%	2.93%
Jun-12	0.19%	0.29%	0.39%	0.71%	1.08%	1.62%	2.31%	2.70%
Jul-12	0.19%	0.25%	0.33%	0.62%	0.98%	1.53%	2.22%	2.59%
Aug-12	0.18%	0.27%	0.37%	0.71%	1.14%	1.68%	2.40%	2.77%
Sep-12	0.18%	0.26%	0.34%	0.67%	1.12%	1.72%	2.49%	2.88%
Oct-12	0.18%	0.28%	0.37%	0.71%	1.15%	1.75%	2.51%	2.90%
Nov-12	0.18%	0.27%	0.36%	0.67%	1.08%	1.65%	2.39%	2.80%
Dec-12	0.16%	0.26%	0.35%	0.70%	1.13%	1.72%	2.47%	2.88%
Jan-13	0.15%	0.27%	0.39%	0.81%	1.30%	1.91%	2.68%	3.08%
Twelve-Month Average	<u>0.18%</u>	<u>0.28%</u>	<u>0.38%</u>	<u>0.76%</u>	<u>1.21%</u>	<u>1.80%</u>	<u>2.54%</u>	<u>2.93%</u>
Six-Month Average	<u>0.17%</u>	<u>0.27%</u>	<u>0.36%</u>	<u>0.71%</u>	<u>1.15%</u>	<u>1.74%</u>	<u>2.49%</u>	<u>2.89%</u>
Three-Month Average	<u>0.16%</u>	<u>0.27%</u>	<u>0.37%</u>	<u>0.73%</u>	<u>1.17%</u>	<u>1.76%</u>	<u>2.51%</u>	<u>2.92%</u>

Source: Federal Reserve statistical release H.15

Measures of the Risk-Free Rate & Corporate Bond Yields

The forecast of Treasury and Corporate yields
per the consensus of nearly 50 economists
reported in the Blue Chip Financial Forecasts dated February 1, 2013

Year	Quarter	Treasury					Corporate	
		1-Year Bill	2-Year Note	5-Year Note	10-Year Note	30-Year Bond	Aaa Bond	Baa Bond
2013	First	0.2%	0.3%	0.8%	1.8%	3.0%	3.7%	4.7%
2013	Second	0.2%	0.3%	0.9%	1.9%	3.1%	3.8%	4.8%
2013	Third	0.2%	0.4%	1.0%	2.0%	3.2%	3.8%	4.9%
2013	Fourth	0.3%	0.4%	1.1%	2.2%	3.3%	3.9%	4.9%
2014	First	0.3%	0.5%	1.2%	2.3%	3.4%	4.1%	5.1%
2014	Second	0.4%	0.6%	1.3%	2.4%	3.5%	4.2%	5.2%

Measures of the Market Premium

Value Line Return

As of:	Dividend Yield	Median Appreciation Potential	Median Total Return
January 25, 2013	2.2%	+ 10.67%	= 12.87%

DCF Result for the S&P 500 Composite

D/P	(1+5g)	+	g	=	k
2.39%	(1.0438)	+	8.76%	=	11.25%

where:	Price (P)	at	31-Jan-13	=	1498.11
	Dividend (D)	for	4th Qtr. '12	=	8.94
	Dividend (D)		annualized	=	35.76
	Growth (g)	by	First Call	=	8.76%

Summary

Value Line		12.87%
S&P 500		11.25%
Average		12.06%
Risk-free Rate of Return (Rf)		3.50%
Forecast Market Premium		8.56%
Historical Market Premium (Rm)	(Rf)	
1926-2011 Arith. mean	11.62%	3.05%
Average - Forecast/Historical		8.57%

Table 7-6: Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
 Long-Term Returns in Excess of CAPM

Decile	Beta*	Arithmetic Mean Return (%)	Actual Return in Excess of Riskless Rate** (%)	CAPM Return in Excess of Riskless Rate† (%)	Size Premium (Return in Excess of CAPM) (%)
Mid-Cap, 3-5	1.12	13.70	8.55	7.41	1.14
Low-Cap, 6-8	1.23	15.16	10.01	8.13	1.88
Micro-Cap, 9-10	1.36	18.04	12.88	8.99	3.89

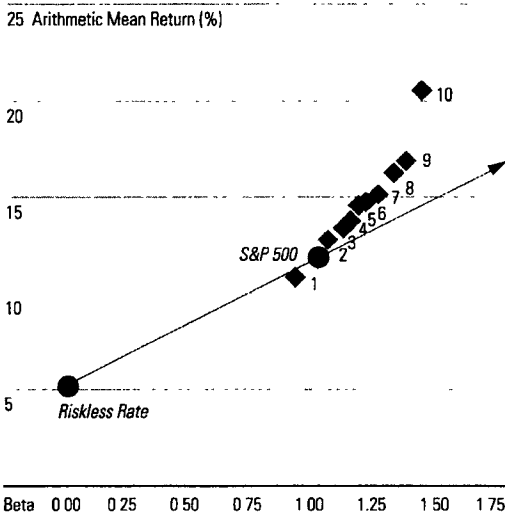
Data from 1926–2011. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2012 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

*Betas are estimated from monthly returns in excess of the 30-day U.S. Treasury bill total return, January 1926–December 2011.

**Historical riskless rate measured by the 86-year arithmetic mean income return component of 20-year government bonds (5.15 percent).

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (11.77 percent) minus the arithmetic mean income return component of 20-year government bonds (5.15 percent) from 1926–2011.

Graph 7-2: Security Market Line Versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ



Data from 1926–2011

Serial Correlation in Small Company Stock Returns

The serial correlation, or first-order autocorrelation, of returns on large capitalization stocks is near zero. [See Table 7-1.] If stock returns are serially correlated, then one can gain some information about future performance based on past returns. For the smallest stocks, the serial correlation is near or above 0.1. This observation bears further examination.

Table 7-7: Size-Decile Portfolios of the NYSE/AMEX/NASDAQ
 Serial Correlations of Annual Returns in Excess of Decile 1 Returns

Decile	Serial Correlations of Annual Returns in Excess of Decile 1 Return
2	0.22
3	0.27
4	0.25
5	0.25
6	0.33
7	0.27
8	0.34
9	0.29
10	0.39

Data from 1926–2011. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2012 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

To remove the randomizing effect of the market as a whole, the returns for decile 1 are geometrically subtracted from the returns for deciles 2 through 10. The result illustrates that these series differences exhibit greater serial correlation than the decile series themselves. Table 7-7 above presents the serial correlations of the excess returns for deciles 2 through 10. These serial correlations suggest some predictability of smaller company excess returns. However, caution is necessary. The serial correlation of small company excess returns for non-calendar years (February through January, etc.) do not always confirm the results shown here for calendar (January through December) years. The results for the non-calendar years (not shown in this book) suggest that predicting small company excess returns may not be easy.

Comparable Earnings Approach

Using Non-Utility Companies with

Timeliness of 2 & 3; Safety Rank of 1, 2 & 3; Financial Strength of B, B+, B++ & A;

Price Stability of 100; Betas of .55 to .75; and Technical Rank of 2 & 3

<u>Company</u>	<u>Industry</u>	<u>Timeliness Rank</u>	<u>Safety Rank</u>	<u>Financial Strength</u>	<u>Price Stability</u>	<u>Beta</u>	<u>Technical Rank</u>
Altria Group	TOBACCO	2	2	B+	100	0.55	3
AmerisourceBergen	MEDICNON	3	2	B++	100	0.70	2
Berkley (W.R.)	INSRPTY	2	2	B++	95	0.70	2
Campbell Soup	FOODPROC	2	2	B++	100	0.55	2
Capitol Fed. Fin'l	THRIFT	3	3	B+	95	0.65	3
Church & Dwight	HOUSEPRD	2	1	A	100	0.60	3
Clorox Co.	HOUSEPRD	2	2	B++	100	0.60	3
DaVita Inc.	MEDSERV	2	3	B+	95	0.70	3
Dollar General	RETAIL	2	3	B++	95	0.60	3
Erie Indemnity Co.	INSRPTY	3	2	B++	100	0.75	2
Haemonetics Corp.	MEDICNON	3	2	B++	95	0.65	3
Hershey Co.	FOODPROC	2	2	B++	100	0.65	2
Hormel Foods	FOODPROC	3	1	A	100	0.65	3
Kellogg	FOODPROC	3	1	A	100	0.55	3
Kroger Co.	GROCERY	3	2	B++	95	0.60	3
Laboratory Corp.	MEDSERV	3	1	A	100	0.65	3
Marsh & McLennan	FINSERV	3	3	B	95	0.75	3
People's United Fin'l	THRIFT	3	3	B+	95	0.70	3
Philip Morris Int'l	TOBACCO	3	2	B++	95	0.75	3
Quest Diagnostics	MEDSERV	3	2	B++	95	0.75	3
Silgan Holdings	PACKAGE	3	3	B+	95	0.75	3
Stericycle Inc.	ENVIRONM	2	2	B++	95	0.70	3
Verisk Analytics	INFOSER	2	2	B+	100	0.60	3
Waste Connections	ENVIRONM	3	3	B+	95	0.70	2
Weis Markets	GROCERY	3	1	A	95	0.65	3
Average		3	2	B++	97	0.66	3
Gas Group	Average	3	2	B++	100	0.66	3

Source of Information: Value Line Investment Survey for Windows, January 2013

Comparable Earnings Approach
Five -Year Average Historical Earned Returns
for Years 2007-2011 and
Projected 3-5 Year Returns

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Average</u>	<u>Projected 2015-17</u>
Altria Group	49.4%	122.0%	89.5%	NMF	NMF	87.0%	NMF
AmerisourceBergen	15.9%	17.3%	18.8%	21.6%	24.6%	19.6%	27.5%
Berkley (W.R.)	20.6%	16.5%	10.2%	11.4%	7.7%	13.3%	12.5%
Campbell Soup	59.5%	60.5%	105.9%	91.1%	77.8%	79.0%	58.0%
Capitol Fed. Fin'l	3.7%	5.8%	7.0%	7.1%	3.3%	5.4%	4.5%
Church & Dwight	15.6%	15.1%	15.5%	15.3%	15.9%	15.5%	17.0%
Clorox Co.	NMF	-	-	NMF	NMF	-	NMF
DaVita Inc.	19.7%	19.2%	19.8%	22.8%	22.5%	20.8%	19.0%
Dollar General	-	3.8%	10.0%	15.5%	16.4%	11.4%	19.0%
Erie Indemnity Co.	20.6%	18.0%	12.0%	17.8%	21.4%	18.0%	24.5%
Haemonetics Corp.	11.4%	11.9%	12.5%	12.2%	10.7%	11.7%	12.0%
Hershey Co.	81.3%	135.3%	69.3%	65.1%	76.4%	85.5%	52.5%
Hormel Foods	15.8%	14.2%	16.1%	17.0%	17.8%	16.2%	16.0%
Kellogg	43.7%	79.3%	53.3%	57.8%	69.9%	60.8%	33.5%
Kroger Co.	24.0%	24.1%	23.2%	21.1%	30.0%	24.5%	23.5%
Laboratory Corp.	29.4%	30.4%	25.3%	23.7%	25.8%	26.9%	20.0%
Marsh & McLennan	6.9%	NMF	9.2%	8.6%	16.2%	10.2%	20.0%
People's United Fin'l	3.4%	2.7%	2.0%	1.6%	3.8%	2.7%	6.0%
Philip Morris Int'l	39.1%	NMF	NMF	NMF	NMF	39.1%	NMF
Quest Diagnostics	16.7%	17.8%	18.3%	17.9%	19.7%	18.1%	16.0%
Silgan Holdings	24.6%	25.1%	23.2%	26.1%	29.4%	25.7%	20.0%
Stericycle Inc.	18.0%	22.8%	21.1%	20.4%	20.2%	20.5%	15.0%
Verisk Analytics	-	-	-	-	-	-	37.0%
Waste Connections	12.8%	8.2%	8.7%	10.5%	12.1%	10.5%	13.5%
Weis Markets	7.1%	7.1%	9.1%	9.4%	10.1%	8.6%	9.0%
Average						<u>27.4%</u>	<u>21.6%</u>
Average (excluding values >20%)						<u>12.4%</u>	<u>13.3%</u>

St. 7

A. Caldro

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PEOPLES TWP LLC

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:
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Docket No. R-2013-2355886

**PREPARED DIRECT TESTIMONY OF
ANTHONY CALDRO
RATE CONSULTANT
ON BEHALF OF
PEOPLES TWP LLC**

DATE SERVED: April 30, 2013
DATE ADMITTED: _____

Peoples TWP Statement No. 7

**PREPARED DIRECT TESTIMONY OF
ANTHONY CALDRO**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Anthony Caldoro and my business address is 375 North Shore Drive, Suite
3 600, Pittsburgh, Pennsylvania 15212.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Peoples Natural Gas Company LLC (“Peoples”) in the Rates and
7 Regulatory Affairs Department. My job title is Rate Consultant. Pursuant to the
8 affiliated interest agreements between Peoples and Peoples Service Company LLC
9 (“PSC”) and between PSC and Peoples TWP LLC (“PTWP”), which were approved by
10 the Commission in Docket Nos. G-2012-2290014 and G-2012-2291735, I provide Rate
11 and Regulatory Affairs services for PTWP.

12
13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
14 EXPERIENCE.**

15 A. I graduated from The Pennsylvania State University, State College, Pennsylvania, in
16 1982, with a Bachelor of Science Degree in Mineral Economics. In January 1983, I
17 began full-time employment with the Federal Energy Regulatory Commission (“FERC”)
18 as an Industry Economist in the Allocation and Rate Design Branch of the Office of
19 Pipeline and Producer Regulation. Prior to beginning full-time employment, I had
20 worked at the FERC as a co-op student for two six-month terms. While at the FERC, I
21 participated as a member of the FERC staff in various proceedings, including base rate
22 and certificate proceedings.

1 In August 1986, I joined Peoples' Pricing and Regulatory Affairs Department. In
2 my current position, my responsibilities include the preparation and coordination of
3 Peoples' and PTWP's annual and quarterly §1307(f) filings and other regulatory and
4 tariff filings before the Pennsylvania Public Utility Commission ("Commission").
5

6 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN ANY REGULATORY**
7 **PROCEEDING?**

8 A. Yes. I have presented testimony on behalf of Peoples in numerous proceedings before
9 the Commission, including every one of Peoples 1307(f) cases since 1994 and Peoples
10 base rate cases at Docket Nos. R-2010-2201702 and R-2012-2285985. In addition, I
11 presented testimony before the West Virginia Public Service Commission on behalf of
12 Hope Gas, Inc., in Case No. 08-1783-G-42T. I have also testified before the FERC as a
13 member of the FERC Staff.
14

15 **Q. ARE YOU SPONSORING ANY FILING REQUIREMENTS OR OTHER**
16 **EXHIBITS?**

17 A. Yes, I am. Attached to this Direct Testimony as Appendix A is a complete list of the
18 exhibits for which I am the responsible witness.
19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

21 A. I am responsible for developing the value of the Company's rate base. In doing that, I
22 have prepared **Peoples TWP Exhibit No. AC-1**, which reflects PTWP's Measures of
23 Value for the historic test year (HTY), the future test year (FTY) and the fully forecasted

1 future test year (FFFTY), and **Peoples TWP Exhibit No. AC-2**, which is a workpaper
2 showing the derivation of the fully forecasted future test year plant in service. I am also
3 responsible for developing the value of Cash Working Capital. I have also prepared
4 **Peoples TWP Exhibit No. AC-3**, which includes the lead-lag study in support of the
5 Company's cash working capital requirement pursuant to Section 53.53 III. A.15 of the
6 Commission's standard filing requirements.

