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File #: 155121

June 28, 2013

VIA ELECTRONIC FILING

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

Re: Pennsylvania Public Utility Commission, Office of Small Business Advocate, Daniel Killmeyer, Office of Consumer Advocate & Elizabeth F. Smith v. Peoples Natural Gas Company LLC - Docket Nos. R-2013-2350914, C-2013-2354071, C-2013-2355180, C-2013-2355226 and C-2013-2359509

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for Settlement of All Issues of the Section 1307(f) Rate Investigation for the above-referenced proceeding. Copies will be provided as indicated on the certificate of service.

Respectfully submitted,

Anthony D. Kanagy

ADK/jl
Enclosures

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

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Zelienople, PA 16063

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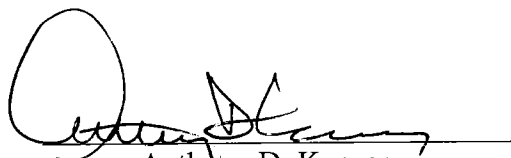
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Date: June 28, 2013



Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
Office of Small Business Advocate	:	Docket Nos. R-2013-2350914
Daniel Killmeyer	:	C-2013-2354071
Office of Consumer Advocate	:	C-2013-2355180
Elizabeth F. Smith	:	C-2013-2355226
	:	C-2013-2359509
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

**JOINT PETITION FOR SETTLEMENT OF ALL ISSUES OF
THE SECTION 1307(f) RATE INVESTIGATION**

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

Peoples Natural Gas Company LLC (“Peoples”), the Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), parties in the above-captioned proceeding (hereinafter, collectively “Joint Petitioners”), hereby file this Joint Petition for Approval of Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Settlement”). As explained below, the Joint Petitioners have agreed to a settlement of all issues in the above-captioned proceeding and, therefore, respectfully request that Administrative Law Judges Conrad A. Johnson and Jeffrey Watson (the “ALJs”) recommend approval of, and the Commission approve, this Settlement as set forth below without modification. The Joint Petitioners also request that the Commission: (1) authorize Peoples to file the form of tariff supplement provided as Appendix A hereto, with rates to become effective on October 1, 2013, subject to updates and tariff modifications traditionally performed on

October 1; and (2) make all associated findings required by Section 1307(f) and Section 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307(f) and 1318. In support of this Settlement, the Joint Petitioners state the following:

I. INTRODUCTION

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

2. Peoples is a “public utility” and a “natural gas distribution company” as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102 and 2202.

3. Peoples provides sales, transportation, and supplier of last resort services to approximately 360,000 customers throughout its certificated service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

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

5. On March 1, 2013, Peoples filed with the Commission at Docket No. R-2013-2350914: (1) the materials that the Commission’s regulations at 52 Pa. Code §§ 53.64(c) and 53.65 require to be filed 30 days before the filing of a tariff under 66 Pa.C.S. § 1307(f); and (2)

the reconciliation statement that the Commission's regulation at 52 Pa. Code § 53.64(i) requires to be filed at the same time.

6. On March 13, 2013, I&E filed a Notice of Appearance.

7. On March 20, 2013, OSBA filed a Notice of Appearance and Formal Complaint. The Formal Complaint was docketed by the Commission at Docket No. C-2013-2354071.

8. On March 29, 2013, OCA filed a Notice of Appearance and a Formal Complaint. The Formal Complaint was docketed by the Commission at Docket No. C-2013-2355226.

9. On March 29, 2013, the Commission's Secretary's Bureau served Peoples with the Complaint of Daniel Killmeyer at Docket No. C-2013-2355180.

10. On April 1, 2013, Peoples filed with the Commission Supplement No. 16 to Peoples Tariff Gas - PA PUC No. 45 ("Supplement No. 16"), to become effective for service rendered on and after October 1, 2013. Peoples' filing also included Peoples' written direct testimony and supporting exhibits.¹ Supplement No. 16 was subsequently assigned to the Office of Administrative Law Judge for hearing and recommended decision.²

11. On April 2, 2013, the Commission issued a Notice of an Initial Prehearing Conference to be held on April 11, 2013 at 1:30 p.m. before the ALJs. Also, on April 2, 2013, the ALJs issued a Prehearing Conference Order, which directed the parties to prepare and distribute prehearing conference memoranda.

12. On April 9, 2013, Peoples, OCA, I&E and OSBA filed Prehearing Conference Memoranda as directed by the ALJs.

¹ Peoples served the following written direct testimony: Peoples Statement No. 1, Direct Testimony of Jon H. Skoog; Peoples Statement No. 2, Direct Testimony of Anthony Caldoro; Peoples Statement No. 3, Direct Testimony of Jeffrey S. Nehr; and, Peoples Statement No. 4, Direct Testimony of Andrew P. Wachter.

² Peoples' complete April 1, 2013 filing is hereinafter referred to as the "2013 Definitive Filing."

13. An initial prehearing conference was held on April 11, 2013 before the ALJs. A litigation schedule and discovery rule modifications were established at the initial prehearing conference, which were subsequently memorialized in the ALJ's Prehearing Order, dated April 19, 2013.

14. On April 24, 2013, the Commission's Secretary's Bureau served Peoples with the Complaint of Elizabeth F. Smith at Docket No. C-2013-2350914.

15. On May 3, 2013, Peoples filed an unopposed Motion for Protective Order. The ALJs granted the Motion and issued a Protective Order on May 24, 2013 for the protection of "Confidential" and "Highly Confidential" materials.

16. By Prehearing Order Setting Litigation Schedule and Consolidating Complaints, dated April 19, 2013, the ALJs consolidated the formal complaint of Daniel Killmeyer (Docket No. C-2013-2355180) with Docket No. R-2013-2350914 and placed Mr. Killmeyer on the limited service list.

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

18. OCA and OSBA served written direct testimony, including supporting exhibits, on May 18, 2013.³

19. In accordance with the Commission's Rules of Practice and Procedure (52 Pa. Code § 5.231), the Joint Petitioners engaged in numerous settlement discussions in an effort to achieve a full settlement. As a result of those conferences and the efforts of the Joint Petitioners to examine the issues raised in this proceeding, a Settlement in Principle of all issues was

³ The following written direct testimony was served by parties other than Peoples: OCA Statement No. 1, Direct Testimony of Jerome D. Mierzwa, and OSBA Statement No. 1, Direct Testimony of Brian Kalcic.

achieved prior to the date scheduled for service of written rebuttal testimony and before the first day scheduled for evidentiary hearings.

20. On May 28, 2013, the ALJs issued a Second Interim Order, suspending and revising, in part, the litigation schedule and consolidating the customer formal complaints into Docket No. R-2013-2350914. The caption of the Second Interim Order was subsequently revised by Order dated May 31, 2013.

21. An evidentiary hearing was held on June 6, 2013, to admit the Parties' testimony and exhibits into the record. The following evidence was admitted into the evidentiary record: Peoples' March 1, 2013 Prefiling; the 2013 Definitive Filing; and, the written direct testimony, including supporting exhibits, of Peoples, OCA and OSBA.

22. The Joint Petitioners are in full agreement that the Settlement is in the best interest of Peoples' customers and Peoples.

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

II. SETTLEMENT TERMS

Approval of the 2013 Definitive Filing as Modified

24. The Parties agree that Peoples' April 1, 2013 1307(f) Definitive Filing is approved except to the extent that it is modified by this Settlement.

Natural Gas Supply Rates as of October 1, 2013

25. Peoples shall, in lieu of Supplement No. 16, place into effect, for service rendered on and after October 1, 2013, the form of tariff supplement attached hereto as **Appendix A**, which reflects changes to the retainage rates set forth in Supplement No. 16 as explained below. Supplement No. 16 shall be subject to updates and tariff modifications traditionally performed on October 1.

Retainage Levels

26. Effective October 1, 2013, the tariffed retainage rate under Rates RS, SGS and MGS will be set at 7.7%. Similarly, the tariffed retainage rate under Rate LGS will be set at 6.8%. The Parties agree that this represents a compromise of the divergent views regarding the manner in which retainage rates are calculated. Further, the Parties agree that Commission approval of this Settlement shall not be cited as a Commission endorsement of the retainage calculation methods employed by any party in this proceeding. Each Party reserves the right to present alternative retainage calculation methods in any future proceeding.

Retainage Waivers

27. The Joint Petitioners agree that the retainage rates related to the individual customers identified in **Peoples Exhibit No. 31 (HIGHLY CONFIDENTIAL)** should be approved by the Commission.

28. For all customers that currently receive a full or partial waiver of retainage and whose contracts expire between October 1, 2013 and September 30, 2014:

- a) Peoples will perform and file updated net benefit tests;
- b) Effective with the new contracts for these customers, Peoples will apply a minimum retainage charge for any customer with a transportation margin greater than \$0.38/Mcf. The minimum charge will be calculated based on the discounted transportation margin rate divided by the maximum transportation rate multiplied by the currently effective retainage;
- c) Peoples will contact such customers in order to obtain any engineering analyses possessed by them. Such analyses will be used for analyzing future retainage waivers. To the

extent such customers provide their engineering analyses, Peoples will provide the analyses as part of the retainage justification process; and,

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

Capacity Release/Off System Sales/Parks and Loans Sharing Mechanism

29. The Parties agree that Peoples' current 75% customer/25% Company sharing mechanism for capacity release, off-system sales and parks and loans shall continue in place through September 30, 2015.

Lost and Unaccounted-For Gas

30. Peoples has reduced its actual UFG (excluding storage migration losses) from 5.1% for the twelve months ended July 31, 2011 to 4.5% for the twelve months ended July 31, 2012. Therefore, Peoples' UFG (excluding storage migration losses) is below the target range set forth in the 2011 Settlement for UFG (excluding storage migration losses) for the twelve months ended July 31, 2012 of 4.65% (low end) and 5.65% (high end). Peoples also has reduced its system-wide rate for UFG, storage losses, and Company-use gas from 7.4% for the twelve months ended July 31, 2011 to 6.5% for the twelve months ended July 31, 2012.

