

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2013-2355886
Office of Small Business Advocate	:	C-2013-2364669
Office of Consumer Advocate	:	C-2013-2364471
Dawn Spielvogel	:	C-2013-2364680
Charles Glendening	:	C-2013-2369476
Neil Cooper	:	C-2013-2369509
Susan Hilliard	:	C-2013-2370725
Megan Rummel	:	C-2013-2370635
Carol George	:	C-2013-2370736
Kathleen Tack	:	C-2013-2371780
Lawrence Sumansky	:	C-2013-2371794
Amy and John Beiler	:	C-2013-2371818
Gertrude C. Blair	:	C-2013-2372633
Tim Osterling	:	C-2013-2373589
	:	
	:	
v.	:	
	:	
Peoples TWP LLC	:	
	:	

**STATEMENT OF PEOPLES TWP LLC IN SUPPORT
OF THE JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGE KATRINA L. DUNDERDALE:

I. INTRODUCTION

Peoples TWP LLC (“PTWP” or the “Company”) submits this Statement in Support of the Joint Petition for Settlement (“Settlement”) in the above-captioned proceedings. The Settlement is supported by PTWP, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) (hereinafter, collectively referred to as the “Joint Petitioners”). For reasons explained herein, PTWP believes the

Settlement achieved by Joint Petitioners is in the best interest of PTWP and its customers, and therefore is in the public interest. PTWP respectfully requests that Administrative Law Judge Katrina L. Dunderdale (the “ALJ”) recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all issues raised by the Joint Petitioners in this proceeding. The settled issues include revenue requirement, revenue allocation, rate design, universal service and identity protection issues, and other matters. The Settlement was achieved only after a comprehensive investigation of PTWP’s claims and operations. Such investigation included responses to over 460 formal discovery requests (many of which had multiple subparts) as well as informal discovery. The Joint Petitioners filed multiple rounds of testimony and associated exhibits including the Company’s direct, rebuttal and surrebuttal testimony, and other parties’ direct, rebuttal and surrebuttal testimony. In addition, the Joint Petitioners undertook numerous discussions and negotiations over a period of weeks, which ultimately produced the Settlement.

It is to be further emphasized that the Joint Petitioners, through their counsel and experts, have considerable experience in rate proceedings. I&E, OCA and OSBA are all tasked with representing the public interest. This responsibility, combined with their and the Company’s knowledge, experience and ability to evaluate the strengths and weaknesses of their respective litigation positions, provided a strong base upon which to build a consensus resulting in this Settlement.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners to this proceeding. As such, it is important to assess the Settlement as a whole, as well as through consideration of its individual components. For these reasons, and the reasons

set forth below, the Settlement is just and reasonable, in the public interest, and should be approved.

II. SPECIFIC SETTLEMENT TERMS

A. REVENUE REQUIREMENT

The Settlement provides for base rates to be designed to produce an increase in base rate revenue of \$13.8 million, exclusive of the \$2 million annual credit (“Acquisition Credit”) to be provided pursuant to the terms of the 2011 settlement by which the former T.W. Phillips Gas and Oil Co. (now PTWP) was acquired by a subsidiary of SteelRiver Infrastructure Fund North America LP (“Acquisition Settlement”) (Settlement ¶ 19).¹ The effect of the Acquisition Credit will be explained later in this Statement in Support. The \$13.8 million increase is approximately 74% of PTWP’s original request of \$18.66 million (PTWP Exhibit LWP-2, p. 13). Inclusive of the Acquisition Credit, the net \$11.8 million increase is approximately 71% of PTWP’s original request, net of the Acquisition Credit, of \$16.6 million. The \$13.8 million increase (exclusive of the Acquisition Credit) will enable the Company to continue to provide safe and reliable service to customers.

The amount of the Settlement increase is greater than the increases agreed to in recent base rate increases for PTWP. For example, the settlement of PTWP’s prior rate proceeding provided for an increase in revenues of \$8.5 million (*PA PUC v. T.W. Phillips Gas and Oil Co.*, Docket No. R-2010-2167797, Order entered November 4, 2010).² However, there are several reasons why this Settlement increase is greater.

¹ *Joint Application for Authority and Necessary Certificates of Public Convenience to Transfer All of the Issued and Outstanding Shares of Capital Stock of T.W. Phillips Gas and Oil Co.*, Docket No. A-2010-2210326, Order entered May 23, 2011.

² That increase was approximately 67% of the Company’s claim in that case.

First, the revenue deficiency in this proceeding is higher because PTWP is using the fully projected future test year authorized by Act 11 of 2012 (“Act 11”) (PTWP St. 7, p. 3). Under Act 11, rates may be determined by a fully projected future test year, which is the 12 month period beginning with the first month after the full statutory suspension period. 66 Pa. C.S. § 315. That is, this rate case includes the revenue requirement associated with the capital invested prior to the rate effective date as well as the capital invested during the fully projected future test year ending January 31, 2015, whereas prior rate cases included only the capital invested prior to the rate effective date.