7
8 **Q. WHAT DO YOU MEAN WHEN YOU SAY THAT PEOPLES TWP EXHIBIT NO.**
9 **AC-1 REFLECTS MEASURES OF VALUE FOR THE FULLY FORECASTED**
10 **FUTURE TEST YEAR OR FFFTY?**

11 **A.** In complying with the Commission's filing requirements for a general rate case, Peoples
12 TWP has traditionally filed its base rate cases using a historic test year and future test
13 year as set forth in section 53.53(b) of the Commission's regulations, 52 Pa. Code §
14 53.53(b). The use of a future test year as support for a general rate increase is authorized
15 by Section 315 of the Public Utility Code, 66 Pa. C.S. § 315. With the enactment of Act
16 11 of 2012, effective April 12, 2012, Section 315 was amended to also permit use of a
17 "fully projected future test year" in rate cases. The fully projected future test year is
18 defined as the 12-month period that begins with the first month that the new rates will
19 be placed into effect, after application of the full suspension period permitted under
20 Section 1308(d). Based on the filing date of this case, the fully projected future test year
21 is the 12-month period beginning February 1, 2014 and ending January 31, 2015.
22 Peoples TWP has elected to utilize a fully projected future test year in this case, which I
23 refer to in this testimony as the fully forecasted future test year or FFFTY. Consistent

1 with this election, I have determined the Company's rate base by projecting the facilities
2 to be in service during the FFITY.

3
4 **Q. DO YOU HAVE ANY PRELIMINARY MATTERS TO ADDRESS BEFORE**
5 **DESCRIBING HOW YOU DEVELOPED THE FFITY PLANT IN SERVICE?**

6 A. Yes. During the past several months, the Fixed Assets/Plant Accounting section of the
7 Peoples Accounting Department has been reviewing Peoples TWP's plant balances,
8 specifically the low pressure distribution mains, to essentially separate distribution mains
9 between low and regulated pressures. This project was undertaken in order to provide an
10 accurate apportionment of distribution mains related investment and operating costs to
11 rate classes. The results of the project are shown on **Peoples TWP Exhibit No. AC-2,**
12 **column 7.**

13
14 **Q. PLEASE EXPLAIN HOW THE PEOPLES TWP FULLY FORECASTED**
15 **FUTURE TEST YEAR PLANT IN SERVICE WAS DEVELOPED.**

16 A. The FFITY plant in service was determined by taking the adjusted plant balance of
17 \$249,430,030 as of the end of the HTY, December 31, 2012 and then adding forecasted
18 plant additions and subtracting forecasted retirements through the end of the FFITY, or
19 January 31, 2015.

20
21 **Q. WHAT WAS YOUR NEXT STEP IN DETERMINING THE ORIGINAL COST**
22 **OF PLANT IN SERVICE AS OF JANUARY 31, 2015?**

1 A. I determined the total plant additions from Peoples TWP's 2013 Capital Budget and the
2 amount of Construction Work in Progress ("CWIP") as of December 31, 2012 that will
3 close to plant in 2013. These two categories of additions to plant are reflected on
4 **Peoples TWP Exhibit No. AC-2**, columns 6 and 8.

5
6 **Q. HOW DID YOU DETERMINE THE AMOUNT OF FORECASTED PLANT**
7 **ADDITIONS FROM THE 2013 CAPITAL BUDGET THAT WILL CLOSE TO**
8 **PLANT IN 2013?**

9 A. These amounts were determined by applying known closing criteria to the 2013 Capital
10 Budget. The known closing criteria take into consideration the length of time it generally
11 takes for the completion and placement into service of construction projects that take
12 longer than one month to complete. For example, a transmission pipeline replacement
13 project is estimated to take four months to finish and be placed in service, whereas a
14 distribution system measurement and regulating station project is estimated to take two
15 months for completion. These guidelines on closing criteria were supplied by Peoples
16 TWP Operations Department.

17
18 **Q. HOW DID YOU DETERMINE THE AMOUNT OF CWIP AS OF DECEMBER**
19 **31, 2012 THAT WILL CLOSE TO PLANT IN 2013?**

20 A. I used the same closing criteria that I applied to the 2013 Capital Budget. Additionally, a
21 list of projects that were known to be closing in 2013 was provided to me by the Plant
22 Accounting section of the Accounting Department and I incorporated those closings into
23 the FFYTY plant-in-service projection.

1

2 **Q. HOW DID YOU FORECAST PLANT RETIREMENTS FOR 2013?**

3 A. Forecasted retirements were based on two primary drivers: 1) an adjusted five-year
4 historical average of plant retirements, by FERC account, and 2) additional retirements
5 for General Plant developed and described in the testimony of Peoples TWP Witness
6 John J. Spanos in Peoples TWP Statement No. 8. Forecasted retirements for 2013 are
7 shown on **Peoples TWP Exhibit No. AC-2**, column 9.

8

9 **Q. WHAT WAS YOUR NEXT STEP IN DETERMINING THE ORIGINAL COST**
10 **OF PLANT IN SERVICE AS OF JANUARY 31, 2015, THE END OF THE**
11 **FFFTY?**

12 A. I added the amount of plant from the 2014 Capital Budget and the amount of CWIP from
13 the 2013 Capital Budget that is expected to close to plant in 2014. Those amounts are
14 reflected on **Peoples TWP Exhibit No. AC-2**, columns 11 and 12. Additionally, I added
15 the amount of plant from the 2015 Capital Budget and the amount of CWIP from the
16 2014 Capital Budget that is expected to close to plant in January 2015, which reflects the
17 end of the FFFTY. Those amounts are reflected on **Peoples TWP Exhibit No. AC-2**,
18 column 15.

19

20 **Q. HOW DID YOU DETERMINE THE AMOUNT OF FORECASTED PLANT**
21 **ADDITIONS FROM THE 2014 AND 2015 CAPITAL BUDGETS AND THE**
22 **AMOUNT OF CWIP AS OF DECEMBER 31, 2013 AND DECEMBER 31, 2014**
23 **THAT WILL CLOSE TO PLANT IN 2014 AND 2015?**

1 A. In the same manner as I did for the 2013 Capital Budget, I applied the closing criteria, as
2 supplied by Peoples TWP Operations Department, to the 2014 and 2015 Capital Budgets
3 and the December 31, 2013 and December 31, 2014 projected CWIP balance. Under
4 those closing criteria, Peoples TWP construction projects generally do not last longer
5 than four months, after which the project is placed in service and closed to the
6 appropriate plant accounts.

7
8 **Q. HAVE YOU INCLUDED ANY PLANT INVESTMENT AMOUNTS IN YOUR**
9 **RATE BASE PROJECTION THAT FALL OUTSIDE OF THE FF5TY?**

10 A. No.

11

12 **Q. HOW DID YOU FORECAST PLANT RETIREMENTS FOR THE 2014 AND**
13 **JANUARY 2015 PERIOD?**

14 A. In the same manner that I forecasted retirements for 2013. Forecasted retirements were
15 based on an adjusted five-year historical average of plant retirements, by FERC account,
16 with additional retirement projections provided by Peoples TWP witness Spanos. Those
17 amounts are reflected on **Peoples TWP Exhibit No. AC-2**, columns 13 and 16.

18

19 **Q. PLEASE SUMMARIZE PEOPLES TWP'S ORIGINAL COST OF GAS PLANT**
20 **IN SERVICE AS OF JANUARY 31, 2015?**

21 A. As reflected on **Peoples TWP Exhibit No. AC-2**, column 17, PTWP's original cost of
22 gas plant in service as of January 31, 2015 is \$299,134,235. This amount is carried
23 forward to page 3, line 1 of **Peoples TWP Exhibit No. AC-1**.

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Q. HOW DID THE COMPANY DETERMINE THE ACCRUED DEPRECIATION AND AMORTIZATION ASSOCIATED WITH GAS PLANT IN SERVICE AS OF JANUARY 31, 2015?

A. The claim for Accrued Depreciation and Amortization was supplied by Peoples TWP witness Spanos. As explained in his testimony in this proceeding, the appropriate measure of accrued depreciation for use as the deduction from the original cost in determining Peoples TWP's rate base is Peoples TWP's adjusted book depreciation reserve as of January 31, 2015. That amount is \$100,949,820 and is shown on **Peoples TWP Exhibit No. AC-1, page 3, line 5.**

Q. HAS THE COMPANY INCLUDED GAS STORED UNDERGROUND – CURRENT IN RATE BASE?

A. Yes. The cost of Gas Stored Underground – Current is \$9,239,986 for the historic test year and \$10,594,411 for the FFFTY. Gas Stored Underground – Current is the gas that Peoples TWP injects and withdraws seasonally. This gas is accounted for in Account No. 164.

Q. HOW DID YOU DETERMINE THE COST OF GAS STORED UNDERGROUND – CURRENT FOR INCLUSION IN RATE BASE?

A. To determine the historic test year cost for Gas Stored Underground – Current, I used the twelve-month average of the monthly balances in Account 164 as of December 31, 2012. To determine the fully forecasted future test year claim for Gas Stored Underground –

1 Current, I started with the balance of Gas Stored Underground – Current, as of December
2 31, 2012 and projected injection and withdrawal activity under the WACOG inventory
3 method for the period January 2013 through January 31, 2015, with the gas prices at
4 Peoples TWP’s projected weighted average purchase rate, to develop FFFTY month end
5 balances of current gas in storage.

6
7 **Q. HAS THE COMPANY INCLUDED MATERIALS AND SUPPLIES IN RATE**
8 **BASE?**

9 A. Yes. The cost of Materials and Supplies is \$1,060,445. This amount is based on the
10 historic test year twelve month averages of the monthly balances in Account 154.

11
12 **Q. DID YOU INCLUDE PREPAYMENTS IN RATE BASE?**

13 A. Yes, I included FFFTY prepayments of \$786,810. This amount reflects prepayments
14 primarily for insurance and regulatory fees.

15
16 **Q. HAS THE COMPANY INCLUDED ANY OFFSETS OR DEDUCTIONS TO**
17 **WORKING CAPITAL IN ITS RATE BASE CLAIM?**

18 A. Yes. Offsets or deductions to working capital include deferred income taxes, customer
19 advances and customer deposits.

20
21 **Q. HOW DID YOU DETERMINE THE AMOUNT OF DEFERRED INCOME**
22 **TAXES AS OF JANUARY 31, 2015?**

1 A. Peoples TWP witness James I. Warren describes the derivation of deferred income taxes
2 in his testimony in this proceeding, and he provided that amount to me to include as a
3 reduction to the fully forecasted future test year rate base.

4
5 **Q. WHAT ARE CUSTOMER ADVANCES, AND HOW DID YOU DETERMINE**
6 **THE LEVEL OF CUSTOMER ADVANCES AS OF JANUARY 31, 2015?**

7 A. Customer advances are generally amounts paid by customers in advance of receiving
8 service from the Company. The level of customer advances, as of January 31, 2015, was
9 projected on the basis of the 12-month average of actual customer advances balances for
10 the historic test year ended December 31, 2012.

11
12 **Q. WHAT ARE CUSTOMER DEPOSITS, AND HOW DID YOU DETERMINE THE**
13 **LEVEL OF CUSTOMER DEPOSITS AS OF JANUARY 31, 2015?**

14 A. Customer deposits are amounts paid by customers as security for the payment of bills.
15 The level of customer deposits, as of January 31, 2015, was projected on the basis of the
16 12-month average of actual customer deposit balances for the historic test year ended
17 December 31, 2012.

18
19 **Q. PLEASE SUMMARIZE PEOPLES TWP'S FFFTY RATE BASE CLAIM.**

20 A. Peoples TWP's FFFTY year rate base derives from a calculation that consists of four
21 components: (1) a determination of the original cost of gas plant in service as adjusted;
22 (2) a determination of the accrued depreciation and amortization associated with that
23 plant; (3) a determination of the cost of other items of property includable in rate base;

1 and, (4) appropriate reductions to working capital related to other sources of funds
2 available to Peoples, such as deferred income taxes, customer advances and customer
3 deposits. As shown on **Peoples TWP Exhibit No. AC-1**, page 3, line 19, PTWP's
4 FFFTY rate base is \$210,137,047.

5
6 **Q. IS CASH WORKING CAPITAL INCLUDED IN RATE BASE?**

7 **A.** Yes.

8
9 **Q. PLEASE DEFINE CASH WORKING CAPITAL AND BRIEFLY DESCRIBE THE
10 LEAD-LAG METHOD OF DETERMINING CASH WORKING CAPITAL.**

11 **A.** Cash Working Capital ("CWC") is the portion of working capital that is needed to
12 finance the Company's operation during the time period between receipt of payment for
13 utility service and the disbursements required to render that service. The need for CWC
14 is a function of the lag between the Company's provision of service to customers and
15 receipt of payment for that service and the lag between the Company's receipt of goods
16 and services used to provide service to customers and the time of the Company's
17 payments for those goods and services.

18 "Revenue lag" is the time period from the date that customers receive service to
19 the date that the Company receives payment from customers for service, and is the basis
20 for determining the annual cash requirement that must be financed by the Company.
21 Peoples TWP's customers receive service prior to payment for the service. This is a
22 revenue lag. This cash requirement is offset, in part, to the extent that the Company's
23 payments for labor, materials & supplies, and other expenses incurred in providing

1 service to customers occurs after the time such services are provided by the Company and
2 received by the customers. These offsets are defined as "expense lag." The Company
3 generally pays a vendor after goods or services have been provided resulting in an
4 expense lag. Occasionally, the Company pays for goods or services in advance of the
5 service period creating an "expense lead."

6 The examination of the timing of these fundamental cash transactions constitutes
7 the lead-lag method of determining CWC. The net lag days are applied to the expense
8 components of the cost of service to arrive at the CWC requirement.

9
10 **Q PLEASE DESCRIBE THE COMPANY'S CWC CALCULATION AS**
11 **PRESENTED ON PEOPLES TWP EXHIBIT NO. AC-3.**

12 **A.** The Company prepared a lead-lag study based upon the HTY (twelve months ended
13 December 31, 2012) actual data. The revenue lag days and expense lag/(lead) days
14 developed from this data were then utilized to calculate the Company's cash working
15 capital requirement for the HTY, FTY and FFFTY, with some exceptions as explained
16 further. **Peoples TWP Exhibit No. AC-3**, page 1 contains the FFFTY CWC
17 requirement. The supporting workpapers begin on page 2.

18
19 **Q. PLEASE EXPLAIN HOW THE REVENUE LAG DAYS WERE DETERMINED.**

20 **A.** The revenue lag measures the number of days from the date service was rendered by the
21 Company until the date payment was received from customers and such funds were
22 available to the Company. In Peoples TWP's study, the revenue lag was divided into three
23 distinct components: 1) service lag; 2) billing lag; and 3) collections lag. Considered

1 together, these three components of retail revenue lag totaled a weighted average of 67.59
2 lag days. An explanation of each component of the base revenue lag follows.

3
4 **Q. WHAT IS MEANT BY SERVICE LAG?**

5 A. The service lag refers to the period of time from when service is rendered to the time the
6 customer's meter is read. Using the mid-point methodology, the average service lag
7 associated with meter reading was 15.21 days (365 days in the year divided by 12 months
8 divided by 2). Twelve months was appropriate to use for purposes of determining the
9 service lag because the Company bills its customers monthly.

10
11 **Q. WHAT IS THE MID-POINT METHODOLOGY?**

12 A. For purposes of determining the service lead or lag, Peoples TWP's methodology
13 presumes that the service was provided (or received) evenly over a given period (i.e., a
14 month). Adding the one-half month to the derivation of the lead or lag is referred to as the
15 mid-point methodology.

16
17 **Q. WHAT IS MEANT BY BILLING LAG?**

18 A. Billing lag refers to the average number of days from the date on which the meter was
19 ready until the date a customer is billed. Based upon Peoples TWP's recent billing history,
20 the percentage weighted distribution of the mailing of the bills, I determined the billing lag
21 to be 5.19 days. Additionally, in January of 2014, Peoples TWP will be converting its
22 billing system to SAP. Peoples currently uses the SAP billing system. Based on our
23 experiences with the SAP system, we know that the SAP system processes will reduce the

1 cycle time from reading to billing by 2 days. Accordingly, I have reduced the billing lag
2 in the FFFTY to 3.19 days.

3
4 **Q. WHAT IS MEANT BY COLLECTIONS LAG?**

5 A. The collections lag refers to the average amount of time from the date when the Company
6 mailed a bill to the date that the Company received payment from its customers. The
7 Company calculated collections lag using the days in accounts receivable methodology.
8 Days in accounts receivable is calculated by dividing revenues by 366 to arrive at an
9 average daily revenue amount. Next average monthly accounts receivable is calculated by
10 adding the end of month accounts receivable balances for each month in 2012 and dividing
11 the total by 12. The average accounts receivable balance is then divided by the average
12 daily revenue to arrive at days in accounts receivable. Based on this approach, the average
13 collection lag at the Company was determined to be 49.19 days.