Banking, Balancing and Advancing Service ("BB&A")

31. Effective October 1, 2013, the BB&A rate for SGS/MGS customers will be \$0.1771/Mcf, and the BB&A rate for LGS customers will be \$0.0469/Mcf.

Gas Supply Portfolio

32. As explained in Peoples St. No. 4, p. 18, Peoples' gas supply portfolio may change as directed in the Commission's Final Order in the Joint Application proceeding at Docket Nos. A-2013-2353637, A-2013-2353649 and A-2013-2353651.

Least Cost Fuel Procurement Policy – Reconciliation Period

33. Each of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code, 66 Pa.C.S. §§ 1318(a) and (b), applies to Peoples for the 12-month period of February 1, 2012 through January 31, 2013 and, as a result, the natural gas costs that Peoples incurred over the 12-month period of February 1, 2012 through January 31, 2013 were incurred under a “least cost fuel procurement policy, consistent with [Peoples’] obligation to provide safe, adequate and reliable service to its customers.”

Least Cost Fuel Procurement Policy – Projected Period

34. Each of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code, 66 Pa.C.S. §§ 1318(a) and (b), appear to apply to Peoples for the 20-month period of February 1, 2013 through September 30, 2014 and, as a result, the natural gas costs that Peoples will incur over the 20-month period of February 1, 2013 through September 30, 2014 appear that they will be incurred under a “least cost fuel procurement policy, consistent with [Peoples’] obligation to provide safe, adequate and reliable service to its customers.”

35. It is understood and expressly agreed that the Commission’s findings and conclusions relating to the projected 20-month period of February 1, 2013 through September 30, 2014, are made solely for the purpose of setting prospective rates. The terms and conditions of this Settlement are not intended to limit or prevent in any way the Parties or any future complainant from challenging (1) the application of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code to Peoples for the actual 20-month period of February 1, 2013 through September 30, 2014 and, therefore, (2) whether the natural gas costs actually incurred by Peoples over that 20-month period were incurred pursuant to a “least cost

fuel procurement policy, consistent with [Peoples'] obligation to provide safe, adequate and reliable service to its customers.”

III. PROPOSED FINDINGS OF FACT

36. Peoples' gas supply mix during the 1307(f)-2013 Reconciliation Period and the 1307(f)-2013 Projected Period is and will be comprised of gas from three general sources: local purchases; the spot market; and, interstate producer/marketer contracts. (Peoples Statement No. 1, p. 17-18.)

37. Peoples has based its peak day gas supply for the projected period (as well as the relevant portion of the reconciliation period) on a projected design day requirement of 659,000 Mcf. (Peoples Statement No. 1, p. 9; Peoples Exhibit No. 1.)

38. Peoples has pursued its goal of low cost reliable service through a combination of local and interstate assets and supplies. The local supplies are gas produced in Pennsylvania and purchased by Peoples from Pennsylvania producers. (Peoples Statement No. 1, pp. 39-42.)

39. Peoples' interstate assets are comprised of a portfolio of transportation and storage services for which Peoples has contracted with various Federal Energy Regulatory Commission (“FERC”) regulated pipelines. Those interstate assets provide Peoples with access to a variety of locations at which it can receive gas supplies that are produced upstream from Peoples' system.

40. Dominion Transmission, Inc. (“DTI”) currently provides Peoples with three kinds of services: no-notice transportation service under DTI's Rate FTNN, storage service under DTI's Rate GSS, and transportation service that supports the storage service under DTI's Rate FTNN-GSS, all under rates set by the FERC. (Peoples Statement No. 1, p. 20.)

41. Texas Eastern Transmission LPC (“TETCO”) provides Peoples with firm transportation service under rates set by the FERC. Peoples requires deliveries of gas at Ebensburg, Claysburg and Rockwood, in the eastern portion of its service territory. TETCO is the only pipeline that physically interconnects with those three receipt points. Peoples has contracted for firm delivered-to-Peoples supply arrangements to meet its needs from the TETCO system at the Rockwood delivery point. TETCO also provides an operational balancing agreement that helps Peoples to manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 1, p. 24.)

42. Peoples acquires firm city gate delivered supply via Tennessee Gas Pipeline (“Tennessee”). (Peoples Statement No. 1, p. 27.) Peoples entered into firm delivered supply arrangements for November 1, 2011 through March 31, 2012 with both New Jersey Natural Resource Energy Services (“NJR”) and Virginia Power Energy Marketing (“VPEM”). (Peoples Statement No. 1, pp. 27-28.) Peoples also entered into a firm delivered supply arrangement with VPEM for the November 2012 through March 2013 winter. Both suppliers are required to utilize Tennessee pipeline delivery points directly into Peoples at Pittsburgh Terminal and Pulaski. (*Id.*) In addition, the contracts also require deliveries to Columbia Gas of Pennsylvania, Inc.’s (“CPA”) system to support an exchange agreement under which CPA delivers gas to the Grove City area of Peoples’ service territory. (Peoples Statement No. 1, p. 28.)

43. National Fuel Gas Supply Corporation (“NFGS”) provides Peoples with storage service and firm transportation service under rates approved by the FERC. Peoples uses NFGS’ services primarily to serve the isolated Grove City area of its service territory. Peoples uses its firm transportation service from NFGS both to support the NFGS storage service and for deliveries from other supply sources. (Peoples Statement No. 1, pp. 30-31.) Peoples’ contracts

with NFGS automatically renew on April 1 of each year. Because of Peoples' need for the NFGS capacity to meet its system load requirements, the NFGS contracts will be in effect throughout the 1307(f)-2013 projected period. (Peoples Statement No. 1, p. 31.)

44. Peoples and Peoples TWP filed an agreement at Docket No. G-2011-2265150 requesting Commission approval of an agreement for the exchange of gas. The agreement provides for an exchange of equivalent volumes between Peoples and Peoples TWP where the receipt of gas from the other party would provide more efficient operation of the recipient's system and will improve service reliability for both companies. (Peoples Statement No. 1, pp. 33-35.) Peoples has provided details concerning exchanges each month through January 2013, and volumes have been reasonably in balance through the period. (Peoples Exhibit No. 10.)

45. One of the exchange agreement commitments made by Peoples and Peoples TWP was that both companies would provide reports in their 2012 and 2013 1307(f) filings showing the daily and monthly volumes delivered at each of the interconnections. Peoples Exhibit No. 10 provides the required report showing the volumes and cost impacts of the exchange during the 1307(f)-2013 reconciliation period. There are no Peoples costs projected for the 1307(f)-2013 projected period. (Peoples Statement No. 1, pp. 34-35.)

46. As part of the settlement approved in the Peoples' 1307(f)-2010 case at Docket No. R-2010-2155608, the parties agreed that Peoples would release 15,000 Mcf/day of pipeline capacity. Peoples plans to continue releasing the DTI and TETCo capacity in the same manner and will report on the results to the Operational and Capacity Council ("OCC"). (Peoples Statement No. 1, p. 18.)

47. Consistent with the Settlement of Peoples' 1307(f)-2012 proceeding, Peoples examined its hedging program and reported the status of its examination in this proceeding.

Based upon this evaluation, Peoples proposed to suspend its hedging program. (Peoples Statement No. 1, p. 51.) No party challenged this proposal.

48. In this proceeding, Peoples requested pre-approval to recover certain state tax costs associated with storage inventory through the 1307(f) mechanism as described in Peoples St. No. 4, pp. 14-16. These costs are currently being recovered in base rates. Therefore, Peoples proposed that the change in cost recovery would become effective upon the implementation of new base rates in Peoples' next base rate filing. No party objected to this proposal.

49. Peoples only discounts retainage if certain competitive circumstances exist. If one of the competitive circumstances exists, then a test, as defined in the tariff, is performed to ensure that the customers provide a net benefit to the system. (Peoples Statement No. 4, pp. 7-10.)

50. Peoples monitors the rate and related tariff filings of the interstate pipelines serving Peoples, as well as other important generic FERC proceedings. Peoples undertakes legal action as necessary to protect the interests of the ratepayers of these companies. (Peoples Statement No. 2, pp. 2-4; Peoples Exhibit No. 17.)

51. Peoples monitors DTI, Columbia Transmission, Tennessee Gas Pipeline Company ("TGP"), and TETCO because the outcome of the FERC proceedings of these interstate pipelines may directly affect the services that Peoples provides to its customers. (Peoples Exhibit No. 17.) From time to time Peoples has intervened in, monitored the progress of and occasionally submitted written comments in FERC proceedings where it has determined that such participation could be accomplished in a cost-effective manner. Going forward, Peoples will consider joint interventions and/or comments on behalf of Peoples TWP and

Peoples in proceedings which are cost-effective and where it has joint interests. (Peoples Exhibit No. 17.)

IV. PROPOSED CONCLUSIONS OF LAW

52. The Commission has jurisdiction over the parties and subject matter of this proceeding. 66 Pa.C.S. §§ 1307(f), 1317 and 1318.

53. Peoples has met the requirements of Section 1318 of the Public Utility Code by pursuing a least cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers.

54. Peoples' rates for purchased gas costs, as the parties have agreed upon in this proceeding, during the relevant time period are just and reasonable and in compliance with 66 Pa.C.S. § 1318.

55. Peoples has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings during the relevant time period in compliance with 66 Pa.C.S. § 1318(a)(1).

56. Peoples has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of the utility's ratepayers in compliance with 66 Pa.C.S. § 1318(a)(2).

57. Peoples has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies in compliance with 66 Pa.C.S. § 1318(a)(3).

58. Peoples has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 1318(a)(4).

59. Peoples has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests in compliance with 66 Pa.C.S. § 1318(b)(1).

60. Neither Peoples nor its affiliated interests have withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 1318(b)(3).