Second, as detailed by PTWP witness Becker, the Company requires additional revenues resulting from the significant increase in capital investments made to replace and improve its pipeline infrastructure (PTWP St. 1, pp. 4-10). PTWP’s pipeline infrastructure capital budget is driven by its Smart Modernization Plan. The Smart Modernization Plan is a comprehensive infrastructure replacement program, which targets the replacement of bare steel pipes and associated services and has a goal of completing that replacement within 20 years (PTWP St. 2, p. 4). The goal of the Smart Modernization Plan is fully consistent with the accelerated pipeline replacement programs encouraged by the Commission and General Assembly and embodied in the Company’s Long Term Infrastructure Investment Plan (“LTIIIP”) (PTWP St. 2, pp. 8-9). Such improvements are clearly in the public interest.

During calendar year 2012, PTWP invested \$12.2 million in plant (PTWP St. 1, p. 12). During the twelve months ending December 31, 2013, PTWP has budgeted \$17.0 million for replacement of mains, service and meters (PTWP St. 2, p. 9). In addition, for the thirteen months ending January 31, 2015, the Company projects to spend an additional \$9.94 million to replace mains, services and meters (PTWP St. 2, p. 10).

In addition to substantial capital investments focused on system improvements, the Company also is undertaking other activities associated with pipeline safety and compliance, which have increased operating and maintenance costs and contribute to the level of revenue increase. For example, PTWP has added employee resources to undertake damage prevention and improve line location capabilities. These efforts include line mapping, use of damage prevention software and enhanced public awareness targeting education of excavators and emergency responders (PTWP St. 2, pp. 10-11). The Company has also implemented new programs to enhance corrosion monitoring (PTWP St. 2, pp. 11-12). All of these safety initiatives provide definitive public benefits.

In this proceeding, PTWP, I&E, OCA and OSBA presented testimony on PTWP's overall revenue requirement and related issues. The Settlement revenue increase of \$13.8 million, prior to application of the \$2 million Acquisition Credit, reflects a reasonable compromise of Joint Petitioners' positions in this proceeding. The amount of the increase falls within the range of outcomes bounded by Peoples TWP's proposed increase and the revenue requirements contained in the direct testimonies of I&E and OCA. While supporting their respective positions for litigation purposes, the Joint Petitioners recognize that the Commission likely would accept some adjustments but not others.

It is important to note that under the Settlement, with only a few select exceptions further explained below, the Settlement revenue requirement is a "black box" amount. Under a "black box" settlement, parties do not specify adjustments that are allowed or disallowed. "Black box" settlements facilitate agreements as parties are not required to agree on all, or in many cases, any specific ratemaking adjustments. A "black box" settlement may lead parties to agree on an overall revenue requirement, without, for example, agreeing to a specific return on equity or

identifying specific revenues and/or expenses that are allowed or disallowed. *See, Statement of Commissioner Robert F. Powelson, Pennsylvania Public Utility Commission v. Wellsboro Electric Company*, Docket No. R-2010-2172662 (January 13, 2011); *Statement of Commissioner Robert F. Powelson, Pennsylvania Public Utility Commission v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2010-2172665 (January 13, 2011).

Viewed in the context of the entire Settlement, PTWP believes that the revenue requirement is reasonable and will provide the Company with the additional revenues necessary to provide reliable services to customers. As such, the Settlement appropriately balances the need for the Company to have an opportunity to earn a reasonable rate of return with its customers' need for reasonable rates.

1. Acquisition Credit

Paragraph 27 of the Acquisition Settlement provides as follows:

Peoples TWP will provide a rate credit in a future rate case under the following terms and conditions:

(a) If the effective date of the first general base rate case increase following the closing is within five years of the Closing Date, Peoples TWP will provide base rate credits to customers in the total amount of \$10 million.

(b) If the effective date of the first general base rate case following the closing is more than five years and less than 10 years after the Closing Date, Peoples TWP will provide base rate credits to customers in the total amount of \$5 million.

(c) Any base rate credit provided for in subparagraphs 27(a) or 27(b) shall be used to reduce the rates determined in the general rate proceeding and will be allocated to the classes in proportion to the revenues approved in the rate proceeding. Base rate credits shall not be applied to reduce the bills of customers that receive contract rates.

(d) Any base rate credit will be designed to provide the amounts allocated to each class over not less than a three-year period but

not more than a five-year period and will terminate upon exhaustion of the amounts allocated to each class.

(TWP St. 13, p. 36).

This is the first base rate proceeding for PTWP since the Acquisition Settlement. Thus, in accordance with the provisions of Paragraph 27(a) and (d) quoted above, PTWP proposed in this case to provide a \$2 million Acquisition Credit over a five-year period. No party opposed the flowback of the credit over five years (Settlement ¶ 20). Such provision is reasonable and should be approved. The allocation of the credit among the rate classes is explained in the Revenue Allocation and Rate Design section of this Statement in Support.