14
15 **Q. PLEASE SUMMARIZE THE CALCULATION OF REVENUE LAG DAYS.**

16 A. The calculation of the overall revenue lag, by lag component is summarized in the
17 following table:

Revenue Lag Component	Lag Days
Service Lag	15.21
Billing Lag	3.19
Collections Lag	49.19
Total Lag Days	67.59

18

1 **Q. HOW WERE THE EXPENSE LAG DAYS FOR GAS PURCHASES**
2 **DETERMINED?**

3 **A.** The Company purchases gas from various producers, some of which feeds directly into
4 the Peoples TWP system and some of which must be transported through interstate
5 pipeline companies. For each service month, the number of days from the midpoint of
6 service to the payment date for gas received was determined from Peoples TWP's
7 accounts payable system. The gas purchase expense lag days are calculated by dividing
8 the annual weighted dollar lag days by the annual amount paid to the suppliers and
9 pipelines. The costs for all the suppliers and pipelines were totaled and averaged to
10 establish an overall weighted average of 37.56 lag days for gas purchased. Twelve
11 months of purchases were considered in developing the purchase expense lag.

12

13 **Q. PLEASE EXPLAIN HOW THE EXPENSE LAG WAS DETERMINED FOR**
14 **PAYROLL COSTS.**

15 **A.** The Company's payroll records were analyzed to measure the number of lead days
16 between the Company's receipt of services from its employees and the payment for those
17 services. Payroll lead days were calculated by: a) calculating the unweighted (or
18 nominal) lead time by pay day and pay-cycle including a mid-point of the pay period as
19 indicative of a service lead time and weighting the resulting lead days by the amounts
20 paid out by the Company to cover its payroll obligations. The resulting total on a dollar-
21 weighted basis was 23.73 days.

22

23 **Q. WHAT TYPE OF LEADS ASSOCIATED WITH THE COMPANY'S EMPLOYEE**
24 **BENEFIT PROGRAMS WERE CONSIDERED IN THE ANALYSIS?**

1 A. The estimated lead times associated with the following major categories of the
2 Company's employee benefit programs were considered: a) pensions; and b) employee
3 benefits including group life, group health, and other employee welfare programs. Taken
4 together, these programs had a dollar-weighted lead time of 22.07 days.

5
6 **Q. DID THE COMPANY MAKE CONTRIBUTIONS TO THE DEFINED BENEFIT
7 PENSION FUND DURING THE HTY?**

8 A. Yes. The Company made quarterly contributions to the pension fund for its unionized
9 employees. The contributions were typically made around the 15th day of the month
10 following the end of a quarter. These quarterly payments were reflected in the
11 calculation of the weighted lead time of 22.07 days for Employee Benefits.

12
13 **Q. HOW WAS THE EXPENSE LEAD TIME ASSOCIATED WITH THE
14 COMPANY'S OTHER BENEFIT PROGRAMS DETERMINED?**

15 A. The Company is billed monthly by each of its benefit providers. The bill may consist of
16 service costs and/or administrative fees. The invoices are typically paid within one week
17 following the receipt of the invoice. Funds for 401K accounts are sent the day following
18 pay day.

19
20 **Q. WHAT IS INCLUDED IN OTHER OPERATION AND MAINTENANCE
21 ("O&M") EXPENSE AND HOW WAS THE 49.27 DAY EXPENSE LAG
22 DETERMINED?**

23 A. Payments to a wide variety of vendors for all O&M costs, other than those already
24 mentioned (payroll, benefits, purchased gas) are included in the expense lag. These

1 include items such as outside services, office supplies, and employee expenses.
2 Payments are made through the accounts payable system. Since Peoples TWP and
3 Peoples use the same accounts payable system, I used the same sampling process that
4 was used in Peoples' 2012 base rate case. From the accounts payable system, 200
5 invoices were randomly chosen. Each invoice was reviewed to determine the service
6 period of the O&M expense. The payment date is readily available as part of the
7 accounts payable system. The lag days between the payment date and the midpoint of the
8 service period were calculated. The lag days were dollar-weighted to arrive at an overall
9 dollar-weighted expense lag.

10
11 **Q. PLEASE EXPLAIN HOW THE EXPENSE LAG ASSOCIATED WITH THE**
12 **SERVICE COMPANY WAS DETERMINED.**

13 **A.** The service agreement between Peoples TWP and PSC provides that payment for
14 services will be due on the 25th day of each month following the service period. In the
15 instance where the 25th falls on a weekend or holiday, the payment date was assumed to
16 be the last business day prior to the 25th day of the month. Lag days were calculated by
17 an average of the midpoint of the service period to pay date, resulting in 39.25 days.

18
19 **Q. HOW DID YOU DEVELOP THE EXPENSE (LEAD) AND LAG DAYS FOR**
20 **TAXES OTHER THAN INCOME TAXES?**

21 **A.** The following general taxes and similar assessments were considered in the study: a)
22 property taxes; b) Public Utility Realty taxes; c) Sales and Use taxes, and d) other
23 miscellaneous taxes and fees. When dollar-weighted using fiscal year 2012 actual

1 payments, the weighted expense lead time for all categories of these general taxes was
2 determined to be 2.96 days. This weighted lead time was then used in computing the
3 cash working capital requirement associated with taxes other than income taxes.
4

5 **Q. HOW DID YOU DEVELOP THE EXPENSE LAG DAYS FOR INCOME TAXES?**

6 **A.** For Federal and State income taxes, the statutory payment schedules relative to each tax
7 were utilized to arrive at 36.50 and 54.68 lag days, respectively.
8

9 **Q. HOW WERE THE LAG DAYS ASSOCIATED WITH INTEREST ON DEBT**
10 **CALCULATED?**

11 **A.** Using actual due dates and amounts of interest payments, a dollar-weighted lead of 17.12
12 days for interest payments was determined. Short term debt was assigned expense lag
13 days based on the monthly payments of the Company's notes to arrive at an average of
14 15.21 days (365 days / 12 payments / 2 midpoints).
15

16 **Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?**

17 **A.** Yes, it does. I reserve the right to submit additional testimony as issues arise during the
18 course of the proceeding. Thank you.

Filing Requirements Sponsored by
Anthony Caldro

<u>Volume</u>	<u>Filing Requirement</u>
I	53.52(c)(1)
I	53.53.I.A.2
I	53.53.I.A.12
I	53.53.I.A.13
I	53.53.I.A.14
I	53.53.I.A.15
I	53.53.I.A.16
I	53.53.I.A.18
II	53.53.II.A.21
II	53.53.II.C.1
III A	53.53.III.A.14
III A	53.53.III.A.15
III B	53.53.III.E.25
III B	53.53.III.E.31
IV	53.53.IV.B.11
VI	Exhibit VI.I.RR.15
VI	Exhibit VI.I.RR.18
VII	Exhibit VI.II.RR.36
VII	Exhibit VI.II.RR.45

Exhibits Sponsored by
Anthony Caldro

- Peoples TWP Exhibit No. AC-1**
- Peoples TWP Exhibit No. AC-2**
- Peoples TWP Exhibit No. AC-3**

Peoples TWP Exhibit No. AC-1

Peoples TWP LLC
Attachment 1: 53.53 I.A.2
Measures of Value & Rate of Return
Twelve Months Ended December 31, 2012

Line No.	Description	Account No.	Reference	Original Cost
Gas Plant				
1	Gas Plant in Service	101	53.52(c)(3)	\$ 249,430,030
2	Gas Plant Construction in Progress	107	53.52(c)(3)	\$ 8,716,107
3	Total Gas Plant as Adjusted			\$ 258,146,137
Adjusted Book Depreciation, Depletion, and Amortization Reserves				
4	Gas Plant in Service		53.53 I.A.6	\$ 87,841,992
5	Total Adjusted Book Reserve			\$ 87,841,992
6	Net Gas Plant Adjusted			\$ 170,304,145
7	Gas Stored Underground - Noncurrent	117	53.53 I.A.15	\$ -
8	Subtotal			\$ 170,304,145
Working Capital				
9	Gas Stored Underground - Current		53.53 II.C.1	\$ 9,239,986
10	Materials and Supplies		53.53 I.A.15	\$ 1,060,445
11	Prepayments			\$ 786,810
12	Cash Working Capital Requirements		53.53 III.A.15	\$ 6,910,313
13	Subtotal			\$ 17,997,553
Less:				
14	Unamortized Investment Tax Credit			\$ -
15	Deferred Income Taxes	282	53.53 III.A.16	\$ 3,227,896
16	Customer Advances			\$ 283,739
17	Customer Deposits			\$ 12,389
18	Total Working Capital			\$ 14,473,529
19	Total Measures of Value			\$ 184,777,674
20	Return on Books (\$)			\$ 10,103,570
21	Return on Books (%)			5.47%
22	Pro Forma at Present Rates - HTY (\$)			\$ 12,263,649
23	Pro Forma at Present Rates - HTY (%)			6.64%

Peoples TWP LLC
Attachment 2: 53.53 I.A.2
Measures of Value & Rate of Return
Twelve Months Ending December 31, 2013

Line No.	Description	Account No.	Reference	Original Cost
Gas Plant				
1	Gas Plant in Service	101	53.52(c)(3)	\$ 282,706,125
2	Gas Plant Construction in Progress	107	53.52(c)(3)	\$ 2,673,913
3	Total Gas Plant as Adjusted			<u>\$ 285,380,038</u>
Adjusted Book Depreciation, Depletion, and Amortization Reserves				
4	Gas Plant in Service		53.53 I.A.6	\$ 94,156,065
5	Total Adjusted Book Reserve			<u>\$ 94,156,065</u>
6	Net Gas Plant Adjusted			<u>\$ 191,223,973</u>
7	Gas Stored Underground - Noncurrent	117	53.53 I.A.15	\$ -
8	Subtotal			<u>\$ 191,223,973</u>
Working Capital				
9	Gas Stored Underground - Current		53.53 II.C.1	\$ 8,081,029
10	Materials and Supplies		53.53 I.A.15	\$ 1,060,445
11	Prepayments			\$ 786,810
12	Cash Working Capital Requirements		53.53 III.A.15	\$ 6,977,929
13	Subtotal			<u>\$ 16,906,213</u>
Less:				
14	Unamortized Investment Tax Credit			\$ -
15	Deferred Income Taxes	282	53.53 III.A.16	\$ 4,028,127
16	Customer Advances			\$ 283,739
17	Customer Deposits			\$ 12,389
18	Total Working Capital			<u>\$ 12,581,958</u>
19	Total Measures of Value			<u><u>\$ 203,805,931</u></u>
20	Return Proforma HTY (\$)			\$ 12,263,649
21	Return Proforma HTY (%)			6.02%
22	Pro Forma at Present Rates (\$)			\$ 6,640,816
23	Pro Forma at Present Rates (%)			3.26%

Peoples TWP LLC
Attachment 2: 53.53 I.A.2
Measures of Value & Rate of Return
Twelve Months Ending January 31, 2015

Line No.	Description	Account No.	Reference	Original Cost
Gas Plant				
1	Gas Plant in Service	101	53.52(c)(3)	\$ 299,134,235
2	Gas Plant Construction in Progress	107	53.52(c)(3)	\$ -
3	Total Gas Plant as Adjusted			<u>\$ 299,134,235</u>
Adjusted Book Depreciation, Depletion, and Amortization Reserves				
4	Gas Plant in Service		53.53 I.A.6	\$ 100,949,820
5	Total Adjusted Book Reserve			<u>\$ 100,949,820</u>
6	Net Gas Plant Adjusted			<u>\$ 198,184,415</u>
7	Gas Stored Underground - Noncurrent	117	53.53 I.A.15	\$ -
8	Subtotal			<u>\$ 198,184,415</u>
Working Capital				
9	Gas Stored Underground - Current		53.53 II.C.1	\$ 10,594,411
10	Materials and Supplies		53.53 I.A.15	\$ 1,060,445
11	Prepayments			\$ 786,810
12	Cash Working Capital Requirements		53.53 III.A.15	\$ 6,556,491
13	Subtotal			<u>\$ 18,998,157</u>
Less:				
14	Unamortized Investment Tax Credit			\$ -
15	Deferred Income Taxes	282	53.53 III.A.16	\$ 6,749,397
16	Customer Advances			\$ 283,739
17	Customer Deposits			\$ 12,389
18	Total Working Capital			<u>\$ 11,952,632</u>
19	Total Measures of Value			<u><u>\$ 210,137,047</u></u>
20	Return on Books (\$)			\$ 6,640,816
21	Return on Books (%)			3.16%
22	Pro Forma at Present Rates (\$)			\$ 5,367,094
23	Pro Forma at Present Rates (%)			2.55%
24	Pro Forma at Proposed Rates (\$)			\$ 16,747,923
25	Pro Forma at Proposed Rates (%)			7.97%

Peoples TWP Exhibit No. AC-2

FTY - December 31, 2013 - Plant in Service
FFTY - January 31, 2015 - Plant in Service