61. The Joint Settlement Petition is in the public interest.

V. PROPOSED ORDERING PARAGRAPHS

62. That the Joint Settlement Petition filed on June 28, 2013 among Peoples Natural Gas Company LLC, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, Office of Consumer Advocate, and the Office of Small Business Advocate in the above-captioned case is hereby approved and adopted.

63. That Peoples Natural Gas Company LLC shall file a tariff supplement, to become effective on one day's notice of the final Commission order approving the Joint Settlement Petition, containing changes in rates to provide for the recovery of its costs of purchased gas, consistent with the terms and conditions of the Joint Settlement Petition.

64. That Peoples Natural Gas Company LLC, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, Office of Consumer Advocate, and the Office of Small Business Advocate shall comply with the terms and conditions of the Joint

Settlement Petition submitted in this proceeding as though each term and condition stated therein had been the subject of an individual ordering paragraph.

65. That upon Peoples Natural Gas Company LLC's filing of a tariff supplement acceptable to the Commission as conforming with this order and the Joint Settlement Petition and the Commission's approval thereof, the purchased gas rates established therein shall become effective for service rendered on and after October 1, 2013.

66. That the complaint filed by the Office of Small Business Advocate in these proceedings at Docket Number C-2013-2354071 be marked closed.

67. That the complaint filed by the Office of Consumer Advocate in these proceedings at Docket Number C-2013-2355226 be marked closed.

68. That the claims raised in the complaint filed by Daniel Killmeyer at Docket Number C-2013-2355180, related to the subject of these proceedings be marked closed.

69. That the claims raised in the complaint filed by Elizabeth F. Smith at Docket Number C-2013-2359509, related to the subject matter of these proceedings be marked closed.

70. That the investigation at Docket Number R-2013-2350914 be marked closed.

VI. THE PUBLIC INTEREST

71. This Settlement was achieved by the Joint Petitioners after an extensive investigation of Peoples' filing, including extensive informal and formal discovery and the service of written direct testimony (including accompanying exhibits) by each of the Joint Petitioners.

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

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

74. Attached as **Appendices B through E** are Statements in Support submitted by Peoples, I&E, OCA and OSBA setting forth the bases upon which they believe the Settlement is in the public interest.

VII. CONDITIONS OF SETTLEMENT

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

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

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

subsequent litigation of these proceedings, or in any other proceeding.

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

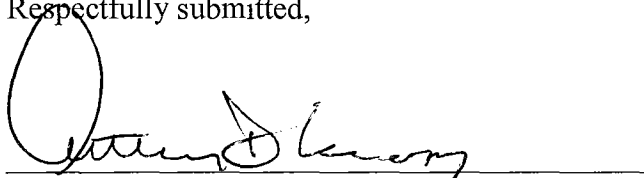
79. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the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

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

VIII. CONCLUSION

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that the Honorable Administrative Law Judges Conrad A. Johnson and Jeffrey Watson recommend approval of and the Commission approve this Settlement, including all terms and conditions thereof without modification, and make the findings contained therein; and that the Commission enter a final order approving this Settlement.

Respectfully submitted,



Date: June 28, 2013

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Anthony D. Kanagy, Esquire (I.D. 85522)
Andrew S. Tubbs, Esquire (I.D. 80310)
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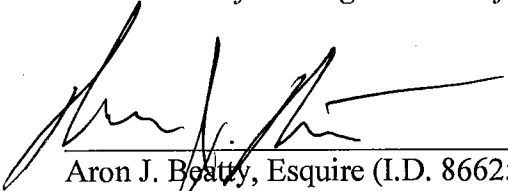
For Peoples Natural Gas Company LLC

Carrie B Wright

Date: 6/27/13

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



Date: 6/27/2013

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For Office of Consumer Advocate

Elizabeth Rose Triscari

Date: 6/27/2013

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Appendix “A”

PEOPLES NATURAL GAS COMPANY LLC

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

April 1, 2013 Annual Gas Cost Compliance Filing

ISSUED: April 1, 2013
BY: Morgan K. O'Brien
President
375 North Shore Drive, Suite 600
Pittsburgh, PA 15212

EFFECTIVE: October 1, 2013

NOTICE

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

LIST OF CHANGES

	Present Base Rates	Proposed Base Rates	Increase (Decrease) \$/Mcf
<u>Rate GS-T</u>			
BB&A Charge – Small & Medium Gen. Service Commercial	\$0.1614	\$0.1771	\$0.0157
BB&A Charge – Large Gen. Service Commercial	\$0.1614	\$0.0469	(\$0.1145)
BB&A Charge – Small & Medium Gen. Service Industrial	\$0.0347	\$0.1771	\$0.1424
BB&A Charge – Large Gen. Service Industrial	\$0.0347	\$0.0469	\$0.0122
Retainage Percentage – RS, Small & Med Gen. Serv. Comm	8.0%	7.7%	(0.3%)
Retainage Percentage – Small & Med Gen. Serv. Industrial	6.9%	7.7%	0.8%
Retainage Percentage – Large Gen. Serv. Commercial	8.0%	6.8%	(1.2%)
Retainage Percentage – Large Gen. Serv. Industrial	6.9%	6.8%	(0.1%)
<u>Rate GS-SB</u>			
Capacity Charge	\$0.4087	\$0.4704	\$0.0617
<u>Rider B</u>			
Capacity Charge	\$0.4087	\$0.4704	\$0.0617
Gas Cost Adjustment Charge	(\$0.2890)	\$0.6526	\$0.9416
Commodity Charge	\$5.3356	\$4.0984	(\$1.2372)
<u>Rider E – MFC</u>			
Rate RS	\$0.1776	\$0.1854	\$0.0721
Rate SGS, MGS, LGS	\$0.0365	\$0.0402	\$0.0149

Rate GS-T

Rules 12 and 14 modified to reflect replacement of references to commercial and industrial with small, medium, and large general service.

	Rider B - Gas Cost Charges			Base Rate Charges (4)	Rider A STAS (5)	Rider E MFC (6)	Rider F USR (7)	Rider G GPC (8)	Rider H Rate Credit (9)	Rider J Rager Credit (10)	Bill Display Total Rate (11=SUM 1 to 10)
	Capacity (1)	GCA (2)	Commodity (3)								
Residential Sales											
Customer Charge				\$ 13.9500	-0.27%				\$ (1.5000)		\$ 12.4500
Capacity	\$ 0.4704					\$ 0.0167					\$ 0.4871
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.1687		\$ 0.0900			\$ 5.0097
Delivery Charge				\$ 3.6560			\$ 0.3111		\$ (0.1279)	\$ (0.1407)	\$ 3.6985
State Tax Surcharge					\$ (0.0099)						\$ (0.0099)
Total per MCF						\$ 0.1854					\$ 9.1854
Commercial SGS											
Customer Charge				\$ 14.8800					\$ (1.1200)		\$ 13.7600
0 to 499 MCF/Yr				\$ 27.0000					\$ (1.1200)		\$ 25.8800
500 to 999 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ 0.0900			\$ 4.8776
Delivery Charge				\$ 2.6971						\$ (0.1351)	\$ 2.5620
State Tax Surcharge					\$ (0.0073)						\$ (0.0073)
Total per MCF						\$ 0.0402					\$ 7.9063
Industrial SGS											
Customer Charge				\$ 20.0000					\$ (1.1200)		\$ 18.8800
0 to 499 MCF/Yr				\$ 27.0000					\$ (1.1200)		\$ 25.8800
500 to 999 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ 0.0900			\$ 4.8776
Delivery Charge				\$ 2.2655						\$ (0.1404)	\$ 2.1251
State Tax Surcharge					\$ (0.0061)						\$ (0.0061)
Total per MCF						\$ 0.0402					\$ 7.4706
Commercial MGS											
Customer Charge				\$ 50.0000					\$ (20.4000)		\$ 29.6000
1,000 to 2,499 MCF/Yr				\$ 77.0000					\$ (31.4100)		\$ 45.5900
2,500 to 24,999 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ -0.0900			\$ 4.8776
Delivery Charge				\$ 2.5210					\$ (0.0956)	\$ (0.1445)	\$ 2.2809
State Tax Surcharge					\$ (0.0068)						\$ (0.0068)
Total per MCF						\$ 0.0402					\$ 7.6257
Industrial MGS											
Customer Charge				\$ 50.0000					\$ (20.4000)		\$ 29.6000
1,000 to 2,499 MCF/Yr				\$ 77.0000					\$ (31.4100)		\$ 45.5900
2,500 to 24,999 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ 0.0900			\$ 4.8776
Delivery Charge				\$ 1.8549					\$ (0.0956)	\$ (0.1404)	\$ 1.6189
State Tax Surcharge					\$ (0.0050)						\$ (0.0050)
Total per MCF						\$ 0.0402					\$ 6.9655
Commercial LGS											
Customer Charge				\$ 443.0000					\$ (280.7500)		\$ 162.2500
25,000 to 49,999 MCF/Yr				\$ 545.0000					\$ (345.4000)		\$ 199.6000
50,000 to 99,999 MCF/Yr				\$ 793.0000					\$ (502.5700)		\$ 290.4300
100,000 to 199,999 MCF/Yr				\$ 1,215.0000					\$ -		\$ 1,215.0000
Over 200,000 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ 0.0900			\$ 4.8776
Delivery Charge				\$ 2.4909					\$ (0.0794)	\$ (0.1445)	\$ 2.2670
State Tax Surcharge					\$ (0.0067)						\$ (0.0067)
Total per MCF						\$ 0.0402					\$ 7.6119
Industrial LGS											
Customer Charge				\$ 443.0000					\$ (280.7500)		\$ 162.2500
25,000 to 49,999 MCF/Yr				\$ 545.0000					\$ (345.4000)		\$ 199.6000
50,000 to 99,999 MCF/Yr				\$ 1,144.0000					\$ (725.0100)		\$ 418.9900
100,000 to 199,999 MCF/Yr				\$ 2,009.0000					\$ -		\$ 2,009.0000
Over 200,000 MCF/Yr											
Capacity	\$ 0.4704					\$ 0.0036					\$ 0.4740
PTC- Commodity Charge		\$ 0.6526	\$ 4.0984			\$ 0.0366		\$ 0.0900			\$ 4.8776
Delivery Charge				\$ 1.8549					\$ (0.0794)	\$ (0.1404)	\$ 1.6351
State Tax Surcharge					\$ (0.0050)						\$ (0.0050)
Total per MCF						\$ 0.0402					\$ 6.9817