G/A	ORACLE SAP Tax	DESCRIPTION	Balance at December 31, 2012	CWIP Closed to Plant by June 30, 2013	Plant Reassignment Project	2013 Capital Budget Closed to Plant	2013 Retirements	Balance at 12/31/2013 Plant in Service	2013 CWIP Closed to Plant in 2014	2014 Capital Budget Closed to Plant	2014 Retirements	Balance at 12/31/14 FTY Plant in Service	2015 Capital Budget & 2014 CWIP Closed to Plant by 1/31/2015	2015 Retirements	Plant in Service Rate Base Claim
DISTRIBUTION PLANT - GAS PLANT IN SERVICE															
1311030	37401001	3740 0 Land & Land Rights - Land	\$ 13,102					\$ 13,102				\$ 13,102			\$ 13,102
1311030	37404001	3740 44 Land & Land Rights - Rights-of-Way	1,213,965					1,216,969				1,216,969			1,216,969
1311070	37501001	3750 20 Structures & Improvements-M & R Station Structures (General)	987,763	2,125	3,004		992,456					1,252,456			1,252,456
1311070	37502001	3750 20 Structures & Improvements-M & R Station Structures (Industrial)			2,568										
1311070	37503001	3750 39 Structures & Improvements-Other Structures													
1311070	37601001	3760 20 Low Pressure Mains	87,874,683		45,801,885	4,423,956	50,102,599		7,565	2,271,474	(123,243)	52,258,395	136,216	(10,270)	52,384,340
1311070	37602001	3760 15 Regulated Pressure Mains	5,656,344	2,145,120	(45,559,996)	4,301,872	48,643,001		4,301,872	2,209,800	(119,677)	50,732,123	132,932	(9,973)	50,855,082
1311070	37603001	3760 20 M & R Station Equipment (General)-Meters & Gauges	28,401,954	7,788	763	419,300	6,068,413		55,700	375,745	(15,782)	6,484,076	49,829	(1,315)	6,532,590
1311070	37604001	3760 20 M & R Station Equipment (General)-Other Equipment		29,916		1,280,000	29,618,263			717,657	(89,607)	30,342,313	38,109	(7,801)	30,272,621
1311070	37605001	3760 20 Services - All Pressures		13,207		1,250,000	19,653,969			1,174,351	(271,497)	20,536,817	57,164	(22,623)	20,571,356
1311070	37606001	3760 20 Meters - Meters	18,642,253												
1311070	37607001	3760 20 Meters - Recording Gauges													
1311070	37608001	3760 20 Meters - Heogram													
1311070	37609001	3760 20 Meter Installations - Residential	2,630,777			230,000	2,494,455			299,904	(15,264)	3,074,095	12,000	(1,272)	3,084,823
1311070	37610001	3760 20 Meter Installations - Commercial		3,942											
1311070	37611001	3760 20 Industrial M & R Station Equipment - Meters & Gauges													
1311070	37612001	3760 20 Industrial M & R Station Equipment - Metering Equipment													
1311070	37613001	3760 20 Industrial M & R Station Equipment - Other													
1311070	37614001	3760 20 Other Property on Station Premises													
1311070	37615001	3760 20 Other Equipment - Other Equipment													
1311070	37616001	3760 20 Total Distribution Plant	\$ 145,420,841	\$ 2,202,058	\$ 249,224	\$ 11,953,128	\$ 159,138,221	\$ 63,265	\$ 7,247,380	\$ 689,070	\$ 165,810,346	\$ 426,230	\$ 53,256	\$ 166,383,340	
GENERAL PLANT - GAS PLANT IN SERVICE															
1311090	38001001	3800 44 Land & Land Rights - Land	164,036					164,799				164,799			164,799
1311090	38002001	3800 44 Land & Land Rights - Rights-of-Way	3,150,301		(137)	450,000	3,716,241			140,000	(15,815)	3,940,426	19,055	(1,318)	3,959,163
1311090	38003001	3800 39 Structures & Improvements - Major Structures & Improvements - Major	296,751	34,043	(2,286)		343,549					180,347			185,914
1311090	38004001	3800 7 Office Furniture & Equipment - Furniture	279,818			625,000	904,318			162,500	(53,202)	1,032,039	10,417	(4,484)	1,042,656
1311090	38005001	3800 5 Office Furniture & Equipment - Computer Hardware	142,386				125,545				(42,367)	82,958			82,958
1311090	38006001	3800 5 Office Furniture & Equipment - Equipment													
1311090	38007001	3800 5 Office Furniture & Equipment - Legal Books													
1311090	38008001	3800 5 Transportation Equipment - Non Luxury Automobiles	271,920	144,365		900,000	4,102,402			1,100,000	(474,390)	4,718,112	52,401	(89,524)	4,710,889
1311090	38009001	3800 5 Transportation Equipment - Heavy Trucks	3,676,692				2,788,284					2,788,284			2,788,284
1311090	38010001	3800 5 Transportation Equipment - Light Trucks	2,643,919												
1311090	38011001	3800 5 Transportation Equipment - Trailers (PA & NY)													
1311090	38012001	3800 5 Transportation Equipment - NGV Kts Light Trucks-Lok													
1311090	38013001	3800 20 Shop Equipment	40,327												
1311090	38014001	3800 20 Tools, Shop & Garage Equipment - Shop Equipment					40,225				(102)	40,123		(8)	40,115
1311090	38015001	3800 20 Tools, Shop & Garage Equipment - Garage Equipment	3,193,959			283,550	3,465,126			316,840	(201,755)	3,480,211	22,786	(122,180)	3,380,817
1311090	38016001	3800 20 Tools, Shop & Garage Equip - NGV Compression/Station													
1311090	38017001	3800 20 Tools, Shop & Garage Equip - Tools & Equipment		3,241											
1311090	38018001	3800 20 Power Operated Equipment - Distribution Equipment	1,584,570			41,450	1,479,658			33,160	(146,362)	1,366,456	3,038	(12,197)	1,357,292
1311090	38019001	3800 7 Communications Equipment - Telephone System	125,114				101,422			700,000	(2,300)	97,772		(304)	97,468
1311090	38020001	3800 7 Communications Equipment - Telephone System	1,532,201			481,248	2,008,776					2,706,476	73,958		2,780,434
1311090	38021001	3800 7 Communications Equipment - Microwave System													
1311090	38022001	3800 7 Communications Equipment - Radio													
1311090	38023001	3800 20 Miscellaneous Equipment - Misc Equipment													
1311090	38024001	3800 20 Total General Plant	\$ 17,202,894	\$ 175,167	\$ (2,425)	\$ 2,781,248	\$ 19,312,765	\$ 844,119	\$ 2,652,500	\$ 975,342	\$ 179,865	\$ 20,789,923	\$ 181,650	\$ (179,865)	\$ 20,791,608
Total Gas Plant in Service A/C 101															
			\$ 249,430,030	\$ 8,716,107	\$ -	\$ 26,339,834	\$ 282,706,125	\$ 2,673,913	\$ 15,207,166	\$ 1,859,021	\$ 256,938	\$ 298,688,183	\$ 702,990	\$ (256,938)	\$ 298,134,235

Peoples TWP Exhibit No. AC-3

Peoples TWP
Cash Working Capital Requirement
Future Test Year Ended January 31, 2015

Line No.	Description (A)	Revenue Lag (B)	Expense Lead (C)	Net Lag (D)	CWC Factor (E)	Future Test Year Expenses (F)	Cash Working Capital Requirement (G)
1	Gas Purchase Costs	67.59	(37.56)	30.03	0.0823	\$ 32,722,796	\$ 2,692,274
2	Payroll	67.59	(23.73)	43.86	0.1202	12,524,925	1,505,035
3	Pensions and Benefits	67.59	(22.07)	45.52	0.1247	4,961,120	618,759
4	Taxes Other Than Income Taxes	67.59	(2.96)	64.64	0.1771	1,126,872	199,554
5	Other O&M Expenses - Service Co	67.59	(39.25)	28.34	0.0777	3,692,492	286,739
6	Other O&M Expenses	67.59	(49.27)	18.32	0.0502	10,838,711	544,131
	Income Taxes						
7	Current State	67.59	(54.68)	12.91	0.0354	779,143	27,567
	Current Federal	67.59	(36.50)	31.09	0.0852	-	-
8	Interest Expense	67.59	(17.12)	50.48	0.1383	4,454,905	616,083
	Interest Expense - STD	67.59	(15.21)	52.39	0.1435	462,302	66,351
9	Total					<u>\$ 71,563,266</u>	<u>\$ 6,556,491</u>

Peoples TWP
Cash Working Capital Requirement
Future Test Year Ended December 31, 2013

Line No.	Description (A)	Revenue Lag (B)	Expense Lead (C)	Net Lag (D)	CWC Factor (E)	Future Test Year Expenses (F)	Cash Working Capital Requirement (G)
1	Gas Purchase Costs	69.59	(37.56)	32.03	0.0878	\$ 33,512,900	\$ 2,940,912
2	Payroll	69.59	(23.73)	45.86	0.1256	12,270,365	1,541,681
3	Pensions and Benefits	69.59	(22.07)	47.52	0.1302	4,767,572	620,743
4	Taxes Other Than Income Taxes	69.59	(2.96)	66.64	0.1826	1,124,012	205,206
5	Other O&M Expenses - Service Co	69.59	(39.25)	30.34	0.0831	3,643,270	302,880
6	Other O&M Expenses	69.59	(49.27)	20.32	0.0557	11,183,354	622,712
	Income Taxes						
7	Current State	69.59	(54.68)	14.91	0.0409	-	-
	Current Federal	69.59	(36.50)	33.09	0.0907	-	-
8	Interest Expense - LTD	69.59	(17.12)	52.48	0.1438	4,859,760	698,700
	Interest Expense - STD	69.59	(15.21)	54.39	0.1490	302,648	45,095
9	Total					<u>\$ 71,663,880</u>	<u>\$ 6,977,929</u>

Peoples TWP
Cash Working Capital Requirement
Historic Test Year Ended December 31, 2012

Line No.	Description (A)	Revenue Lag (B)	Expense Lead (C)	Net Lag (D)	CWC Factor (E)	Adjusted Historic Test Year Expenses (F)	Cash Working Capital Requirement (G)
1	Gas Purchase Costs	69.59	(37.56)	32.03	0.0878	\$ 34,554,090	\$ 3,032,281
2	Payroll	69.59	(23.73)	45.86	0.1256	12,510,022	1,571,792
3	Pensions and Benefits	69.59	(22.07)	47.52	0.1302	4,410,600	574,265
4	Taxes Other Than Income Taxes	69.59	(2.96)	66.64	0.1826	846,615	154,563
5	Other O&M Expenses - Service Co	69.59	(49.27)	20.32	0.0557	1,744,016	97,110
6	Other O&M Expenses	69.59	(39.25)	30.34	0.0831	10,001,673	831,480
	Income Taxes						
7	Current State	69.59	(54.68)	14.91	0.0409	-	-
	Current Federal	69.59	(36.50)	33.09	0.0907	-	-
8	Interest Expense	69.59	(17.12)	52.48	0.1438	3,956,809	568,880
	Interest Expense - STD	69.59	(15.21)	54.39	0.1490	536,511	79,941
9	Total					\$ 68,560,335	\$ 6,910,313

FFTY 15.21
3.19 2 days shorter time from read to bill
49.19
67.59

FTY 15.21
5.19
49.19
69.59

HTY 15.21
5.19
49.19
69.59

Service Lag
Billing Lag
Collections Lag
Payment Processing and Bank Float
Total

Line No.	(A) Cycle/Jurisdiction	(B) Read Date	(C) Bill Date	(D) Mail Date	(E) Billing Lag	Days In Accounts Receivable (Collections Lag)	A/R Balance
1	January	101	2/1/2012	2/6/2012	6.00		
2	January	102	2/2/2012	2/7/2012	6.00		14,797,658
3	January	103	2/3/2012	2/8/2012	6.00		15,447,049
4	January	104	2/6/2012	2/9/2012	4.00		14,923,537
5	January	105	2/7/2012	2/10/2012	4.00		13,149,872
6	January	106	2/8/2012	2/13/2012	6.00		13,052,426
7	January	107	2/9/2012	2/14/2012	6.00		11,142,029
8	January	108	2/10/2012	2/15/2012	6.00		9,365,726
9	January	109	2/13/2012	2/16/2012	4.00		7,442,006
10	January	110	2/14/2012	2/17/2012	4.00		6,570,606
11	January	111	2/15/2012	2/20/2012	6.00		6,942,481
12	January	112	2/16/2012	2/21/2012	6.00		7,785,801
13	January	113	2/17/2012	2/22/2012	6.00		9,044,644
14	January	114	2/20/2012	2/23/2012	4.00		
15	January	115	2/21/2012	2/24/2012	4.00		
16	January	116	2/22/2012	2/27/2012	6.00		
17	January	117	2/23/2012	2/28/2012	6.00		10,805,320
18	January	118	2/24/2012	2/29/2012	6.00		80,390,245
19	January	119	2/27/2012	3/1/2012	4.00		
20	January	120	2/28/2012	3/2/2012	4.00		219,645.48
21	January	121	2/29/2012	3/1/2012	2.00		
22	February	101	3/1/2012	3/6/2012	6.00		
23	February	102	3/2/2012	3/7/2012	6.00		
24	February	103	3/5/2012	3/8/2012	4.00		
25	February	104	3/6/2012	3/9/2012	4.00		
26	February	105	3/7/2012	3/12/2012	6.00		
27	February	106	3/8/2012	3/13/2012	6.00		
28	February	107	3/9/2012	3/14/2012	6.00		
29	February	108	3/12/2012	3/15/2012	4.00		
30	February	109	3/13/2012	3/16/2012	4.00		
31	February	110	3/14/2012	3/19/2012	6.00		
32	February	111	3/15/2012	3/20/2012	6.00		
33	February	112	3/16/2012	3/21/2012	6.00		
34	February	113	3/19/2012	3/22/2012	4.00		
35	February	114	3/20/2012	3/23/2012	4.00		
36	February	115	3/21/2012	3/26/2012	6.00		
37	February	116	3/22/2012	3/27/2012	6.00		
38	February	117	3/23/2012	3/28/2012	6.00		
39	February	118	3/26/2012	3/29/2012	4.00		
40	February	119	3/27/2012	3/30/2012	4.00		
41	February	120	3/28/2012	4/2/2012	6.00		
42	February	121	3/30/2012	4/2/2012	4.00		
43	March	101	4/2/2012	4/5/2012	4.00		
44	March	102	4/3/2012	4/9/2012	7.00		
45	March	103	4/4/2012	4/10/2012	7.00		
46	March	104	4/5/2012	4/11/2012	7.00		
							49.19

Average Balance 10,805,320
2012 Sales Revenue 80,390,245
Daily Sales 219,645.48
Days in A/R 49.19

Days In Accounts Receivable (Collections Lag)

Line No.	(A) Cycle/ Jurisdiction	(B) Read Date	(C) Bill Date	(D) Mail Date	(E) Billing Lag
100	May	6/22/2012	6/27/2012	6/28/2012	6.00
101	May	6/25/2012	6/28/2012	6/29/2012	4.00
102	May	6/26/2012	6/29/2012	6/30/2012	4.00
103	May	6/27/2012	7/2/2012	7/3/2012	6.00
104	May	6/28/2012	7/3/2012	7/4/2012	6.00
105	May	6/29/2012	7/2/2012	7/3/2012	4.00
106	June	7/2/2012	7/6/2012	7/7/2012	5.00
107	June	7/3/2012	7/9/2012	7/10/2012	7.00
108	June	7/5/2012	7/10/2012	7/11/2012	6.00
109	June	7/6/2012	7/11/2012	7/12/2012	6.00
110	June	7/9/2012	7/12/2012	7/13/2012	4.00
111	June	7/10/2012	7/13/2012	7/14/2012	4.00
112	June	7/11/2012	7/16/2012	7/17/2012	6.00
113	June	7/12/2012	7/17/2012	7/18/2012	6.00
114	June	7/13/2012	7/18/2012	7/19/2012	6.00
115	June	7/16/2012	7/19/2012	7/20/2012	4.00
116	June	7/17/2012	7/20/2012	7/21/2012	4.00
117	June	7/18/2012	7/23/2012	7/24/2012	6.00
118	June	7/19/2012	7/24/2012	7/25/2012	6.00
119	June	7/23/2012	7/25/2012	7/26/2012	3.00
120	June	7/24/2012	7/26/2012	7/27/2012	3.00
121	June	7/25/2012	7/27/2012	7/28/2012	3.00
122	June	7/26/2012	7/30/2012	7/31/2012	5.00
123	June	7/27/2012	7/31/2012	8/1/2012	5.00
124	June	7/30/2012	8/1/2012	8/2/2012	3.00
125	June	7/31/2012	8/2/2012	8/3/2012	3.00
126	June	7/31/2012	8/1/2012	8/2/2012	2.00
127	July	8/1/2012	8/6/2012	8/7/2012	6.00
128	July	8/2/2012	8/7/2012	8/8/2012	6.00
129	July	8/3/2012	8/8/2012	8/9/2012	6.00
130	July	8/6/2012	8/9/2012	8/10/2012	4.00
131	July	8/7/2012	8/10/2012	8/11/2012	4.00
132	July	8/8/2012	8/13/2012	8/14/2012	6.00
133	July	8/9/2012	8/14/2012	8/15/2012	6.00
134	July	8/10/2012	8/15/2012	8/16/2012	6.00
135	July	8/13/2012	8/16/2012	8/17/2012	4.00
136	July	8/14/2012	8/17/2012	8/18/2012	4.00
137	July	8/15/2012	8/20/2012	8/21/2012	6.00
138	July	8/16/2012	8/21/2012	8/22/2012	6.00
139	July	8/17/2012	8/22/2012	8/23/2012	6.00
140	July	8/20/2012	8/23/2012	8/24/2012	4.00
141	July	8/21/2012	8/24/2012	8/25/2012	4.00
142	July	8/22/2012	8/27/2012	8/28/2012	6.00
143	July	8/23/2012	8/28/2012	8/29/2012	6.00
144	July	8/24/2012	8/29/2012	8/30/2012	6.00
145	July	8/27/2012	8/30/2012	8/31/2012	4.00
146	July	8/28/2012	8/31/2012	9/1/2012	4.00
147	July	8/31/2012	9/4/2012	9/5/2012	5.00
148	August	8/30/2012	9/5/2012	9/6/2012	7.00
149	August	8/31/2012	9/6/2012	9/7/2012	7.00
150	August	9/4/2012	9/7/2012	9/8/2012	4.00
151	August	9/5/2012	9/10/2012	9/11/2012	6.00
152	August	9/6/2012	9/11/2012	9/12/2012	6.00

Days In Accounts Receivable (Collections Lag)