	Base Rate Charges (1)	Rider A STAS (2)	Rider E MFC (3)	Rider F USR (4)	Capacity/ BB&A (5)	Rider H Rate Credit (6)	Rider J Rager Credit (7)	Bill Display Total Rate (8=SUM 1 to 7)
Rate GS-T Residential								
Customer Charge	\$ 13.9500	-0.27%				\$ (1.5000)		\$ 12.4500
Capacity			\$ 0.0167		\$ 0.4704			\$ 0.4871
Delivery Charge	\$ 3.6560			\$ 0.3111		\$ (0.1279)	\$ (0.1407)	\$ 3.6985
State Tax Surcharge		\$ (0.0099)						\$ (0.0099)
Total per MCF								\$ 4.1757
Rate GS-T Commercial SGS								
Customer Charge								
0 to 499 MCF/Yr	\$ 14.8800					\$ (1.1200)		\$ 13.7600
500 to 999 MCF/Yr	\$ 27.0000					\$ (1.1200)		\$ 25.8800
/ Capacity/BB&A			\$ 0.0036		\$ 0.4704			\$ 0.4740
Delivery Charge	\$ 2.6971						\$ (0.1351)	\$ 2.5620
State Tax Surcharge		\$ (0.0073)						\$ (0.0073)
Total per MCF								\$ 3.0287
Rate GS-T Industrial SGS								
Customer Charge								
0 to 499 MCF/Yr	\$ 20.0000					\$ (1.1200)		\$ 18.8800
500 to 999 MCF/Yr	\$ 27.0000					\$ (1.1200)		\$ 25.8800
/ Capacity/BB&A					\$ 0.1771			\$ 0.1771
Delivery Charge	\$ 2.2655						\$ (0.1404)	\$ 2.1251
State Tax Surcharge		\$ (0.0061)						\$ (0.0061)
Total per MCF								\$ 2.2961
Rate GS-T Commercial MGS								
Customer Charge								
1,000 to 2,499 MCF/Yr	\$ 50.0000					\$ (20.4000)		\$ 29.6000
2,500 to 24,999 MCF/Yr	\$ 77.0000					\$ (31.4100)		\$ 45.5900
/ Capacity/BB&A					\$ 0.1771			\$ 0.1771
Delivery Charge	\$ 2.5210					\$ (0.0956)	\$ (0.1445)	\$ 2.2809
State Tax Surcharge		\$ (0.0068)						\$ (0.0068)
Total per MCF								\$ 2.4512
Rate GS-T Industrial MGS								
Customer Charge								
1,000 to 2,499 MCF/Yr	\$ 50.0000					\$ (20.4000)		\$ 29.6000
2,500 to 24,999 MCF/Yr	\$ 77.0000					\$ (31.4100)		\$ 45.5900
/ Capacity/BB&A					\$ 0.1771			\$ 0.1771
Delivery Charge	\$ 1.8549					\$ (0.0956)	\$ (0.1404)	\$ 1.6189
State Tax Surcharge		\$ (0.0050)						\$ (0.0050)
Total per MCF								\$ 1.7910
Rate GS-T Commercial LGS								
Customer Charge								
25,000 to 49,999 MCF/Yr	\$ 443.0000					\$ (280.7500)		\$ 162.2500
50,000 to 99,999 MCF/Yr	\$ 545.0000					\$ (345.4000)		\$ 199.6000
100,000 to 199,999 MCF/Yr	\$ 793.0000					\$ (502.5700)		\$ 290.4300
Over 200,000 MCF/Yr	\$ 1,215.0000					\$ -		\$ 1,215.0000
/ Capacity/BB&A					\$ 0.0469			\$ 0.0469
Delivery Charge	\$ 2.4909					\$ (0.0794)	\$ (0.1445)	\$ 2.2670
State Tax Surcharge		\$ (0.0067)						\$ (0.0067)
Total per MCF								\$ 2.3072
Rate GS-T Industrial LGS								
Customer Charge								
25,000 to 49,999 MCF/Yr	\$ 443.0000					\$ (280.7500)		\$ 162.2500
50,000 to 99,999 MCF/Yr	\$ 545.0000					\$ (345.4000)		\$ 199.6000
100,000 to 199,999 MCF/Yr	\$ 1,144.0000					\$ (725.0100)		\$ 418.9900
Over 200,000 MCF/Yr	\$ 2,009.0000					\$ -		\$ 2,009.0000
/ Capacity/BB&A					\$ 0.0469			\$ 0.0469
Delivery Charge	\$ 1.8549					\$ (0.0794)	\$ (0.1404)	\$ 1.6351
State Tax Surcharge		\$ (0.0050)						\$ (0.0050)
Total per MCF								\$ 1.6770

/ Capacity applies to Priority 1 rotepayors when electing transport service. All other Ratepayers are billed the BB&A charge. For purposes of this schedule, Capacity has been defaulted for Residential and SGS customers and BB&A has been defaulted for MGS and LGS classes.
 ISSUED: April 1, 2013

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

- 4) Storage volumes from the ratepayer's most recent billing statement divided by the number of days in the month, if requested by the ratepayer; and
- 5) All standby volumes contracted for the month by the ratepayer.

Transportation ratepayers whose nominated daily volume are received in whole by the Company shall not be affected by the provisions in this subparagraph No. 8.

At least six hours prior to the beginning of an "upset day," the utility will provide notice to any one of three persons designated by the ratepayer. After contact is attempted by the Company with the three persons designated by the ratepayer, the Company will be deemed to have satisfied its notice obligations.

- (9) Unless otherwise agreed under paragraph (17) below, the Company will arrange its utilization of available capacity by endeavoring to fairly accommodate, to the extent practicable, the interests of its retail and transportation ratepayers.
 - a. Available System Capacity for Transportation Service: Capacity for the transportation of ratepayer-owned gas is available on the Company's system to the same extent as capacity is available for the general system supplies that the Company acquires for its retail ratepayers, except where operational constraints may require otherwise. Those operational constraints can include the safety of persons or property and the displacement of locally produced or purchased retail gas supplies and conditions required under Rate ST & ST-SW.
 - b. Actual Unavailability of or Restrictions on Capacity: In the event that capacity on the Company's system either is unavailable for the transportation of ratepayer-owned gas or is available but restricted, the Company will provide its transportation ratepayer or the ratepayer's designated representative with a written explanation of why capacity is unavailable or restricted and the steps examined by the Company to alleviate the unavailability or restriction. Where capacity is restricted, the Company will allocate capacity to its transportation ratepayers without regard to the sources of the ratepayers' natural gas supplies.
 - c. Anticipated Unavailability of or Restrictions on Capacity: Whenever the Company anticipates that an extraordinary activity or occurrence will make capacity either unavailable or available but restricted, the Company will provide written notice to Pennsylvania producers, as early as possible, of the specific portions of the Company's system on which capacity may be unavailable or available but restricted and of the length of time that the unavailability or restriction likely will last.
- (10) As soon as practical after the ratepayer learns of any disruption or interruption in its supply of gas, the ratepayer shall notify the Company.
- (11) The measurements at the point of receipt and delivery shall be the responsibility of the Company. All quantities of gas received, transported, and delivered shall be expressed in terms of "Mcf." If the ratepayer's gas is received by the Company in Btus, the Company will divide the number of Btus by 1.030, or such other factor as the Company may determine appropriate, to determine the Mcf of gas received by the Company for transportation.
- (12) The Company shall retain 7.7 percent of the total volume of gas received into its system on behalf of residential (C) and ratepayers classified as small and medium general service and 6.8 percent of the total volume of gas (C) received into its system on behalf of ratepayers classified as large general service as gas used in Company (C) operations and for unaccounted-for gas under Transportation Agreements that have been or are entered into pursuant to this rate, except in the following circumstances, where the Company may exercise its discretion to waive retainage in conjunction with a positive cost/benefit analysis:

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

A banking, balancing, and advancing (BB&A) charge will be assessed against each Mcf of transportation at \$0.1771 per Mcf for small and medium general service ratepayers and \$0.0469 per Mcf for large general service (C) ratepayers. This rate will be recalculated in each of the Company's annual 1307(f) gas cost proceedings.

The BB&A charge will not be assessed if (1) the ratepayer is already paying the standby charge under Rate Schedule GS-SB on the same volumes or (2) if the ratepayer or pool can balance its supply and deliveries on a daily basis in a manner satisfactory to the Company.

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

RATE GS-SB
GENERAL SERVICE - STANDBYAVAILABILITY

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

RULES AND DELIVERY TERMSPriority-One Transportation Ratepayers

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

Non-Priority-One Transportation Ratepayers

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

Back-up Standby Service

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

RATE TABLE

(C)

Capacity Charges Applicable under the Rate Schedule:

RS Capacity Charge per Mcf	\$0.4704 (I)
SGS Capacity Charge per Mcf	\$0.4704 (I)
MGS Capacity Charge per Mcf	\$0.4704 (I)
LGS Capacity Charge per Mcf	\$0.4704 (I)

Standby Charges for Priority One Transportation Ratepayers

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

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

RIDER B

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

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

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

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

The purchased gas cost rates are as follows:

RS, SGS, MGS, LGS, NGPV

Capacity Charge - Demand	\$0.4704 per Mcf	(I)
Gas Cost Adjustment Charge - (Over)/Under Collection	\$0.6526 per Mcf	(I)
Natural Gas Supply Charge - Commodity	\$4.0984 per Mcf	(D)
GS-SB Capacity Charge Priority One	\$0.4704 per Mcf	(I)

(continued)

RIDER E

MERCHANT FUNCTION CHARGE (MFC)

The Merchant Function Charge (MFC) shall be added to the gas cost charges applicable under rate schedules Rate RS, Rate SGS, Rate MGS, LGS and GS-T. The gas costs charges include the Capacity Charge, Gas Cost Adjustment Charge and Commodity Charge.

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

For residential customers receiving service under Rate RS and Rate GS-T, the MFC shall equal the write-off factor of 3.55% times the gas cost charges as set forth in Peoples' Rider B and Rider D. The current MFC applicable to Rate RS customers is:

Capacity Charge per Mcf	\$0.0167	(I)
Gas Cost Adjustment Charge per Mcf	\$0.0232	(I)
Commodity Charge per Mcf	\$0.1455	(D)
Total MFC per Mcf	\$0.1854	

For Small, Medium, and Large General Service customers receiving service under Rate SGS, MGS, LGS and Rate GS-T, the MFC shall equal the write-off factor of 0.77% times the gas cost charges as set forth in Peoples' Rider B and Rider D. The current MFC applicable to these ratepayers is:

Capacity Charge per Mcf	\$0.0036	(I)
Gas Cost Adjustment Charge per Mcf	\$0.0050	(I)
Commodity Charge per Mcf	\$0.0316	(D)
Total MFC per Mcf	\$0.0402	

Appendix “B”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
Office of Small Business Advocate	:	Docket Nos. R-2013-2350914
Daniel Killmeyer	:	C-2013-2354071
Office of Consumer Advocate	:	C-2013-2355180
Elizabeth F. Smith	:	C-2013-2355226
	:	C-2013-2359509
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

**STATEMENT OF PEOPLES NATURAL GAS COMPANY LLC
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT OF
ALL ISSUES OF THE SECTION 1307(f) RATE INVESTIGATION**

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

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples” or the “Company”) hereby files this Statement in Support of the Joint Petition for Settlement of All Issues of the Section 1307(f) Rate Investigation (“Settlement”) entered into by Peoples, the Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (hereinafter, collectively “Joint Petitioners”) in the above-captioned purchased gas cost proceeding. Peoples respectfully requests that Administrative Law Judges Conrad A. Johnson and Jeffrey Watson recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including whether Peoples’ historic natural gas costs were and projected natural

gas costs will be incurred under a least cost fuel procurement policy. The Settlement is in the interests of Peoples, its customers, and the other Joint Petitioners and is otherwise in the public interest. It should accordingly be approved without modification.

As an initial matter, the fact that the Settlement is unopposed by all of the active parties to the proceeding is, in and of itself, strong evidence that the Settlement is reasonable and in the public interest. Moreover, the Settlement was achieved only after a comprehensive investigation of Peoples' natural gas procurement policies and operations. In addition to informal discovery, Peoples responded to numerous formal discovery requests (many of which had multiple subparts). The active parties served testimony and accompanying exhibits supporting their respective positions, which testimony and exhibits were subsequently admitted into the record at the evidentiary hearing held on June 6, 2013. The active parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

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

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

II. COMMISSION POLICY FAVORS SETTLEMENT

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully-litigated proceeding.

See 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991).

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

The Settlement reflects a carefully-balanced compromise of the interests of all of the Joint Petitioners.

A. NATURAL GAS SUPPLY RATES AS OF OCTOBER 1, 2013

The rates that Peoples proposed to place into effect on October 1, 2013 are supported by record evidence. Peoples explained in detail the development of the natural gas supply rates utilizing cost projections, sales projections, and the reconciliation process. Peoples' testimony provided full support for the rates and their underlying calculations. (Peoples Statement No. 2, pp. 4-19; Peoples Exhibit Nos. 2, 3, 5-13, and 17-20.)

Accordingly, under the terms of the Settlement, the Joint Petitioners agreed that, on October 1, 2013, Peoples may place into effect the natural gas rates set forth in Supplement No. 16, as adjusted for "Retainage Levels" as set forth in Paragraph 26 of the Settlement and set forth in **Appendix A** of the Settlement, subject to updates and tariff modifications traditionally performed on October 1. (Settlement ¶ 25.)

B. RETAINAGE LEVELS

Peoples requires transportation customers to deliver to the Peoples' system slightly more gas than is used by the customer and "retains" the difference between deliveries and consumption to compensate for lost and unaccounted-for gas ("UFG"), company use gas, and storage losses. This process is referred to as "retainage." Retainage is usually stated as a

percentage of gas delivered into the distribution system. Retainage is important because a retainage rate that is excessive will cause transportation customers to overpay for company use gas, storage losses and UFG (“Company Use and LUFG”). Conversely, a retainage rate that is too low will harm 1307(f) customers by causing them to pay for more than their share of Company Use and LUFG.

Over the past several years, Peoples has undertaken substantial efforts to reduce UFG. These efforts are briefly summarized in this Section and are explained in more detail in Section E below and in the Direct Testimony of Jeffrey S. Nehr, Peoples St. No. 3. Peoples has hired a UFG Project Manager to serve as a dedicated employee who is responsible for overseeing and implementing the Company’s UFG Plan. The UFG Project Manager analyzes UFG data, recommends courses of action, monitors UFG progress and helps implement new procedures and processes. (Peoples St. No. 3, p. 3.) Under its UFG Plan, the Company systematically diagnoses UFG on each segment of its system to determine the root causes of UFG. The Company has devoted significant resources on the following UFG reduction initiatives:

1. Enhanced Leak Repair Program, which prioritizes leak repairs;
2. Measurement improvements for producers, customers and storage;
3. Abandoning obsolete gathering lines; and
4. Replacing cast iron pipelines.

Peoples St. No. 3, p. 17.

The Company’s UFG reduction initiatives have produced significant reductions in UFG over the past several years. The Company’s overall Company Use and LUFG has decreased from 9.0% for the 12 months ended July 30, 2009, to 7.9% for the 12 months ended July 30, 2010, to 7.4% for the 12 months ended July 30, 2011 to 6.5% for the 12 months ended July 30,

2012. This is a 2.5% or approximately 28% reduction over a three-year time period. See Peoples Exh. No. 29.

In this proceeding, the Company proposed to set its retainage levels based upon a two-year average of Company Use and LUFGE, adjusted for the temperature compensation impact for LGS customers that have temperature compensating meters. (Peoples St. No. 4, pp. 3-4.) This resulted in proposed reductions in retainage rates for RS, SGS and MGS customers from 8.0% to 7.2% and a proposed reduction in retainage rates for LGS customers from 6.9% to 6.6%. (See Peoples Revised Exhibit No. 30.)

OCA and OSBA presented testimony on Peoples' retainage levels, each proposing adjustments based on different methodologies for the calculation of Peoples' retainage rates. (OCA Statement No. 1, pp. 5-11; OSBA Statement No. 1, pp. 1-6.) In its testimony, the OCA argued that the Company's retainage rate calculation did not account for retainage discounts, and that PGC customers were paying for these discounts. (OCA St. No. 1, p. 8.) As a result, the OCA proposed a retainage rate of 8.0% for all classes, or in the alternative that Peoples maintain its current retainage rates. (OCA St. No. 1, p. 10.)

The OSBA, however, proposed that the Company use a three-year average to set retainage rates and proposed retainage rates of 7.5% for Rate RS, SGS and MGS customers and 6.5% for Rate LGS customers. (OSBA St. No. 1, p. 4.)

In response, the Joint Petitioners have agreed that effective October 1, 2013, the retainage rate for Rates RS, SGS and MGS customers will be set at 7.7% and the retainage rate for Rate LGS customers will be set at 6.8%. (Settlement ¶ 26.) Parties who advocated on the retainage level issues are joining in this Settlement, as it presents a resolution that is fair to the various classes of ratepayers. The Settlement reflects an acceptable compromise of these competing

litigation positions and should be adopted without modification. The settled-upon retainage rates also take into consideration the reductions in unaccounted-for gas that have been achieved by Peoples.

The Settlement reflects adjustments to Peoples' proposed retainage rates to acknowledge OCA's argument that PGC customers should not be required to pay for more than their share of retainage discounts received by transportation customers. In its testimony in this proceeding, the OCA prepared a schedule in support of its argument that sales customers would be paying for a higher percentage of Company Use and LUFG than transportation customers. See Schedule JDM-1. The Company does not believe that the calculations set forth in Schedule JDM-1 reflect the Company Use and LUFG percentages that sales customers will pay in the projected period because the OCA used a two-year average UFG loss percentage of 7.0% to calculate its effective retainage rates. (See Schedule JDM-1.) As shown in Peoples Exhibit No. 29 and explained above, Peoples' Company Use and LUFG has been steadily declining over the past several years and was 6.5% for the 12 months ending July 30, 2012. Therefore, PGC customers' effective retainage rates for the projected period should be lower than the effective retainage rates set forth in Schedule JDM-1 based upon Peoples' Company Use and LUFG rate for the 12 months ended July 30, 2012.