Line No.	Cycle/ Jurisdiction	(A)	(B)	(C)	(D)	(E)
		Read Date	Bill Date	Mail Date	Billing Lag	
153	August	9/7/2012	9/12/2012	9/13/2012	6.00	
154	August	9/10/2012	9/13/2012	9/14/2012	4.00	
155	August	9/11/2012	9/14/2012	9/15/2012	4.00	
156	August	9/12/2012	9/17/2012	9/18/2012	6.00	
157	August	9/13/2012	9/18/2012	9/19/2012	6.00	
158	August	9/14/2012	9/19/2012	9/20/2012	6.00	
159	August	9/17/2012	9/20/2012	9/21/2012	4.00	
160	August	9/18/2012	9/21/2012	9/22/2012	4.00	
161	August	9/19/2012	9/24/2012	9/25/2012	6.00	
162	August	9/20/2012	9/25/2012	9/26/2012	6.00	
163	August	9/21/2012	9/26/2012	9/27/2012	6.00	
164	August	9/24/2012	9/27/2012	9/28/2012	4.00	
165	August	9/25/2012	9/28/2012	9/29/2012	4.00	
166	August	9/26/2012	10/1/2012	10/2/2012	6.00	
167	August	9/27/2012	10/2/2012	10/3/2012	6.00	
168	August	9/28/2012	10/1/2012	10/2/2012	4.00	
169	September	10/1/2012	10/4/2012	10/5/2012	4.00	
170	September	10/2/2012	10/5/2012	10/6/2012	4.00	
171	September	10/3/2012	10/8/2012	10/9/2012	6.00	
172	September	10/4/2012	10/9/2012	10/10/2012	6.00	
173	September	10/5/2012	10/10/2012	10/11/2012	6.00	
174	September	10/8/2012	10/11/2012	10/12/2012	4.00	
175	September	10/9/2012	10/12/2012	10/13/2012	4.00	
176	September	10/10/2012	10/15/2012	10/16/2012	6.00	
177	September	10/11/2012	10/16/2012	10/17/2012	6.00	
178	September	10/12/2012	10/17/2012	10/18/2012	6.00	
179	September	10/15/2012	10/18/2012	10/19/2012	4.00	
180	September	10/16/2012	10/19/2012	10/20/2012	4.00	
181	September	10/17/2012	10/22/2012	10/23/2012	6.00	
182	September	10/18/2012	10/23/2012	10/24/2012	6.00	
183	September	10/19/2012	10/24/2012	10/25/2012	6.00	
184	September	10/22/2012	10/25/2012	10/26/2012	4.00	
185	September	10/23/2012	10/26/2012	10/27/2012	4.00	
186	September	10/24/2012	10/29/2012	10/30/2012	6.00	
187	September	10/25/2012	10/30/2012	10/31/2012	6.00	
188	September	10/26/2012	10/31/2012	11/1/2012	6.00	
189	September	10/31/2012	11/1/2012	11/2/2012	2.00	
190	October	10/29/2012	11/1/2012	11/2/2012	4.00	
191	October	10/30/2012	11/2/2012	11/3/2012	4.00	
192	October	10/31/2012	11/5/2012	11/6/2012	6.00	
193	October	11/1/2012	11/6/2012	11/7/2012	6.00	
194	October	11/2/2012	11/7/2012	11/8/2012	6.00	
195	October	11/5/2012	11/8/2012	11/9/2012	4.00	
196	October	11/6/2012	11/9/2012	11/10/2012	4.00	
197	October	11/7/2012	11/13/2012	11/14/2012	7.00	
198	October	11/8/2012	11/14/2012	11/15/2012	7.00	
199	October	11/9/2012	11/15/2012	11/16/2012	7.00	
200	October	11/13/2012	11/16/2012	11/17/2012	4.00	
201	October	11/14/2012	11/19/2012	11/20/2012	6.00	
202	October	11/15/2012	11/20/2012	11/21/2012	6.00	
203	October	11/16/2012	11/21/2012	11/22/2012	6.00	
204	October	11/19/2012	11/26/2012	11/27/2012	8.00	
205	October	11/20/2012	11/27/2012	11/28/2012	8.00	

Days In Accounts Receivable (Collections Lag)

Line No.	Cycle/ Jurisdiction	(A)	(B)	(C)	(D)	(E)
		Read Date	Bill Date	Mail Date	Bill Date	Bill Date
206	October	11/21/2012	11/28/2012	11/29/2012	11/29/2012	8.00
207	October	11/27/2012	11/30/2012	12/1/2012	12/1/2012	4.00
208	October	11/28/2012	12/3/2012	12/4/2012	12/4/2012	6.00
209	October	11/29/2012	12/4/2012	12/5/2012	12/5/2012	6.00
210	October	11/30/2012	12/3/2012	12/4/2012	12/4/2012	4.00
211	November	11/30/2012	12/5/2012	12/6/2012	12/6/2012	6.00
212	November	12/3/2012	12/6/2012	12/7/2012	12/7/2012	4.00
213	November	12/4/2012	12/7/2012	12/8/2012	12/8/2012	4.00
214	November	12/5/2012	12/10/2012	12/11/2012	12/11/2012	6.00
215	November	12/6/2012	12/11/2012	12/12/2012	12/12/2012	6.00
216	November	12/7/2012	12/12/2012	12/13/2012	12/13/2012	6.00
217	November	12/10/2012	12/13/2012	12/14/2012	12/14/2012	4.00
218	November	12/11/2012	12/14/2012	12/15/2012	12/15/2012	4.00
219	November	12/12/2012	12/17/2012	12/18/2012	12/18/2012	6.00
220	November	12/13/2012	12/18/2012	12/19/2012	12/19/2012	6.00
221	November	12/14/2012	12/19/2012	12/20/2012	12/20/2012	6.00
222	November	12/17/2012	12/20/2012	12/21/2012	12/21/2012	4.00
223	November	12/18/2012	12/21/2012	12/22/2012	12/22/2012	4.00
224	November	12/19/2012	12/26/2012	12/27/2012	12/27/2012	8.00
225	November	12/20/2012	12/27/2012	12/28/2012	12/28/2012	8.00
226	November	12/21/2012	12/28/2012	12/29/2012	12/29/2012	8.00
227	November	12/26/2012	12/31/2012	1/1/2013	1/1/2013	6.00
228	November	12/27/2012	1/2/2013	1/3/2013	1/3/2013	7.00
229	November	12/28/2012	1/3/2013	1/4/2013	1/4/2013	7.00
230	November	12/31/2012	1/4/2013	1/5/2013	1/5/2013	5.00
231	November	12/31/2012	1/2/2013	1/3/2013	1/3/2013	3.00
232	December	1/2/2013	1/7/2013	1/8/2013	1/8/2013	6.00
233	December	1/3/2013	1/8/2013	1/9/2013	1/9/2013	6.00
234	December	1/4/2013	1/9/2013	1/10/2013	1/10/2013	6.00
235	December	1/7/2013	1/10/2013	1/11/2013	1/11/2013	4.00
236	December	1/8/2013	1/11/2013	1/12/2013	1/12/2013	4.00
237	December	1/9/2013	1/14/2013	1/15/2013	1/15/2013	6.00
238	December	1/10/2013	1/15/2013	1/16/2013	1/16/2013	6.00
239	December	1/11/2013	1/16/2013	1/17/2013	1/17/2013	6.00
240	December	1/14/2013	1/17/2013	1/18/2013	1/18/2013	4.00
241	December	1/15/2013	1/18/2013	1/19/2013	1/19/2013	4.00
242	December	1/16/2013	1/22/2013	1/23/2013	1/23/2013	7.00
243	December	1/17/2013	1/23/2013	1/24/2013	1/24/2013	7.00
244	December	1/18/2013	1/24/2013	1/25/2013	1/25/2013	7.00
245	December	1/22/2013	1/25/2013	1/26/2013	1/26/2013	4.00
246	December	1/23/2013	1/28/2013	1/29/2013	1/29/2013	6.00
247	December	1/24/2013	1/29/2013	1/30/2013	1/30/2013	6.00
248	December	1/25/2013	1/30/2013	1/31/2013	1/31/2013	6.00
249	December	1/28/2013	1/31/2013	2/1/2013	2/1/2013	4.00
250	December	1/29/2013	2/1/2013	2/2/2013	2/2/2013	4.00
251	December	1/30/2013	2/4/2013	2/5/2013	2/5/2013	6.00
252	December	1/31/2013	2/1/2013	41307	41307	2.00

Purchased Gas Costs
 Weighted Expense Lead Time: 37.56 days

Line No.	(A) Company	(B) Month	(C) Service Ending	(D) Invoice Date	(E) Amount of Invoice	(F) Payment Amount	(G) Payment Date	(H) Check or ACH	(I) Service Lead Time	(J) Payment Lead Time	(K) Total Lead Time	(L) Weighting Factor	(M) Weighted Lead Time
1	BP Energy	January	1/31/2012	2/10/2012	352,634.97	352,634.97	2/21/2012	ACH	15.21	21.00	36.21	1.40%	0.51
2	Columbia Gas Transm	January	1/31/2012	2/1/2012	246,848.00	246,848.00	2/13/2012	ACH	15.21	13.00	28.21	0.98%	0.28
3	Dominion	January	1/31/2012	2/3/2012	19,914.31	19,914.31	2/13/2012	ACH	15.21	13.00	28.21	0.08%	0.02
4	Dominion	January	1/31/2012	2/3/2012	2,049,554.94	2,049,554.94	2/27/2012	ACH	15.21	27.00	42.21	8.17%	3.45
5	Sequent Energy	January	1/31/2012	2/10/2012	140,583.37	140,583.37	2/21/2012	ACH	15.21	21.00	36.21	0.56%	0.20
6	Tennessee Gas Pipe	January	1/31/2012	2/10/2012	40,919.58	40,919.58	2/21/2012	ACH	15.21	21.00	36.21	0.16%	0.06
7	Texas Eastern Trans	February	2/29/2012	3/13/2012	353,515.60	353,515.60	3/20/2012	ACH	15.21	20.00	35.21	1.41%	0.50
8	BP Energy	February	2/29/2012	3/1/2012	246,848.00	246,848.00	3/12/2012	ACH	15.21	12.00	27.21	0.98%	0.27
9	Columbia Gas Transm	February	2/29/2012	3/5/2012	10,802.30	10,802.30	3/12/2012	ACH	15.21	12.00	27.21	0.04%	0.01
10	Dominion	February	2/29/2012	3/1/2012	1,110.51	1,110.51	3/26/2012	ACH	15.21	26.00	41.21	0.00%	0.00
11	Dominion	February	2/29/2012	3/1/2012	1,617,024.12	1,617,024.12	3/26/2012	ACH	15.21	26.00	41.21	6.44%	2.65
12	Sequent Energy	February	2/29/2012	3/1/2012	135,179.67	135,179.67	3/22/2012	ACH	15.21	22.00	37.21	0.54%	0.20
13	Sequent Energy	February	2/29/2012	3/1/2012	82,056.49	82,056.49	3/20/2012	ACH	15.21	20.00	35.21	0.33%	0.12
14	Tennessee Gas Pipe	February	2/29/2012	3/10/2012	353,119.73	353,119.73	4/20/2012	ACH	15.21	20.00	35.21	1.41%	0.50
15	Texas Eastern Trans	February	2/29/2012	3/10/2012	246,848.00	246,848.00	4/12/2012	ACH	15.21	12.00	27.21	0.98%	0.27
16	BP Energy	March	3/31/2012	4/12/2012	7,143.43	7,143.43	4/12/2012	ACH	15.21	12.00	27.21	0.03%	0.01
17	Columbia Gas Transm	March	3/31/2012	4/2/2012	329,909.94	329,909.94	4/25/2012	ACH	15.21	25.00	40.21	1.31%	0.53
18	Dominion	March	3/31/2012	4/4/2012	114,126.51	114,126.51	4/23/2012	ACH	15.21	23.00	38.21	0.45%	0.17
19	Dominion	March	3/31/2012	4/19/2012	94,232.82	94,232.82	4/23/2012	ACH	15.21	23.00	38.21	0.38%	0.13
20	Sequent Energy	March	3/31/2012	4/12/2012	88,332.00	88,332.00	5/21/2012	ACH	15.21	21.00	36.21	0.35%	0.13
21	Tennessee Gas Pipe	March	3/31/2012	4/10/2012	245,626.80	245,626.80	5/21/2012	ACH	15.21	21.00	36.21	0.98%	0.35
22	Texas Eastern Trans	March	3/31/2012	4/10/2012	105,606.75	105,606.75	5/11/2012	ACH	15.21	11.00	26.21	0.42%	0.11
23	BP Energy	April	4/30/2012	5/11/2012	5,791.38	5,791.38	5/11/2012	ACH	15.21	11.00	26.21	0.02%	0.01
24	Columbia Gas Transm	April	4/30/2012	5/1/2012	140,591.63	140,591.63	5/25/2012	ACH	15.21	25.00	40.21	0.56%	0.23
25	Dominion	April	4/30/2012	5/1/2012	112,447.77	112,447.77	5/25/2012	ACH	15.21	25.00	40.21	0.45%	0.16
26	Dominion	April	4/30/2012	5/3/2012	114,479.34	114,479.34	5/21/2012	ACH	15.21	21.00	36.21	0.46%	0.17
27	Sequent Energy	April	4/30/2012	5/7/2012	100,681.50	100,681.50	6/20/2012	ACH	15.21	20.00	35.21	0.40%	0.14
28	Tennessee Gas Pipe	April	4/30/2012	5/10/2012	245,640.70	245,640.70	6/22/2012	ACH	15.21	22.00	37.21	0.98%	0.36
29	Texas Eastern Trans	April	4/30/2012	5/10/2012	105,606.75	105,606.75	6/11/2012	ACH	15.21	11.00	26.21	0.42%	0.11
30	BP Energy	May	5/31/2012	6/12/2012	8,500.58	8,500.58	6/11/2012	ACH	15.21	11.00	26.21	0.03%	0.01
31	Columbia Gas Transm	May	5/31/2012	6/1/2012	85,193.00	85,193.00	6/25/2012	ACH	15.21	25.00	40.21	0.34%	0.14
32	Dominion	May	5/31/2012	6/5/2012	113,091.78	113,091.78	6/22/2012	ACH	15.21	22.00	37.21	0.45%	0.17
33	Dominion	May	5/31/2012	6/14/2012	104,025.52	104,025.52	6/20/2012	ACH	15.21	20.00	35.21	0.41%	0.15
34	Sequent Energy	May	5/31/2012	6/14/2012	125,335.00	125,335.00	7/20/2012	ACH	15.21	20.00	35.21	0.50%	0.18
35	Tennessee Gas Pipe	May	5/31/2012	6/10/2012	245,449.32	245,449.32	7/23/2012	ACH	15.21	23.00	38.21	0.98%	0.37
36	Texas Eastern Trans	May	5/31/2012	6/10/2012	104,473.53	104,473.53	7/23/2012	ACH	15.21	23.00	38.21	0.98%	0.37
37	BP Energy	June	6/30/2012	7/13/2012	5,756.70	5,756.70	7/12/2012	ACH	15.21	12.00	27.21	0.42%	0.11
38	Columbia Gas Transm	June	6/30/2012	7/9/2012	112,985.00	112,985.00	7/12/2012	ACH	15.21	12.00	27.21	0.02%	0.01
39	Dominion	June	6/30/2012	7/2/2012	113,365.75	113,365.75	7/25/2012	ACH	15.21	25.00	40.21	0.45%	0.17
40	Dominion	June	6/30/2012	7/5/2012	104,946.44	104,946.44	7/23/2012	ACH	15.21	23.00	38.21	0.45%	0.17
41	Sequent Energy	June	6/30/2012	7/13/2012	155,247.80	155,247.80	8/20/2012	ACH	15.21	20.00	35.21	0.42%	0.15
42	Tennessee Gas Pipe	June	6/30/2012	7/12/2012	245,473.81	245,473.81	8/20/2012	ACH	15.21	20.00	35.21	0.62%	0.22
43	Texas Eastern Trans	June	6/30/2012	7/10/2012	105,606.75	105,606.75	8/13/2012	ACH	15.21	13.00	28.21	0.42%	0.12
44	BP Energy	July	7/31/2012	8/1/2012	6,637.00	6,637.00	8/13/2012	ACH	15.21	13.00	28.21	0.03%	0.01
45	Columbia Gas Transm	July	7/31/2012	8/11/2012	18,750.00	18,750.00	8/13/2012	ACH	15.21	13.00	28.21	0.03%	0.01
46	Dominion	July	7/31/2012	8/3/2012	112,797.16	112,797.16	8/25/2012	ACH	15.21	25.00	40.21	-0.07%	0.03
47	Dominion	July	7/31/2012	8/3/2012	178,553.50	178,553.50	8/25/2012	ACH	15.21	25.00	40.21	0.45%	0.16
48	Sequent Energy	July	7/31/2012	8/15/2012	245,545.48	245,545.48	9/20/2012	ACH	15.21	20.00	35.21	0.42%	0.15
49	Tennessee Gas Pipe	July	7/31/2012	8/10/2012	105,606.75	105,606.75	8/20/2012	ACH	15.21	20.00	35.21	0.98%	0.37
50	Texas Eastern Trans	July	7/31/2012	8/10/2012	6,613.51	6,613.51	9/11/2012	ACH	15.21	11.00	26.21	0.42%	0.11
51	BP Energy	August	8/31/2012	9/13/2012	21,965.00	21,965.00	9/11/2012	ACH	15.21	11.00	26.21	0.03%	0.01
52	Texas Eastern Trans	August	8/31/2012	9/6/2012	178,553.50	178,553.50	9/24/2012	ACH	15.21	24.00	39.21	0.98%	0.38
53	BP Energy	August	8/31/2012	9/13/2012	105,606.75	105,606.75	9/11/2012	ACH	15.21	11.00	26.21	0.42%	0.11
54	Columbia Gas Transm	August	8/31/2012	9/13/2012	6,613.51	6,613.51	9/11/2012	ACH	15.21	11.00	26.21	0.03%	0.01
55	Dominion	August	8/31/2012	9/14/2012	21,965.00	21,965.00	9/25/2012	ACH	15.21	25.00	40.21	0.09%	0.04

Line No.	(A) Company	(B) Month	(C) Service Ending	(D) Invoice Date	(E) Amount of Invoice	(F) Payment Amount	(G) Payment Date	(H) Check or ACH	(I) Service Lead Time	(J) Payment Lead Time	(K) Total Lead Time	(L) Weighting Factor	(M) Weighted Lead Time
	Purchased Gas Costs												
	Weighted Expense Lead Time: 37.56 days												
56	Tennessee Gas Pipe	August	8/31/2012	9/13/2012	112,781.07	112,781.07	9/24/2012	ACH	15.21	24.00	39.21	0.45%	0.18
57	Texas Eastern Trans	August	8/31/2012	9/10/2012	103,463.10	103,463.10	9/20/2012	ACH	15.21	20.00	35.21	0.41%	0.15
58	BP Energy	September	9/30/2012	10/1/2012	244,879.73	244,879.73	10/22/2012	ACH	15.21	22.00	37.21	0.98%	0.36
59	Columbia Gas Transm	September	9/30/2012	10/1/2012	105,606.75	105,606.75	10/11/2012	ACH	15.21	11.00	26.21	0.42%	0.11
60	Dominion	September	9/30/2012	10/1/2012	6,165.27	6,165.27	10/11/2012	ACH	15.21	11.00	26.21	0.02%	0.01
61	Dominion	September	9/30/2012	10/3/2012	98,423.50	98,423.50	10/25/2012	ACH	15.21	25.00	40.21	0.39%	0.16
62	Sequent Energy	September	9/30/2012	10/12/2012	112,781.07	112,781.07	10/22/2012	ACH	15.21	22.00	37.21	0.45%	0.17
63	Tennessee Gas Pipe	September	9/30/2012	10/10/2012	106,055.56	106,055.56	10/22/2012	ACH	15.21	22.00	37.21	0.42%	0.16
64	Texas Eastern Trans	September	9/30/2012	10/10/2012	352,644.16	352,644.16	11/23/2012	ACH	15.21	23.00	38.21	1.40%	0.54
65	BP Energy	October	10/31/2012	11/12/2012	105,606.75	105,606.75	11/13/2012	ACH	15.21	13.00	28.21	0.42%	0.12
66	Columbia Gas Transm	October	10/31/2012	11/1/2012	5,401.43	5,401.43	11/13/2012	ACH	15.21	13.00	28.21	0.02%	0.01
67	Dominion	October	10/31/2012	11/5/2012	101,978.50	101,978.50	11/26/2012	ACH	15.21	26.00	41.21	0.41%	0.17
68	Dominion	October	10/31/2012	11/15/2012	106,256.15	106,256.15	11/23/2012	ACH	15.21	23.00	38.21	0.42%	0.16
69	Sequent Energy	October	10/31/2012	11/12/2012	103,143.51	103,143.51	11/20/2012	ACH	15.21	20.00	35.21	0.41%	0.14
70	Tennessee Gas Pipe	October	10/31/2012	11/10/2012	232,942.00	232,942.00	12/20/2012	ACH	15.21	20.00	35.21	0.93%	0.33
71	Texas Eastern Trans	October	10/31/2012	11/10/2012	351,970.33	351,970.33	12/24/2012	ACH	15.21	24.00	39.21	1.40%	0.55
72	BP Energy	November	11/30/2012	12/13/2012	242,123.00	242,123.00	12/21/2012	ACH	15.21	11.00	26.21	0.96%	0.25
73	Columbia Gas Transm	November	11/30/2012	12/12/2012	13,047.92	13,047.92	12/11/2012	ACH	15.21	11.00	26.21	0.05%	0.01
74	Dominion	November	11/30/2012	12/1/2012	82,076.75	82,076.75	12/26/2012	ACH	15.21	26.00	41.21	0.33%	0.13
75	Dominion	November	11/30/2012	12/14/2012	120,152.81	120,152.81	12/21/2012	ACH	15.21	21.00	36.21	0.48%	0.17
76	Sequent Energy	November	11/30/2012	12/12/2012	57,672.44	57,672.44	12/20/2012	ACH	15.21	20.00	35.21	0.23%	0.08
77	Tennessee Gas Pipe	November	11/30/2012	12/12/2012	232,647.30	232,647.30	1/20/2013	ACH	15.21	20.00	35.21	0.93%	0.33
78	Texas Eastern Trans	November	11/30/2012	10/12/2012	352,225.38	352,225.38	1/24/2013	ACH	15.21	24.00	39.21	1.40%	0.55
79	BP Energy	December	12/31/2012	1/4/2013	242,123.00	242,123.00	1/11/2013	ACH	15.21	11.00	26.21	0.96%	0.25
80	Columbia Gas Transm	December	12/31/2012	1/2/2013	9,093.85	9,093.85	1/11/2013	ACH	15.21	11.00	26.21	0.04%	0.01
81	Dominion	December	12/31/2012	2/4/2013	798,671.44	798,671.44	1/16/2013	ACH	15.21	26.00	41.21	3.18%	1.31
82	Dominion	December	12/31/2012	1/16/2013	116,773.22	116,773.22	1/21/2013	ACH	15.21	21.00	36.21	0.47%	0.17
83	Sequent Energy	December	12/31/2012	1/11/2013	52,533.47	52,533.47	1/20/2013	ACH	15.21	20.00	35.21	0.21%	0.07
84	Tennessee Gas Pipe	December	12/31/2012	1/10/2013	1,182,546.98	1,182,546.98	2/24/2012	Checks	15.21	24.00	39.21	4.71%	1.85
85	Texas Eastern Trans	December	12/31/2012	1/10/2013	921,662.58	921,662.58	3/23/2012	Checks	15.21	24.00	39.21	3.67%	1.44
86	PA Producers	December	12/31/2012	1/10/2013	603,860.42	603,860.42	4/23/2012	Checks	15.21	23.00	38.21	2.41%	0.92
87	PA Producers	December	12/31/2012	1/10/2013	424,088.39	424,088.39	5/23/2012	Checks	15.21	23.00	38.21	1.69%	0.65
88	PA Producers	December	12/31/2012	1/10/2013	371,757.76	371,757.76	6/22/2012	Checks	15.21	22.00	37.21	1.48%	0.55
89	PA Producers	December	12/31/2012	1/10/2013	659,490.86	659,490.86	7/24/2012	Checks	15.21	24.00	39.21	2.63%	1.03
90	PA Producers	December	12/31/2012	1/10/2013	962,358.97	962,358.97	8/24/2012	Checks	15.21	24.00	39.21	3.83%	1.50
91	PA Producers	December	12/31/2012	1/10/2013	1,127,149.03	1,127,149.03	9/25/2012	Checks	15.21	25.00	40.21	4.49%	1.81
92	PA Producers	December	12/31/2012	1/10/2013	847,214.16	847,214.16	10/24/2012	Checks	15.21	24.00	39.21	3.38%	1.32
93	PA Producers	December	12/31/2012	1/10/2013	1,018,731.89	1,018,731.89	11/20/2012	Checks	15.21	20.00	35.21	4.06%	1.43
94	PA Producers	December	12/31/2012	1/10/2013	1,134,207.83	1,134,207.83	12/20/2012	Checks	15.21	20.00	35.21	4.52%	1.59
95	PA Producers	December	12/31/2012	1/10/2013	1,177,613.18	1,177,613.18	1/22/2013	Checks	15.21	23.00	38.21	4.69%	1.79
96	PA Producers	December	12/31/2012	1/10/2013				Checks	15.21				
97	PA Producers	December	12/31/2012	1/10/2013				Checks	15.21				

Payroll
Weighted Expense Lead Time: 23.73 days

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	Hourly/Salaried	Pay Period End Date	Pay Date	Payroll Amt.	Pay Period Begin	Mid Point of Pay Period	Payment Lead Time	Total Lead Time	Weighting Factor	Weighted Lead Time
Hourly Payroll	12/12/2011	12/25/2011	1/6/2012	302,461.90	12/12/2011	6.50	12.00	18.50	2.24%	0.41
Hourly Payroll	12/26/2011	1/8/2012	1/20/2012	308,967.44	12/26/2011	6.50	12.00	18.50	2.28%	0.42
Hourly Payroll	1/9/2012	1/22/2012	2/3/2012	298,973.51	1/9/2012	6.50	12.00	18.50	2.21%	0.41
Hourly Payroll	1/23/2012	2/5/2012	2/17/2012	302,236.52	1/23/2012	6.50	12.00	18.50	2.23%	0.41
Hourly Payroll	2/6/2012	2/19/2012	3/2/2012	300,206.28	2/6/2012	6.50	12.00	18.50	2.22%	0.41
Hourly Payroll	2/20/2012	3/4/2012	3/16/2012	297,508.55	2/20/2012	6.50	12.00	18.50	2.20%	0.41
Hourly Payroll	3/5/2012	3/18/2012	3/30/2012	294,978.51	3/5/2012	6.50	12.00	18.50	2.18%	0.40
Hourly Payroll	3/19/2012	4/1/2012	4/13/2012	293,557.86	3/19/2012	6.50	12.00	18.50	2.17%	0.40
Hourly Payroll	4/2/2012	4/15/2012	4/27/2012	294,697.19	4/2/2012	6.50	12.00	18.50	2.18%	0.40
Hourly Payroll	4/16/2012	4/29/2012	5/11/2012	294,007.98	4/16/2012	6.50	12.00	18.50	2.17%	0.40
Hourly Payroll	4/30/2012	5/13/2012	5/25/2012	298,308.98	4/30/2012	6.50	12.00	18.50	2.20%	0.41
Hourly Payroll	5/14/2012	5/27/2012	6/8/2012	310,216.32	5/14/2012	6.50	12.00	18.50	2.29%	0.42
Hourly Payroll	5/28/2012	6/10/2012	6/22/2012	305,176.47	5/28/2012	6.50	12.00	18.50	2.26%	0.42
Hourly Payroll	6/11/2012	6/24/2012	7/6/2012	297,485.09	6/11/2012	6.50	12.00	18.50	2.20%	0.41
Hourly Payroll	6/25/2012	7/8/2012	7/20/2012	301,224.11	6/25/2012	6.50	12.00	18.50	2.23%	0.41
Hourly Payroll	7/9/2012	7/22/2012	8/3/2012	296,532.58	7/9/2012	6.50	12.00	18.50	2.19%	0.41
Hourly Payroll	7/23/2012	8/5/2012	8/17/2012	302,236.26	7/23/2012	6.50	12.00	18.50	2.23%	0.41
Hourly Payroll	8/6/2012	8/19/2012	8/31/2012	301,555.72	8/6/2012	6.50	12.00	18.50	2.23%	0.41
Hourly Payroll	8/20/2012	9/2/2012	9/14/2012	298,396.99	8/20/2012	6.50	12.00	18.50	2.21%	0.41
Hourly Payroll	9/3/2012	9/16/2012	9/28/2012	307,900.23	9/3/2012	6.50	12.00	18.50	2.28%	0.42
Hourly Payroll	9/17/2012	9/30/2012	10/12/2012	311,048.99	9/17/2012	6.50	12.00	18.50	2.30%	0.43
Hourly Payroll	10/1/2012	10/14/2012	10/26/2012	299,028.67	10/1/2012	6.50	12.00	18.50	2.21%	0.41
Hourly Payroll	10/15/2012	10/28/2012	11/9/2012	298,860.52	10/15/2012	6.50	12.00	18.50	2.21%	0.41
Hourly Payroll	10/29/2012	11/11/2012	11/23/2012	308,192.34	10/29/2012	6.50	12.00	18.50	2.28%	0.42
Hourly Payroll	11/12/2012	11/25/2012	12/7/2012	310,135.07	11/12/2012	6.50	12.00	18.50	2.29%	0.42
Hourly Payroll	11/26/2012	12/9/2012	12/21/2012	305,673.09	11/26/2012	6.50	12.00	18.50	2.26%	0.42
Salaried Payroll	1/1/2012	1/15/2012	1/13/2012	209,947.76	1/1/2012	7.00	(2.00)	5.00	1.55%	0.08
Salaried Payroll	1/16/2012	1/31/2012	1/31/2012	206,998.89	1/17/2012	7.00	0.00	7.00	1.53%	0.11
Salaried Payroll	2/1/2012	2/15/2012	2/15/2012	551,732.01	2/1/2012	7.00	0.00	7.00	4.08%	0.29
Salaried Payroll	2/16/2012	2/29/2012	2/29/2012	272,526.30	2/17/2012	6.00	0.00	6.00	2.01%	0.12
Salaried Payroll	3/1/2012	3/15/2012	3/15/2012	216,552.26	3/1/2012	7.00	0.00	7.00	1.60%	0.11
Salaried Payroll	3/16/2012	3/31/2012	3/30/2012	223,444.57	3/17/2012	182.50	(1.00)	181.50	1.65%	3.00
Salaried Payroll	4/1/2012	4/15/2012	4/13/2012	224,929.09	4/1/2012	182.50	(2.00)	180.50	1.66%	3.00

Weighted Expense Lead Time: 23.73 days

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	Hourly/Salaried	Pay Period End Date	Pay Date	Payroll Amt.	Pay Period Begin	Mid Point of Pay Period	Payment Lead Time	Total Lead Time	Weighting Factor	Weighted Lead Time
Salaried Payroll	4/16/2012	4/30/2012	4/30/2012	341,969.26	4/16/2012	182.50	0.00	182.50	2.53%	4.61
Salaried Payroll	5/1/2012	5/15/2012	5/15/2012	214,185.01	5/1/2012	7.00	0.00	7.00	1.58%	0.11
Salaried Payroll	5/16/2012	5/31/2012	5/31/2012	217,811.17	5/17/2012	7.00	0.00	7.00	1.61%	0.11
Salaried Payroll	6/1/2012	6/15/2012	6/15/2012	218,927.72	6/1/2012	7.00	0.00	7.00	1.62%	0.11
Salaried Payroll	6/16/2012	6/30/2012	6/29/2012	213,748.52	6/16/2012	7.00	(1.00)	6.00	1.58%	0.09
Salaried Payroll	7/1/2012	7/15/2012	7/13/2012	212,811.90	6/30/2012	7.50	(2.00)	5.50	1.57%	0.09
Salaried Payroll	7/16/2012	7/31/2012	7/31/2012	218,137.22	7/17/2012	7.00	0.00	7.00	1.61%	0.11
Salaried Payroll	8/1/2012	8/15/2012	8/15/2012	214,215.81	8/1/2012	7.00	0.00	7.00	1.58%	0.11
Salaried Payroll	8/16/2012	8/31/2012	8/31/2012	213,719.84	8/17/2012	7.00	0.00	7.00	1.58%	0.11
Salaried Payroll	9/1/2012	9/15/2012	9/14/2012	213,266.46	8/31/2012	7.50	(1.00)	6.50	1.58%	0.10
Salaried Payroll	9/16/2012	9/30/2012	9/28/2012	215,748.52	9/16/2012	7.00	(2.00)	5.00	1.59%	0.08
Salaried Payroll	10/1/2012	10/15/2012	10/15/2012	214,425.74	9/30/2012	7.50	0.00	7.50	1.58%	0.12
Salaried Payroll	10/16/2012	10/31/2012	10/31/2012	214,969.59	10/17/2012	7.00	0.00	7.00	1.59%	0.11
Salaried Payroll	11/1/2012	11/15/2012	11/15/2012	212,891.71	11/1/2012	7.00	0.00	7.00	1.57%	0.11
Salaried Payroll	11/16/2012	11/30/2012	11/30/2012	215,314.72	11/16/2012	7.00	0.00	7.00	1.59%	0.11
Salaried Payroll	12/1/2012	12/15/2012	12/14/2012	214,143.82	11/30/2012	7.50	(1.00)	6.50	1.58%	0.10
Salaried Payroll	12/16/2012	12/31/2012	12/31/2012	218,454.66	12/17/2012	7.00	0.00	7.00	1.61%	0.11