The Company has prepared an illustrative analysis based on the record evidence in this proceeding to assist the ALJs and the Commission in evaluating the estimated retainage percentages that sales customers will pay during the projected period. This analysis is provided in Appendix 1 to this Statement in Support. Lines 1 through 3 of Appendix 1 show the Company's overall Company Use and LUFG percentage of 6.5% for the 12 months ended July 2012, as also set forth in Peoples Exhibit No. 29. Lines 4 through 6 show an overall Company

Use and LUFG percentage of 7.7% to be recovered from customers paying full retainage rates, based on the retainage adjustments reflected in Schedule JDM-1 applied to the Company Use and LUFG and Total Supply numbers set forth in lines 1 through 3. Lines 7 through 19 of Appendix 1 show that the Company will need to retain an estimated 4.45 million Mcf in the projected period to account for Company Use and LUFG, based on its most recent Company Use and LUFG percentage. Lines 20 through 26 of Appendix 1 show that the Company will recover an estimated 4.35 million Mcf from sales and transportation customers during the projected period at the Settlement retainage rates. Based upon this analysis, the Company believes that its sales and transportation customers will be paying very similar retainage percentages during the projected period and that the Settlement is a reasonable compromise of the parties' positions in this proceeding.¹

In addition, the Settlement preserves the OSBA's ability to advocate in a future case the use of a set formula for setting retainage rates. (See OSBA St. No. 1, p. 3.) In this case, the OSBA supported use of a three-year average. The Company does not believe that it is appropriate to set retainage rates based on a set formula due to Peoples' specific circumstances. Peoples is not in a static situation with respect to UFG. Peoples has devoted significant attention and resources to reducing UFG on its system. These efforts have resulted in a significant and steady decline in Company Use and LUFG on the Company's system, from 9.0% as of July 30, 2009, to 7.9% as of July 30, 2010, to 7.4% as of July 30, 2011 to 6.5% as of July 30, 2012. Peoples Exh. No. 29. As a result, adopting a simple three-year average would overstate the Company's Company Use and LUFG rates.

¹ As explained above, the analysis presented in Appendix 1 is based on evidence submitted into the record in this proceeding. The Company has presented this analysis in order to assist the ALJs and the Commission in determining the reasonableness of the Settlement retainage rates and to demonstrate that sales and transportation customers are projected to pay a similar retainage rate during the projected period.

Thus, the Settlement reflects the many different factors to consider when developing retainage rates. Given these factors and the Joint Petitioners' differing positions, the Company believes that the retainage rates agreed to under the settlement to become effective October 1, 2013 are a just and reasonable compromise of the Joint Petitioners' positions and requests that they be approved by the ALJs and the Commission.

C. RETAINAGE WAIVERS

In the Settlement of Peoples' 1307(f)-2012 proceeding, Peoples agreed that for all customers that currently receive a full or partial waiver of retainage, and whose contracts expire between October 1, 2012 and September 30, 2013, Peoples would perform and file updated net benefit tests in this 2013 1307(f) proceeding to determine the appropriate levels of retainage waivers to become effective October 1, 2013. (Peoples Statement No. 4, pp 6-7.) Peoples presented testimony explaining its net benefit test that it uses to determine if continuation of the waiver of gas retainage is justified. (Peoples Statement No. 4, pp. 8-9.)

The contracts of four customers that currently receive a full or partial waiver of retainage expired or will expire between October 1, 2012 and September 30, 2013. Peoples performed its net benefit test for these customers, and concluded that a positive ratepayer net benefit will continue to exist for these competitively-situated transportation customers. (Peoples Statement No. 4, p. 10.) Therefore, Peoples entered into contracts with three of these customers and is currently negotiating with the other customer and will continue a gas retainage waiver for the duration of these customers' new contracts. (Peoples Statement No. 4, pp. 10-11; Peoples Exhibit No. 31 [**HIGHLY CONFIDENTIAL**].) Under the terms of the Settlement, the Joint Petitioners agree that the retainage waivers related to the individual customers identified in Peoples Exhibit No. 31 [**HIGHLY CONFIDENTIAL**] should be approved by the Commission. (Settlement ¶ 27)

The Joint Petitioners further agreed that, for all customers that currently receive a full or partial waiver of retainage and whose contracts expire between October 1, 2013 and September 30, 2014, Peoples will perform and file updated net benefit tests in the context of its 2014 1307(f) proceeding to determine the appropriate levels of retainage waivers to be effective October 1, 2014. Effective with the new contracts for these customers, Peoples will apply a minimum retainage charge for any customer with a transportation margin greater than \$0.38/Mcf. Peoples also has agreed to contact such customers in order to obtain any engineering analyses possessed by them for purposes of analyzing future retainage waivers. Finally, Peoples has agreed to perform the necessary bypass engineering analyses to assist with its evaluation of retainage waivers for such customers. (Settlement ¶ 28.) The Settlement maintains the reasonable compromise reached in prior 1307(f) settlements and approved by the Commission.

D. CAPACITY RELEASE/OFF SYSTEM SALES/PARKS AND LOANS MECHANISM

Peoples proposed to indefinitely extend its current capacity release sharing mechanism, which is set to expire on September 30, 2013. (Peoples Statement No. 4, pp. 16-17.) In making this proposal, Peoples stated that the indefinite extension of its current sharing mechanism would not preclude any party from challenging the mechanism in future 1307(f) proceedings. (Peoples Statement No. 4, p. 17.) The OSBA opposed the Company's proposal and recommended that Peoples' existing sharing mechanism be approved for a finite time period. (OSBA Statement No. 1, p. 7.) The Settlement provides for the continuation of the Company's current 75% customer/25% Company sharing mechanism for capacity release, off-system sales and parks loans through September 30, 2015. (Settlement ¶ 29.) The Settlement reflects an acceptable compromise of competing litigation positions and should be adopted without modification.

E. LOST AND UNACCOUNTED FOR GAS

Consistent with the final order issued in Peoples' 1307(f)-2010 case at Docket No. R-2010-2155608, as part of Peoples' 2011 1307(f) filing, Peoples submitted its "2011 Unaccounted-For-Gas Plan and Report" ("2011 UFG Plan"). In addition to requiring Peoples to use reasonable efforts to implement the 2011 UFG Plan, the approved settlement of Peoples 2011-1307(f) at Docket No. R-2011-2228694 established target ranges for a total combined system UFG (gathering, distribution and transmission) and storage migration losses. (Peoples Statement No. 3, p. 26).

In support of its 2013 1307(f) filing, Peoples provided extensive testimony from the Company's UFG Program Manager, Jeffery S. Nehr, relative to the Company's efforts to implement the 2011 UFG Plan. (Peoples Statement No. 3, pp. 4-26.) As evidenced by this testimony, Peoples continues to aggressively address lost and unaccounted for gas on its system.

Specifically, Mr. Nehr's testimony detailed the eight discrete system segmentation studies, consisting of three distribution and five gathering systems, undertaken by Peoples in 2011 and the results of those studies. (Peoples Statement No. 3, pp. 5-9; Peoples Exhibit No. 21.) Further, Peoples detailed its efforts to improve producer measurement through the installation of Peoples-owned and -operated measurement recorders on the top 200 producer meters, which represent 50% of the total local gas produced into the Peoples system. (Peoples Statement No. 3, p. 11.) Mr. Nehr also addressed Peoples' efforts to reduce overall UFG on gathering systems by installing chart recorders on production meters and examining policies and practices related to chart integrators. (Peoples Statement No. 3, pp. 12-14; Peoples Exhibit Nos. 22-24.) Peoples also provided testimony relative to the Company's efforts to address non-compensated customer measurement, oversized large commercial meters, free gas customers, and storage losses. (Peoples Statement No. 3, pp. 15-16; Peoples Exhibit Nos. 25-27). In

addition, Peoples reported on its pipeline replacement and measurement improvement programs and the Company's capital and expense commitment to the 2011 UFG Program. (Peoples Statement No. 3, pp. 24-28; Peoples Exhibit No. 28.)

Based upon Peoples' efforts to control UFG on its system, Peoples has reduced its system-wide rate for UFG, storage losses, and Company-use gas from 7.4% for the twelve months ended July 31, 2011 to 6.5% for the twelve months ended July 31, 2012. (Settlement ¶ 30.) Excluding Company-use gas, the combined UFG rate (UFG and storage losses) is 5.0%. Further, Peoples reduced its actual UFG (excluding storage migration losses) from 5.1% for the twelve months ended July 31, 2011 to 4.5% for the twelve months ended July 31, 2012. Therefore, Peoples' UFG (excluding storage migration losses) is below the target range set forth in the 2011 Settlement for UFG (excluding storage migration losses) for the twelve months ended July 31, 2012 of 4.65% (low end) and 5.65% (high end). (Settlement ¶ 30.)

No party raised an issue with Peoples' continued efforts to control UFG on its System. The Settlement acknowledges Peoples' efforts to reduce UFG and that Peoples' efforts have resulted in significantly lower UFG percentages.

F. BANKING, BALANCING AND ADVANCING SERVICE ("BB&A")

Included in Peoples' natural gas supply rates are the BB&A charges that will apply to the NP-1 customers who buy their supplies from someone other than Peoples. (Peoples Statement No. 2, 17; Peoples Exhibit No. 19). Under the Settlement, the parties have agreed that, effective October 1, 2013, the BB&A rate for SGS/MGS customers will be \$0.1771/Mcf, and the BB&A rate for LGS customers will be \$0.0469/Mcf. (Settlement ¶ 31.) No party in this proceeding challenged Peoples' BB&A rate and Peoples' proposed rates for this service are amply supported by the record in this proceeding.

G. GAS SUPPLY PORTFOLIO

In this proceeding, Peoples presented the Company's current gas procurement plan and did not address any potential impacts associated with the Joint Application proceeding at Docket Nos. A-2013-2353637, A-2013-2353649 and A-2013-2353651 regarding the acquisition of Equitable Gas Company. (Peoples Statement No. 4, p. 18.) The Company opted to not address the potential impacts related to the proposed acquisition of Equitable Gas Company because it is unknown whether the Application will be approved and, if approved, the timing of such approval and any potential conditions related to such approval is unknown at this time. Moreover, the potential gas cost implications of the acquisition have been disclosed within the acquisition application and accordingly will be reviewed and ruled upon within that proceeding. (*Id.*)

No party in this proceeding challenged Peoples' gas procurement plan. Through the Settlement, the parties acknowledge their concurrence that Peoples' gas supply portfolio may change as directed in the Commission's Final Order in the Joint Application proceeding at Docket Nos. A-2013-2353637, A-2013-2353649 and A-2013-2353651. (Settlement ¶ 32.) Peoples believes this provision of the Settlement is appropriate as the closing of the acquisition transaction is not expected until late 2013. (Peoples Statement No. 4, p. 18.)