PENSIONS & BENEFITS
Weighted Expense Lead Time:

22.07 days

(A)	(B)	(C)	(D)	(E)	(F)	(H)	(I)	(J)
Line No.	End of Period	Paid Date	Amount	Service Lead	Payment Lead	Total	Weighting Factor	Weighted Lead
1	1/15/2012	1/13/2012	166,000.00	45.63	(2.00)	43.63	2.89%	1.26
2	4/15/2012	4/15/2012	187,000.00	45.63	-	45.63	3.28%	1.49
3	7/15/2012	7/13/2012	187,000.00	45.63	(2.00)	43.63	3.28%	1.42
4	9/15/2012	9/14/2012	115,700.00	45.63	(1.00)	44.63	2.01%	0.90
5	10/15/2012	10/12/2012	187,000.00	45.63	(3.00)	42.63	3.26%	1.39
6	12/31/2011	1/5/2012	325,786.87	15.21	5.00	20.21	5.67%	1.15
7	1/31/2012	2/2/2012	424,255.47	15.21	2.00	17.21	7.39%	1.27
8	2/29/2012	3/1/2012	314,307.18	15.21	1.00	16.21	5.47%	0.89
9	3/31/2012	4/5/2012	410,124.59	15.21	5.00	20.21	7.14%	1.44
10	4/30/2012	5/3/2012	322,552.74	15.21	3.00	18.21	5.62%	1.02
11	5/31/2012	5/31/2012	211,586.87	15.21	-	15.21	3.68%	0.56
12	6/30/2012	7/5/2012	164,174.99	15.21	5.00	20.21	2.86%	0.58
13	7/31/2012	8/2/2012	741,765.59	15.21	2.00	17.21	12.91%	2.22
14	8/31/2012	9/6/2012	239,230.53	15.21	6.00	21.21	4.17%	0.88
15	9/30/2012	10/4/2012	241,895.55	15.21	4.00	19.21	4.21%	0.81
16	10/31/2012	11/1/2012	244,169.81	15.21	1.00	16.21	4.25%	0.69
17	11/30/2012	12/6/2012	243,425.19	15.21	6.00	21.21	4.24%	0.90
18	12/31/2011	1/17/2012	5,636.62	15.21	17.00	32.21	0.10%	0.03
19	1/31/2012	2/16/2012	6,789.00	15.21	16.00	31.21	0.12%	0.04
20	2/29/2012	3/15/2012	4,772.86	15.21	15.00	30.21	0.08%	0.03
21	3/31/2012	4/16/2012	5,563.06	15.21	16.00	31.21	0.10%	0.03
22	4/30/2012	5/1/2012	7,245.40	15.21	11.00	26.21	0.13%	0.03
23	5/31/2012	6/4/2012	5,910.33	15.21	14.00	29.21	0.10%	0.03
24	6/30/2012	7/3/2012	5,204.04	15.21	13.00	28.21	0.09%	0.03
25	7/31/2012	7/18/2012	4,893.54	15.21	(13.00)	2.21	0.09%	0.00
26	8/31/2012	8/16/2012	4,893.54	15.21	(15.00)	0.21	0.09%	0.00
27	9/30/2012	9/18/2012	4,893.54	15.21	(12.00)	3.21	0.09%	0.00
28	10/31/2012	10/11/2012	4,893.54	15.21	(20.00)	(4.79)	0.09%	(0.00)
29	11/30/2012	11/7/2012	4,893.54	15.21	(23.00)	(7.79)	0.09%	(0.01)
30	12/31/2012	12/10/2012	4,893.54	15.21	(21.00)	(21.00)	0.09%	(0.02)
31	1/31/2012	1/13/2013	2,758.63	15.21	23.73	23.73	0.05%	0.01
32	1/31/2012	1/31/2012	2,758.63	15.21	23.73	23.73	0.05%	0.01
33	2/15/2012	2/15/2012	2,754.89	15.21	23.73	23.73	0.05%	0.01
34	2/29/2012	2/29/2012	2,749.41	15.21	23.73	23.73	0.05%	0.01
35	3/15/2012	3/15/2012	2,873.90	15.21	23.73	23.73	0.05%	0.01
36	3/31/2012	3/30/2012	2,854.75	15.21	23.73	23.73	0.05%	0.01
37	4/15/2012	4/13/2012	2,770.58	15.21	23.73	23.73	0.05%	0.01
38	4/30/2012	4/30/2012	2,815.76	15.21	23.73	23.73	0.05%	0.01
39	5/15/2012	5/15/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
40	5/31/2012	5/31/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
41	6/15/2012	6/15/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
42	6/30/2012	6/29/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
43	7/15/2012	7/13/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
44	7/31/2012	7/31/2012	2,833.57	15.21	23.73	23.73	0.05%	0.01
45	8/15/2012	8/15/2012	2,865.45	15.21	23.73	23.73	0.05%	0.01
46	8/31/2012	8/31/2012	2,845.50	15.21	23.73	23.73	0.05%	0.01
47	9/15/2012	9/14/2012	2,847.70	15.21	23.73	23.73	0.05%	0.01

PENSIONS & BENEFITS
Weighted Expense Lead Time:

22.07 days

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(H)	(I)	(J)
		End of Period	Paid Date	Amount	Service Lead	Payment Lead	Total	Weighting Factor	Weighted Lead
48	Hourly 401K	9/30/2012	9/28/2012	2,780.02			23.73	0.05%	0.01
49	Hourly 401K	10/15/2012	10/15/2012	2,641.46			23.73	0.05%	0.01
50	Hourly 401K	10/31/2012	10/31/2012	2,641.46			23.73	0.05%	0.01
51	Hourly 401K	11/15/2012	11/15/2012	2,641.46			23.73	0.05%	0.01
52	Hourly 401K	11/30/2012	11/30/2012	2,641.46			23.73	0.05%	0.01
53	Hourly 401K	12/15/2012	12/14/2012	2,665.70			23.73	0.05%	0.01
54	Hourly 401K	12/31/2012	12/31/2012	2,596.01			23.73	0.05%	0.01
55	Hourly 401K	12/25/2011	1/6/2012	24,465.86			23.73	0.43%	0.10
56	Hourly 401K	1/8/2012	1/20/2012	24,442.61			23.73	0.43%	0.10
57	Hourly 401K	1/22/2012	2/3/2012	24,424.28			23.73	0.43%	0.10
58	Hourly 401K	2/5/2012	2/17/2012	24,455.44			23.73	0.43%	0.10
59	Hourly 401K	2/19/2012	3/2/2012	24,481.20			23.73	0.43%	0.10
60	Hourly 401K	3/4/2012	3/16/2012	24,478.04			23.73	0.43%	0.10
61	Hourly 401K	3/18/2012	3/30/2012	24,451.53			23.73	0.43%	0.10
62	Hourly 401K	4/1/2012	4/13/2012	24,465.42			23.73	0.43%	0.10
63	Hourly 401K	4/15/2012	4/27/2012	24,514.64			23.73	0.43%	0.10
64	Hourly 401K	4/29/2012	5/11/2012	24,512.87			23.73	0.43%	0.10
65	Hourly 401K	5/13/2012	5/25/2012	24,905.51			23.73	0.43%	0.10
66	Hourly 401K	5/27/2012	6/8/2012	24,629.90			23.73	0.43%	0.10
67	Hourly 401K	6/10/2012	6/22/2012	24,660.72			23.73	0.43%	0.10
68	Hourly 401K	6/24/2012	7/6/2012	24,548.54			23.73	0.43%	0.10
69	Hourly 401K	7/8/2012	7/20/2012	24,636.79			23.73	0.43%	0.10
70	Hourly 401K	7/22/2012	8/3/2012	24,661.92			23.73	0.43%	0.10
71	Hourly 401K	8/5/2012	8/17/2012	24,662.55			23.73	0.43%	0.10
72	Hourly 401K	8/19/2012	8/31/2012	24,656.40			23.73	0.43%	0.10
73	Hourly 401K	9/2/2012	9/14/2012	24,561.88			23.73	0.43%	0.10
74	Hourly 401K	9/16/2012	9/28/2012	24,588.76			23.73	0.43%	0.10
75	Hourly 401K	9/30/2012	10/12/2012	25,030.50			23.73	0.44%	0.10
76	Hourly 401K	10/14/2012	10/26/2012	24,292.02			23.73	0.42%	0.10
77	Hourly 401K	10/28/2012	11/9/2012	24,291.12			23.73	0.42%	0.10
78	Hourly 401K	11/9/2012	11/23/2012	26,019.38			23.73	0.45%	0.11
79	Hourly 401K	11/25/2012	12/7/2012	26,050.14			23.73	0.45%	0.11
80	Hourly 401K	12/9/2012	12/21/2012	26,188.19			23.73	0.46%	0.11
81	Hourly 401K Admin & Service Fees	12/31/2011	1/12/2012	8,907.97			23.73	0.16%	0.04
82	Hourly 401K Admin & Service Fees	1/31/2012	2/2/2012	170.30			23.73	0.00%	0.00
83	Hourly 401K Admin & Service Fees	1/31/2012	2/16/2012	5,000.88			23.73	0.09%	0.02
84	Hourly 401K Admin & Service Fees	3/31/2012	4/19/2012	9,612.88			23.73	0.17%	0.04
85	Hourly 401K Admin & Service Fees	4/30/2012	5/3/2012	143.00			23.73	0.00%	0.00
86	Hourly 401K Admin & Service Fees	4/30/2012	5/17/2012	5,230.65			23.73	0.09%	0.02
87	Hourly 401K Admin & Service Fees	6/30/2012	7/26/2012	9,544.21			23.73	0.17%	0.04
88	Hourly 401K Admin & Service Fees	7/31/2012	8/9/2012	167.70			23.73	0.00%	0.00
89	Hourly 401K Admin & Service Fees	7/31/2012	8/16/2012	5,259.26			23.73	0.09%	0.02
90	Hourly 401K Admin & Service Fees	9/30/2012	10/18/2012	9,999.33			23.73	0.17%	0.04
91	Hourly 401K Admin & Service Fees	9/30/2012	11/1/2012	165.10			23.73	0.00%	0.00
92	Hourly 401K Admin & Service Fees	10/31/2012	11/16/2012	5,405.39			23.73	0.09%	0.02
93	Monthly Payment for LTC Insurance	2/29/2012	1/19/2012	494.90	15.21	(41.00)	(25.79)	0.01%	(0.00)
94	Monthly Payment for LTC Insurance	3/31/2012	2/23/2012	494.90	15.21	(37.00)	(21.79)	0.01%	(0.00)

PENSIONS & BENEFITS
Weighted Expense Lead Time:

22.07 days

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(H)	(I)	(J)
		End of Period	Paid Date	Amount	Service Lead	Payment Lead	Total	Weighting Factor	Weighted Lead
95	Monthly Payment for LTC Insurance	4/30/2012	3/22/2012	494.90	15.21	(39.00)	(23.79)	0.01%	(0.00)
96	Monthly Payment for LTC Insurance	5/31/2012	4/19/2012	552.22	15.21	(42.00)	(26.79)	0.01%	(0.00)
97	Monthly Payment for LTC Insurance	6/30/2012	5/24/2012	565.33	15.21	(37.00)	(21.79)	0.01%	(0.00)
98	Monthly Payment for LTC Insurance	7/31/2012	6/21/2012	569.15	15.21	(40.00)	(24.79)	0.01%	(0.00)
99	Monthly Payment for LTC Insurance	8/31/2012	7/26/2012	569.15	15.21	(36.00)	(20.79)	0.01%	(0.00)
100	Monthly Payment for LTC Insurance	9/30/2012	8/23/2012	569.15	15.21	(38.00)	(22.79)	0.01%	(0.00)
101	Monthly Payment for LTC Insurance	10/31/2012	9/20/2012	569.15	15.21	(41.00)	(25.79)	0.01%	(0.00)
102	Monthly Payment for LTC Insurance	11/30/2012	10/25/2012	569.15	15.21	(36.00)	(20.79)	0.01%	(0.00)
103	Monthly Payment for LTC Insurance	12/31/2012	11/20/2012	569.15	15.21	(41.00)	(25.79)	0.01%	(0.00)
104	Monthly Payment for LTC Insurance	1/31/2013	12/20/2012	569.15	15.21	(42.00)	(26.79)	0.01%	(0.00)
105	Monthly Payment for Life, LTD and ADD	2/29/2012	2/2/2012	18,860.33	15.21	(27.00)	(11.79)	0.33%	(0.04)
106	Monthly Payment for Life, LTD and ADD	3/31/2012	2/23/2012	18,860.33	15.21	(37.00)	(21.79)	0.33%	(0.07)
107	Monthly Payment for Life, LTD and ADD	4/30/2012	3/29/2012	19,106.80	15.21	(32.00)	(16.79)	0.33%	(0.06)
108	Monthly Payment for Life, LTD and ADD	5/31/2012	6/6/2012	14,341.70	15.21	6.00	21.21	0.25%	0.05
109	Monthly Payment for Life, LTD and ADD	6/30/2012	6/20/2012	14,224.90	15.21	(10.00)	5.21	0.25%	0.01
110	Monthly Payment for Life, LTD and ADD	7/31/2012	7/18/2012	14,175.45	15.21	(13.00)	2.21	0.25%	0.01
111	Monthly Payment for Life, LTD and ADD	8/31/2012	8/16/2012	14,176.38	15.21	(15.00)	0.21	0.25%	0.00
112	Monthly Payment for Life, LTD and ADD	9/30/2012	9/18/2012	14,182.09	15.21	(12.00)	3.21	0.25%	0.01
113	Monthly Payment for Life, LTD and ADD	10/31/2012	10/11/2012	14,106.75	15.21	(20.00)	(4.79)	0.25%	(0.01)
114	Monthly Payment for Life, LTD and ADD	11/30/2012	11/7/2012	14,018.65	15.21	(23.00)	(7.79)	0.24%	(0.02)
115	Monthly Payment for Life, LTD and ADD	12/31/2012	12/10/2012	15,382.63	15.21	(21.00)	(5.79)	0.27%	(0.02)
116									
117									
118									
119									

Salary & Hourly 401k represents the company's contribution amount taken from the monthly journal entries.