H. HEDGING

In the Settlement of Peoples 2012 PGC proceeding, Peoples agreed to examine its hedging program and report on the status of its examination in this proceeding. Peoples St. No. 1, p. 51. As explained by Peoples witness Jon H. Skoog, Peoples examined the results of the Company's hedging program since November 2006 and concluded that the program satisfied its goal of mitigating price risk but at the same time resulted in higher costs than unhedged purchases due to the market's declining price environment during this period. (Peoples St. No. 1, pp. 51-52.) Based upon the results of its examination, Peoples proposed to suspend its

hedging program. No party in this proceeding objected to the Company's proposal to suspend the operation of its hedging program. Peoples believes that the continuing industry forecast of stable gas prices, and the fact that marketers who are active on Peoples' system are well positioned to offer fixed (i.e., hedged) prices to customers who desire price stability, supports the suspension of Peoples' hedging program at this time.

I. OTHER GAS COSTS

Peoples currently recovers certain state tax costs associated with the use of Dominion Transmission Storage in the State of West Virginia through base rates. The Company believes that these gas storage costs should be recovered through purchased gas cost rates. In this proceeding, Peoples requested pre-approval to recover these costs in PGC rates. Peoples proposed that the change in cost-recovery (from base rates to PGC rates) would only become effective upon the implementation of new base rates in the Company's next base rate filing. Peoples St. No. 4, p. 15. At that time, the Company proposed to stop collecting these costs in base rates and begin collecting these storage related tax costs through the 1307(f) mechanism. The Company further stated that it was seeking approval of the rate recovery methodology in this proceeding to avoid controversy in the Company's next base rate proceeding. Peoples St. No. 4, p. 15. No party objected to this proposal.

J. MISCELLANEOUS UNCONTESTED ITEMS

Under the Settlement, the parties have agreed that Peoples April 1, 2013 1307(f) Definitive Filing is approved except to the extent that it is modified by the Settlement. Settlement, ¶24. The parties have thoroughly investigated Peoples PGC filing through discovery and the submission of testimony. Peoples has addressed the contested issues through the specific provisions of the Settlement and requests that the ALJs and the Commission also approve the Companies' Definitive Filing as to the uncontested issues.

K. SECTION 1318 REQUIREMENTS

In the Settlement, the Joint Petitioners have represented that the record in this proceeding is sufficient to form the basis for the findings that the Commission is required to make pursuant to Section 1318 of the Public Utility Code. (Settlement ¶¶ 33-35.) Section 1318 contains seven specific sub-findings that the Commission must make in support of a conclusion that Peoples is pursuing a least cost fuel procurement policy. Peoples submits that the record amply supports the required findings on each of the seven issues.

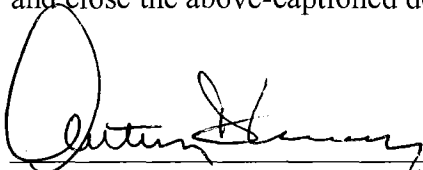
Preliminarily, it should be noted that this is Peoples' twenty-eighth 1307(f) proceeding. In each of the previous 1307(f) proceedings, and the "GCR-5" cases that preceded the 1307(f) amendments to the Public Utility Code, the Commission entered an order endorsing Peoples' gas procurement practices after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

IV. CONCLUSION

Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a Settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement is the result of detailed examination of Peoples' natural gas procurement policies through numerous discovery responses, testimony and accompanying exhibits, and extensive settlement negotiations. A fair and reasonable compromise has been

achieved in this case, as is evident by the fact that various parties, including Peoples, I&E, OCA, and OSBA have agreed to the resolution of the issues in this proceeding.

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



Date: June 28, 2013

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For Peoples Natural Gas Company LLC

1	UFG, Storage Loss and Company Use - Mcf - ("LUGF") (TME July 2012)	4,692,742	1/
2	Total Supply (Mcf) (TME July 2012)	<u>71,721,401</u>	1/
3	Overall "LUGF" Percentage	6.5%	
4	"LUGF" (excluding retainage recovered from retainage-discounted customers)	4,647,255	2/
5	Total Supply (Mcf) (excluding supply for retainage-discounted customers)	<u>60,323,906</u>	2/
6	Overall "LUGF" Percentage to be recovered from customers paying full retainage	7.7%	

7 Throughput for Oct 13 - Sep 14 (refer to Schedule JDM-1)

8		<u>Sales</u>	<u>Transport</u>	<u>Total</u>	
9	RS	22,066,563	7,157,384	29,223,947	
10	SGS	3,420,668	2,138,334	5,559,002	
11	MGS	1,583,760	7,277,582	8,861,342	
12	LGS	163,934	20,189,440	<u>20,353,374</u>	
13				63,997,665	
14			RS/SGS/MGS	43,644,291	
15			LGS	<u>20,353,374</u>	
16				63,997,665	
17	Less: Retainage-discounted LGS volumes			<u>(10,611,068)</u>	
18	Throughput without retainage-discounted LGS volumes			53,386,597	
19	Mcf to be retained at 7.7% from non-discounted throughput			<u>4,453,703</u>	3/

20 Settlement retainage recoveries at 7.7% (RS,SGS,MGS) & 6.8% (LGS) from non-discounted customers

21		<u>Sales</u>	<u>Transport</u>	<u>Total</u>	
21	RS	1,840,873	597,095	2,437,967	
23	SGS	285,365	178,388	463,752	
24	MGS	132,123	607,122	739,245	
25	LGS	<u>11,961</u>	<u>698,851</u>	<u>710,812</u>	4/
26		2,270,321	2,081,456	<u>4,351,777</u>	

1/ Refer to Peoples Exhibit No. 29.

2/ Refer to Schedule JDM-1 for amounts to be excluded.

3/ Calculation reflects gross-up of throughput $((53,386,597 / (1 - 0.077)) - 53,386,597)$.

4/ Retainage recovered from non-retainage-discounted LGS customers.

Appendix “C”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2013-2350914
The Peoples Natural Gas Company	:	
	:	

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

TO ADMINISTRATIVE LAW JUDGES CONRAD JOHNSON AND JEFFREY WATSON:

The Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), by and through its Prosecutor Carrie B. Wright, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement ("Settlement") are in the public interest and represent a fair, just, reasonable and equitable balance of the interest of The Peoples Natural Gas Company ("Peoples" or "Company") and its customers.

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

2. Prior to agreeing to the instant settlement, I&E conducted a thorough review of the Company's filing and supporting information, discovery responses and submitted filing data, and contributed to the forthright discussions amongst the parties during settlement talks.

3. On March 1, 2013, The Peoples Natural Gas Company pursuant to section 1307(f) of the Public Utility Code, made its 2013 Gas Cost Rate ("GCR") filing.

4. A Prehearing Conference was scheduled before Administrative Law Judges Conrad Johnson and Jeffrey Watson (the "ALJs") for April 11, 2013. At the Prehearing Conference a procedural schedule was established.

5. On May 8, 2013, OSBA and OCA filed their direct testimony.

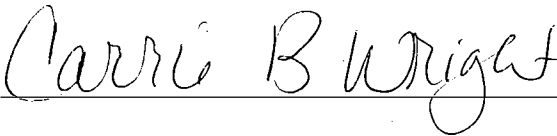
6. The parties were able to reach a Settlement and as a result, the litigation schedule was suspended.

7. Although I&E did not file testimony, I&E fully supports the Settlement and believes that all issues have been satisfactorily resolved through discovery and discussions with the Company and are incorporated in the settlement. Line by line identification of the ultimate resolution of the disputed issues is not necessary as I&E represents that the settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this filing complete.

8. In conclusion, the Bureau of Investigation and Enforcement has been thoroughly involved in the instant proceeding. I&E reiterates that it fully supports the settlement as being in the public interest and respectfully requests that Administrative Law

Judges Conrad Johnson and Jeffrey Watson recommend, and the Commission subsequently approve without modification, the proposed settlement as set forth in the Joint Petition.

Respectfully submitted,



Carrie B. Wright
Prosecutor

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
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(717) 783-6156

Dated: June 27, 2013

Appendix “D”

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2013-2350914
	:	
The Peoples Natural Gas Company	:	
1307(f) - 2013 Proceeding	:	

OFFICE OF CONSUMER ADVOCATE
STATEMENT IN SUPPORT

The Office of Consumer Advocate (OCA) is one of the signatories to the Joint Settlement of All Issues of the Section 1307(f) Rate Investigation (Joint Petition or Settlement) filed in the above-referenced proceeding. The OCA submits that the terms and conditions of the proposed Settlement are in the public interest. The OCA requests Commission approval of the Settlement without modification.

I. INTRODUCTION AND BACKGROUND

The introduction and background set forth at pages 1-5 of the Joint Petition is accurate. The OCA would add the following regarding its participation. In accord with the statutory mandate of Sections 1307(f), 1317, and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f), 1317, and 1318, and the Public Utility Commission's (Commission) Regulations at 52 Pa. Code § 53.64, the OCA reviewed Peoples Natural Gas Company LLC's (Peoples or the Company) purchasing policies and practices for its natural gas supply for the twelve-month period ending January 31, 2013. This analysis included an evaluation of numerous issues associated with Peoples' historic and projected purchasing practices and policies, including, but not limited to:

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

While conducting its analysis of Peoples' proposed PGC rates, the OCA also

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

II. TERMS AND CONDITIONS OF JOINT SETTLEMENT PETITION

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

The OCA recognizes that settlement is a product of compromise. The Commission encourages settlement; to do so it must recognize the balance of compromises struck by settling parties. The OCA does not address all issues recited by the Joint Petition in this Statement in Support; the OCA does not oppose terms and conditions not expressly addressed herein. The OCA urges the Commission to weigh the Settlement as a whole. The OCA also looks to each party to discuss how the Settlement terms and conditions address their respective issues and how those parts of the Settlement support the public interest standard required for Commission approval of the Joint Petition.

In addition to the PGC analysis outlined above, OCA witness Mierzwa provided one recommendation in his Direct Testimony. Mr. Mierzwa summarized his recommendation as follows:

- Retainage charges for all transportation customers should be set at 8.0%. Alternatively, Peoples' current retainage charges should be maintained.

OCA Direct Testimony at 2-3. The OCA submits that the terms and conditions of the Joint Petition resolve this issue to the satisfaction of the OCA and is otherwise in the public interest.

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

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

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

In his testimony, OCA Witness Mierzwa recommended that Peoples' retainage rates for all transportation customers be set at 8.0%, or alternatively, maintained at current levels. *Id.* As set forth in this testimony, a portion of the gas delivered to Peoples' system is lost or otherwise unaccounted-for (LUFG) before it reaches the Company's customers. Additionally, a portion of the gas delivered to the system is used in company operations. *Id.* at 3. Over the last three years, on average, approximately 8.0% of deliveries to Peoples' system is either LUFG or used in company operations. These losses are recovered through PGC rates for sales customers, but for transportation customers, these losses are typically recovered through a retainage charge. Residential and Small and Medium General Service (Small and Medium General Service, collectively, are Commercial) transportation customers are currently assessed a retainage charge

of 8.0%, while Large General Service (Industrial) transportation customers are assessed a retainage charge of 6.9%. However, in its filing, Peoples proposed to reduce retainage charges for Residential and Commercial customers to 7.2% and for Industrial customers to 6.6%. The Settlement provides that, effective October 1, 2013, the tariffed retainage rate for Residential and Commercial customers will decrease from 8.0% to 7.7% and the tariffed retainage rate for Industrial customers will decrease from 6.9% to 6.8%. Settlement ¶ 26. The OCA submits that these agreed-upon retainage rates represent a fair and equitable result. The current retainage rates will not be retained, but they will only be decreased slightly while still reflecting current levels of gas losses experienced by the Company.

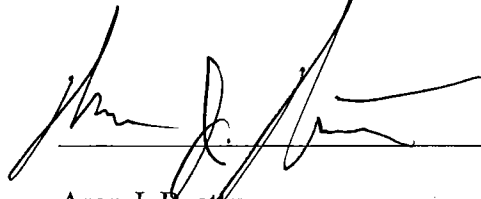
3. Other issues addressed in the Joint Petition

The Joint Petition also equitably addresses a number of other issues not raised by the OCA, but in which the OCA took an interest during settlement discussions. In particular, the Joint Petition provides Peoples will retain its current 75% customer/25% Company sharing mechanism for capacity release, off-system sales, and parks and loans through September 30, 2015. Settlement at ¶ 29. The OCA submits that Peoples current sharing mechanism for capacity release, off-system sales, and parks and loans helps ensure that the Company continues to maximize value for customers.

III. CONCLUSION

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Aron J. Beatty', is written over a horizontal line.

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June 27, 2013
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Appendix “E”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	DOCKET NO. R-2013-2350914
	:	
PEOPLES NATURAL GAS COMPANY, LLC	:	

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

I. INTRODUCTION

The Small Business Advocate is authorized and directed to represent the interests of small business consumers in proceedings before the Pennsylvania Public Utility Commission (“Commission”) under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. In order to discharge this statutory duty, the Office of Small Business Advocate (“OSBA”) is participating as a party to this proceeding to ensure that the interests of small commercial and industrial (“Small C&I”) customers of Peoples Natural Gas Company (“Peoples” or the “Company”) are adequately represented and protected.

II. PROCEDURAL BACKGROUND

On March 1, 2013, pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. §1307(f), Peoples submitted pre-filing supporting information concerning its annual Purchased Gas Cost (“PGC”) Rate filing. On April 1, 2013, the Company submitted its annual PGC filing to the Commission.

On March 13, 2013, the Commission's Bureau of Investigation and Enforcement ("I&E") entered a notice of appearance.

The OSBA filed a Complaint in the above-captioned proceeding on March 20, 2013.

A Complaint was also filed by the Office of Consumer Advocate ("OCA") on March 29, 2013.

A Prehearing Conference was held on April 11, 2013, before Administrative Law Judge ("ALJ") Conrad A. Johnson and ALJ Jeffrey Watson, at which time the parties agreed upon a procedural schedule and discovery modifications.

The OSBA filed the Direct Testimony and Exhibits of Brian Kalcic on May 8, 2013, marked as OSBA Statement No. 1. Direct Testimony was also filed by the OCA.

Prior to the submission of rebuttal testimony, the parties successfully negotiated a settlement of all issues. By agreement of the parties, and with the consent of ALJ Watson and ALJ Johnson, the procedural schedule was suspended.

A hearing was held on June 6, 2013, for the limited purpose of admitting testimony and accompanying exhibits into the record.

The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the Joint Petition For Settlement ("Joint Petition"). The OSBA submits this statement in support of the Joint Petition.

III. STATEMENT IN SUPPORT OF JOINT PETITION

In its filed testimony, the OSBA raised two issues of concern to Small C&I customers: 1) the Company's proposed adjustment to retainage rates; and 2) the

indefinite extension of the current revenue sharing mechanism. As discussed below, the Joint Petition adequately addresses both of these concerns, and provides a just and reasonable outcome to a difficult and complex case. As a result, the OSBA concludes that the Joint Petition is in the best interests of the Company's Small C&I customers.

A. Retainage Rates (Joint Petition ¶26)

The Company currently retains 8.0% of the natural gas delivered on behalf of Rate GS-T General Service – Transportation (“Rate GS-T”) residential and commercial customers and 6.9% of the natural gas delivered on behalf of Rate T Transportation Service – Industrial (“Rate T”) customers. In its PGC filing, Peoples proposed to adjust its existing retainage rates to reflect: (1) changes in lost and unaccounted for gas (“LUFG”) and company use (“CU”) levels; and (2) the composition of the new customer classes established in the Company's recent base rate case at Docket No. R-2012-2285985. Peoples proposed lowering its existing retainage rates to 7.2% for Rate RS (residential), Rate SGS (small general service) and Rate MGS (medium general service) transportation customers, and 6.6% for Rate LGS (large general service) industrial transportation customers. Under Peoples' proposal, the weighted average retainage rate would be 7.0%.¹

Peoples arrived at this target system average retainage rate based on the Company's overall LUFG/CU rate of 7.0% for the two-year period ended July 30, 2012.² OSBA witness Brian Kalcic disagreed with Peoples' use of a two-year system average LUFG/CU level and instead recommended setting retainage rates based on a three-year

¹ OSBA Statement No. 1 at 3.

² See Peoples Exhibit No. 29.

(rolling) average LUFG/CU level.³ Mr. Kalcic explained that because LUFG/CU levels vary from year to year, the Company's past practice of setting retainage rates based on a three-year average LUFG/CU level should produce more stable retainage rates.⁴

Peoples' proposed two-year methodology would also result in significantly lower retainage rates for transportation customers compared to the three-year methodology.⁵ Mr. Kalcic testified that the Company's proposal to use a two-year methodology, at a time when system losses are *declining*, is biased in favor of transportation customers, because it effectively ignores those periods when transportation customers were assessed retainage rates that were lower than current losses, *i.e.*, when losses were *increasing* year over year.⁶

Using Mr. Kalcic's three-year methodology results in a LUFG/CU rate for the latest three-year period of 7.3%.⁷ The retainage rates necessary to produce this three-year average LUFG/CU rate would be 7.5% for Rates RS, SGS and MGS customers, and 6.9% for Rate LGS customers.⁸

The Joint Petition sets retainage rates for Rates RS, SGS and MGS at 7.7% and Rate LGS at 6.8%. It also makes clear that this settlement does not endorse any of the retainage calculation methods employed by any party and each party reserves the right to present alternative retainage calculation methods in future proceedings. Because the

³ OSBA Statement No. 1 at 6.

⁴ *Id.* at 3.

⁵ *Id.* at 5.

⁶ *Id.*

⁷ *Id.* at 4.

⁸ *Id.*

settlement retainage rates are substantially closer to those proposed by Mr. Kalcic than Peoples' filed retainage rates, and since the settlement does not adopt any one retainage calculation method, the OSBA determines that the settlement retainage rates are reasonable and in the best interest of Peoples' Small C&I customers.

B. Extension of Sharing Mechanism (Joint Petition ¶29)

Under Peoples' current revenue sharing mechanism, the margins generated from eligible capacity release transactions, off-system sales, and park/loans are shared between PGC customers and the Company, with customers receiving 75% and Peoples retaining 25%.⁹ Peoples proposed to extend the current sharing mechanism, which is set to expire on September 30, 2013, indefinitely, with the understanding that the extension would not prohibit any party from challenging it in future proceedings.

Mr. Kalcic agreed that the sharing mechanism should be extended, but only for a finite period of time. He recommended that the Commission approve an extension of the current sharing mechanism through September 15, 2015. Because the Joint Petition adopts Mr. Kalcic's recommendation and extends the current sharing mechanism through September 15, 2015, the OSBA determines that it is reasonable and in the best interest of Peoples' Small C&I customers.

C. Judicial Efficiency

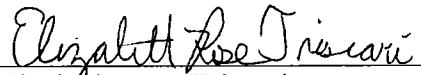
Lastly, settlement of this proceeding avoids the litigation of complex, competing proposals and saves the possibly significant costs of further administrative proceedings. Such costs are borne not only by the Joint Petitioners, but ultimately by the Company's customers as well. Avoiding further litigation of this matter will serve judicial efficiency, and will allow the OSBA to more efficiently employ its resources in other areas.

⁹ OSBA Statement No. 1 at 6 *citing* Peoples Statement No. 4 at 17.

IV. CONCLUSION

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Watson, ALJ Johnson, and the Commission approve the Joint Petition in its entirety without modification.

Respectfully submitted,


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For:

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Dated: June 26, 2013