OTHER TAXES
Weighted Expense Lead Time: 2.96 days

Line No	(A) Type of Tax	(B) Property	(C) Location	(D) Due Date	(E) Payment Date	(F) Amount	(G) Period	(H) End of Period	(I) Payment Method	(J) Service Lead Time	(K) Payment Lead Time	(L) Total	(M) Weighting Factor	(N) Weighted Lead
1	Local Property			4/27/2012	4/27/2012	8,105.54	1/1/12-12/31/12	12/31/2012	Check	182.5	(248.00)	(65.50)	0.55%	(0.36)
2	Local Property			5/11/2012	5/11/2012	493.05	1/1/12-12/31/12	12/31/2012	Check	182.5	(234.00)	(51.50)	0.03%	(0.02)
3	Local Property			5/7/2012	5/7/2012	173.65	1/1/12-12/31/12	12/31/2012	Check	182.5	(238.00)	(55.50)	0.01%	(0.01)
4	Local Property			6/25/2012	6/25/2012	72.50	1/1/12-12/31/12	12/31/2012	Check	182.5	(189.00)	(6.50)	0.00%	(0.00)
5	Local Property			8/21/2012	8/21/2012	14,172.55	1/1/12-12/31/12	12/31/2012	Check	182.5	(192.00)	50.50	0.96%	0.48
6	Local Property			8/24/2012	8/24/2012	83.33	1/1/12-12/31/12	12/31/2012	Check	182.5	(129.00)	53.50	0.01%	0.00
7	Pa Sales Tax			1/23/2012	1/23/2012	101,141.02	December-11	12/31/2011	ACH	15.5	23.00	7.50	6.82%	2.63
8	Pa Sales Tax - Prepay			1/23/2012	1/23/2012	95,350.68	January-12	1/31/2012	ACH	15.5	(8.00)	8.00	6.43%	0.48
9	Pa Sales Tax			2/22/2012	2/22/2012	53,383.25	January-12	1/31/2012	ACH	15.5	22.00	37.50	3.60%	1.35
10	Pa Sales Tax - Prepay			2/22/2012	2/22/2012	102,346.73	February-12	2/29/2012	ACH	14.5	(7.00)	7.50	6.91%	0.52
11	Pa Sales Tax			3/22/2012	3/22/2012	37,345.14	February-12	2/29/2012	ACH	14.5	22.00	36.50	2.52%	0.92
12	Pa Sales Tax - Prepay			3/22/2012	3/22/2012	75,068.62	March-12	3/31/2012	ACH	15.5	(9.00)	6.50	5.07%	0.33
13	Pa Sales Tax			4/23/2012	4/23/2012	30,260.09	March-12	3/31/2012	ACH	15.5	23.00	38.50	2.04%	0.79
14	Pa Sales Tax - Prepay			4/23/2012	4/23/2012	66,239.94	April-12	4/30/2012	ACH	15	(7.00)	8.00	4.47%	0.36
15	Pa Sales Tax			5/22/2012	5/22/2012	3,488.44	April-12	4/30/2012	ACH	15	22.00	37.00	0.24%	0.09
16	Pa Sales Tax - Prepay			5/22/2012	5/22/2012	31,942.42	May-12	5/31/2012	ACH	15.5	(9.00)	6.50	2.16%	0.14
17	Pa Sales Tax			6/22/2012	6/22/2012	11,217.93	May-12	5/31/2012	ACH	15.5	22.00	37.50	0.76%	0.28
18	Pa Sales Tax - Prepay			6/22/2012	6/22/2012	14,626.55	June-12	6/30/2012	ACH	15	(8.00)	7.00	0.99%	0.07
19	Pa Sales Tax			7/23/2012	7/23/2012	13,850.12	June-12	6/30/2012	ACH	15	23.00	38.00	0.93%	0.36
20	Pa Sales Tax - Prepay			7/23/2012	7/23/2012	15,642.61	July-12	7/31/2012	ACH	15.5	(6.00)	9.00	1.31%	0.12
21	Pa Sales Tax			8/22/2012	8/22/2012	12,492.40	July-12	7/31/2012	ACH	15.5	22.00	37.00	1.06%	0.08
22	Pa Sales Tax - Prepay			8/22/2012	8/22/2012	17,665.26	August-12	8/31/2012	ACH	15.5	(9.00)	6.50	0.84%	0.32
23	Pa Sales Tax			9/24/2012	9/24/2012	12,968.43	August-12	8/31/2012	ACH	15.5	24.00	39.50	1.19%	0.08
24	Pa Sales Tax - Prepay			9/24/2012	9/24/2012	19,475.64	September-12	9/30/2012	ACH	15	(6.00)	9.00	0.88%	0.35
25	Pa Sales Tax			10/22/2012	10/22/2012	15,125.92	September-12	9/30/2012	ACH	15	22.00	37.00	1.02%	0.12
26	Pa Sales Tax - Prepay			10/22/2012	10/22/2012	32,246.75	October-12	10/31/2012	ACH	15.5	(9.00)	6.50	2.18%	0.14
27	Pa Sales Tax			11/22/2012	11/22/2012	22,626.83	October-12	10/31/2012	ACH	15.5	22.00	37.50	1.53%	0.57
28	Pa Sales Tax - Prepay			11/22/2012	11/22/2012	36,467.63	November-12	11/30/2012	ACH	15	(8.00)	7.00	2.46%	0.17
29	Pa Sales Tax			12/24/2012	12/24/2012	41,782.63	November-12	11/30/2012	ACH	15	24.00	39.00	2.82%	1.10
30	Pa Sales Tax - Prepay			12/24/2012	12/24/2012	50,570.51	December-11	12/31/2011	ACH	15.5	(7.00)	8.50	3.41%	0.29
31	Pa Use Tax			1/23/2012	1/23/2012	4,616.73	December-11	12/31/2011	ACH	15.5	23.00	38.50	0.31%	0.12
32	Pa Use Tax - Prepay			1/23/2012	1/23/2012	1,902.14	January-12	1/31/2012	ACH	15.5	(8.00)	7.50	0.13%	0.01
33	Pa Use Tax			2/22/2012	2/22/2012	898.13	January-12	1/31/2012	ACH	15.5	22.00	37.50	0.06%	0.02
34	Pa Use Tax - Prepay			2/22/2012	2/22/2012	3,462.57	February-12	2/29/2012	ACH	14.5	(7.00)	7.50	0.23%	0.02
35	Pa Use Tax			3/22/2012	3/22/2012	(4.04)	February-12	2/29/2012	ACH	14.5	22.00	36.50	0.00%	(0.00)
36	Pa Use Tax - Prepay			3/22/2012	3/22/2012	3,030.19	March-12	3/31/2012	ACH	15.5	(9.00)	6.50	0.20%	0.01
37	Pa Use Tax			4/23/2012	4/23/2012	1,363.22	March-12	3/31/2012	ACH	15.5	23.00	38.50	0.09%	0.04
38	Pa Use Tax - Prepay			4/23/2012	4/23/2012	2,711.30	April-12	4/30/2012	ACH	15	(7.00)	8.00	0.18%	0.01
39	Pa Use Tax			5/22/2012	5/22/2012	6,246.40	April-12	4/30/2012	ACH	15.5	22.00	37.00	0.42%	0.16
40	Pa Use Tax - Prepay			5/22/2012	5/22/2012	2,340.64	May-12	5/31/2012	ACH	15.5	(9.00)	6.50	0.16%	0.01
41	Pa Use Tax			6/22/2012	6/22/2012	3,137.64	May-12	5/31/2012	ACH	15.5	22.00	37.50	0.21%	0.06
42	Pa Use Tax - Prepay			6/22/2012	6/22/2012	2,666.57	June-12	6/30/2012	ACH	15	(8.00)	7.00	0.18%	0.01
43	Pa Use Tax			7/23/2012	7/23/2012	1,810.62	June-12	6/30/2012	ACH	15	23.00	38.00	0.12%	0.05
44	Pa Use Tax - Prepay			7/23/2012	7/23/2012	2,263.86	July-12	7/31/2012	ACH	15.5	(8.00)	7.50	0.15%	0.01
45	Pa Use Tax			8/22/2012	8/22/2012	1,848.10	July-12	7/31/2012	ACH	15.5	22.00	37.50	0.12%	0.05
46	Pa Use Tax - Prepay			8/22/2012	8/22/2012	2,827.53	August-12	8/31/2012	ACH	15.5	(9.00)	6.50	0.19%	0.01
47	Pa Use Tax			9/24/2012	9/24/2012	2,203.01	August-12	8/31/2012	ACH	15.5	24.00	39.50	0.15%	0.06
48	Pa Use Tax - Prepay			9/24/2012	9/24/2012	1,695.53	September-12	9/30/2012	ACH	15	(6.00)	9.00	0.11%	0.01
49	Pa Use Tax			10/22/2012	10/22/2012	46.01	September-12	9/30/2012	ACH	15	22.00	37.00	0.00%	0.00
50	Pa Use Tax - Prepay			10/22/2012	10/22/2012	1,717.90	October-12	10/31/2012	ACH	15.5	(9.00)	6.50	0.12%	0.01
51	Pa Use Tax			11/22/2012	11/22/2012	2,407.32	October-12	10/31/2012	ACH	15.5	22.00	37.50	0.12%	0.05
52	Pa Use Tax - Prepay			11/22/2012	11/22/2012	1,841.00	November-12	11/30/2012	ACH	15	(8.00)	7.00	0.12%	0.01
53	Pa Use Tax			12/24/2012	12/24/2012	3,145.29	November-12	11/30/2012	ACH	15.5	24.00	39.00	0.21%	0.08
54	Pa Use Tax - Prepay			12/24/2012	12/24/2012	2,308.37	December-12	12/31/2012	ACH	15.5	(7.00)	8.50	0.16%	0.01
55	Highway Vehicle Use Tax			8/31/2012	8/28/2012	1,068.00	7/1/12-6/30/13	7/1/2012	Check	182.5	58.00	240.50	0.07%	0.17
56	Agency Fee			1/31/2012	1/31/2012	18.33	January-12	1/31/2012	Check	15.5	-	15.50	0.00%	0.00
57	Agency Fee			2/29/2012	2/29/2012	4.80	February-12	2/29/2012	Check	14.5	-	14.50	0.00%	0.00
58	Agency Fee			3/31/2012	3/31/2012	20.42	March-12	3/31/2012	Check	15.5	-	15.50	0.00%	0.00
59	Agency Fee			4/30/2012	4/30/2012	7.73	April-12	4/30/2012	Check	15	-	15.00	0.00%	0.00
60	Agency Fee			5/31/2012	5/31/2012	16.38	May-12	5/31/2012	Check	15.5	-	15.50	0.00%	0.00
61	Agency Fee			6/30/2012	6/30/2012	6.48	June-12	6/30/2012	Check	15	-	15.00	0.00%	0.00
62	Agency Fee			7/31/2012	7/31/2012	0.00	July-12	7/31/2012	Check	15.5	-	15.50	0.00%	0.00
63	Agency Fee			8/31/2012	8/31/2012	11.74	August-12	8/31/2012	Check	15.5	-	15.50	0.00%	0.00
64	Agency Fee			9/30/2012	9/30/2012	0.55	September-12	9/30/2012	Check	15	-	15.00	0.00%	0.00

Weighted Expense Lead Time: 2.36 days

Line No.	(A) Type of Tax	(B) Property	(C) Location	(D) Due Date	(E) Payment Date	(F) Amount	(G) Period	(H) End of Period	(I) Payment Method	(J) Service Lead Time	(K) Payment Lead Time	(L) Total	(M) Weighting Factor	(N) Weighted Lead
65	Agency Fee			10/31/2012	10/31/2012	42.02	October-12	10/31/2012	Check	15.5	-	15.50	0.00%	0.00
66	Agency Fee			11/30/2012	11/30/2012	19.17	November-12	11/30/2012	Check	15	-	15.00	0.00%	0.00
67	Agency Fee			12/31/2012	12/31/2012	0.00	December-12	12/31/2012	Check	15.5	-	15.50	0.00%	-
68	PURTA			5/2/2012	5/2/2012	50,390.00	1/1/12-12/31/12	12/31/2012	ACH	182.5	(243.00)	(60.50)	3.40%	(2.06)
69	PURTA			9/11/2012	9/11/2012	11,237.00	1/1/11-12/31/11	12/31/2011	ACH	182.5	255.00	437.50	0.76%	3.32
70	PA PUC Assessment			9/20/2012	9/20/2012	360,725.00	7/1/12-6/30/13	6/30/2013	Check	182.5	(283.00)	(100.50)	24.34%	(24.46)
71	Pa Loans Tax			4/15/2012	4/15/2012	171.00	1/1/11-12/31/11	12/31/2011	ACH	182.5	108.00	288.50	0.01%	0.03
72	Pa Gross Premiums Tax			10/18/2012	10/18/2012	1,418.00	9/1/12-8/31/13	8/31/2013	Check	182.5	(317.00)	(134.50)	0.10%	(0.13)
73	WV Gas Stored			2/24/2012	2/24/2012	18,463.96	1/1/10-12/31/10	3/31/2012	Check	91.25	(36.00)	55.25	1.25%	0.69
74	WV Gas Stored			8/21/2012	8/21/2012	13,699.48	1/1/11-12/31/11	8/31/2012	Check	91.25	(10.00)	81.25	0.92%	0.75
75	LA Property Tax			12/19/2012	12/19/2012	31,473.44	1/1/11-12/31/11	12/31/2011	Check	182.5	354.00	536.50	2.12%	11.39
76	NY Maintenance Fee			2/24/2012	2/24/2012	225.00	1/1/11-12/31/11	12/31/2011	Check	182.5	55.00	237.50	0.02%	0.04
77						\$ 1,481,950.69								

***Does not include any payroll taxes (Social Security, FICA, unemployment, etc.)

**Peoples TWP LLC
Cash Working Capital Lead-Lag Study
Calculation of Service Company Expense (Lead) and Lag**

Period Covered		Mid-Point of Period (C)	Date Paid (D)	(Lead)/Lag Days (E)
From (A)	To (B)			
Service Company				
1/1/2012	1/31/2012	1/16/2012	2/24/2012	39.00
2/1/2012	2/29/2012	2/15/2012	3/23/2012	37.00
3/1/2012	3/31/2012	3/16/2012	4/25/2012	40.00
4/1/2012	4/30/2012	4/15/2012	5/25/2012	39.50
5/1/2012	5/31/2012	5/16/2012	6/25/2012	40.00
6/1/2012	6/30/2012	6/15/2012	7/25/2012	39.50
7/1/2012	7/31/2012	7/16/2012	8/24/2012	39.00
8/1/2012	8/31/2012	8/16/2012	9/25/2012	40.00
9/1/2012	9/30/2012	9/15/2012	10/25/2012	39.50
10/1/2012	10/31/2012	10/16/2012	11/23/2012	38.00
11/1/2012	11/30/2012	11/15/2012	12/25/2012	39.50
12/1/2012	12/31/2012	12/16/2012	1/25/2013	40.00
Total Service Company (Lead) / Lag Days				39.25

**Peoples TWP LLC
Cash Working Capital Lead-Lag Study
Calculation of Other O&M Expense Lag**

	<u>Amounts Paid</u>	<u>Lead Days</u>	<u>Dollar Weighted by Days</u>
Accounts Payable Sampling	\$ 260,160	49.27	\$ 12,817,022

Refer to the response to Exhibit VI.I.RR.18 for the accounts payable workpapers.

Peoples TWP LLC
Cash Working Capital Lead-Lag Study
Calculation of Income Tax Expense (Lead) / Lag

Period Covered		Mid-Point of Period	Date Paid	(Lead)/Lag Days (D-C)	Amount of Expense	Dollar Weighted Days (E*F)
From (A)	To (B)					
Federal Income Tax						
1/1/2011	12/31/2011	7/2/2011	4/15/2011	(78.00)	25.00%	(19.50)
1/1/2011	12/31/2011	7/2/2011	6/15/2011	(17.00)	25.00%	(4.25)
1/1/2011	12/31/2011	7/2/2011	9/15/2011	75.00	25.00%	18.75
1/1/2011	12/31/2011	7/2/2011	12/15/2011	166.00	25.00%	41.50
					100.0%	36.50
State Income Tax						
1/1/2011	12/31/2011	7/2/2011	3/15/2011	(109.00)	22.50%	(24.53)
1/1/2011	12/31/2011	7/2/2011	6/15/2011	(17.00)	22.50%	(3.83)
1/1/2011	12/31/2011	7/2/2011	9/15/2011	75.00	22.50%	16.88
1/1/2011	12/31/2011	7/2/2011	12/15/2011	166.00	22.50%	37.35
1/1/2011	12/31/2011	7/2/2011	4/15/2012	288.00	10.00%	28.80
					100.0%	54.68