2. Sales Volumes

One of the issues in this proceeding concerned the Company's projection of sales volumes in the fully projected future test year. I&E proposed higher levels of sales than the Company proposed (I&E St. 3, pp. 19-40). The Company responded to the I&E proposal, demonstrating numerous flaws in I&E's calculations (PTWP St. 10-R; PTWP Ex. DMF-7 through DMF-12).

For purposes of Settlement, there is no determination as to the propriety of I&E's adjustments. However, as a compromise, the Settlement provides that rates will be designed on residential sales volumes of 4,770,000 Mcf (Settlement ¶ 21). This represents an increase of 88,273 Mcf over the Company's claimed volumes of 4,681,727 Mcf (PTWP Ex. DMF-2 Revised, p. 2). The Settlement further provides for Rate SGS rates to be designed based upon volumes of 819,549 Mcf, which is in excess of the Company's claimed volumes of 781,142 Mcf (PTWP Ex. DMF-2 Revised, p. 3). These increases in volume for rate design purposes reduce the resulting rates per Mcf for recovery of the Settlement revenues. This compromise is in customers' interests and should be approved.

3. Post – Retirement and Post – Employment Benefits

Beginning with the effective date of rates arising from the Company's 2005 base rate proceeding at Docket No. R-00051178, the Company has reflected as an expense an amount calculated pursuant to the accrual for Post-Retirement Benefits Other than Pensions ("PBOP") under FASB ASC 715 (formerly FAS 106) (PTWP St. 11, p. 27). The Company also has deposited into a dedicated trust the annual actuarially-determined amounts, and PBOPs are paid out of the trust. Pursuant to the prior settlement, the Company defers the difference, positive or negative, between the ratemaking allowance and the annual PBOP accruals, and the deferred balance is reflected as a debit or credit to PBOP expense in subsequent rate cases. PTWP proposed to continue that process in this proceeding, and no party opposed such approach (PTWP St. 11, pp. 26-27). The Settlement reflects the Joint Petitioners' agreement on this continued process (Settlement ¶¶ 22 and 23). The procedure assures that customers pay only the actual cost of PBOPs, and assures that a trust is maintained for accrued amounts. Such procedure is in accordance with the Commission's Statement of Policy concerning Implementation of FAS 106, 52 Pa. Code § 69.351, is in the public interest and should be approved.

PTWP also has requested that it be permitted to establish a regulatory asset for the difference between the accrual amount of certain other post-employment benefits, specifically life insurance and workers compensation costs, included in injuries and damages expenses, and the "pay as you go" amount. The Company calculates this expense for ratemaking purposes on a "pay as you go" basis, rather than the ASC 715 accrual amount. The effect is a timing mismatch between ratemaking expense and the Company's financial books of account. Under the Company's proposal, which was unopposed by any party, the Company will continue to use the "pay as you go" method for calculating these expenses for ratemaking purposes, but will

maintain a deferred account on its financial books to eliminate the timing mismatch (Settlement ¶ 24).

B. REVENUE ALLOCATION AND RATE DESIGN

1. Rate Class Restructuring And Improved Customer Choice And Transportation Programs

Before proceeding to an explanation of the Settlement allocations of the \$13.8 million base rate increase and the \$2 million Acquisition Credit, it is useful to explain the important restructuring of rate classes and improved Customer Choice and Transportation Programs that are to be adopted pursuant to the Settlement.

As part of its initial rate filing, PTWP proposed to establish new volumes-based rate schedules for its commercial and industrial customers (PTWP St. 13, pp. 5-7). The Company's current tariff reflects 10 rate classes: Residential (RS), Residential Universal Service (RUS), General Service Small (GSS), General Service Large (GSL), Large General Service (LGS), Special Large General Service (SLGS), Electric Power Generation Service (EPGS), Cogeneration Gas Service (CGS), Wholesale Service (WS) and Field Transportation Service (FTS). The Company proposed to simplify its tariff and associated rate classes by moving from ten classes to six classes. The proposed general service rate classes will consist of: Residential (RS), Residential Universal Service (RUS), Small General Service (SGS) (less than 1,000 Mcf/yr.); Medium General Service (MGS) (1,000 Mcf/Yr. to 24,999 Mcf/Yr.); Large General Service (LGS) (greater than 25,000 Mcf/Yr.) and Field Transportation Service (FTS). The Company currently has no EPGS or CGS customers, and these rate schedules are being eliminated. The customers in the SLGS class will be consolidated into the LGS class (PTWP St. 13, p. 6). No party opposed the rate class realignment (Settlement ¶ 26). OSBA witness Knecht observed that the new class categories are defined reasonably, and reflect a vast improvement

over the existing rate class nomenclature in the current tariff (OSBA St. 1, p. 5), and I&E witness Hubert indicated that the proposal will be simpler and fairer because these will be fewer rate classes and customers will be grouped together based on usage (I&E St. 3, p. 46).

The changes to PTWP's Customer Choice and Natural Gas Transportation Services arose as a result of the Acquisition Settlement. As explained by PTWP witness Jon Skoog, pursuant to Paragraphs 60 and 61 of the Acquisition Settlement, PTWP committed to undertake a collaborative with interested parties to develop a strategy to promote retail natural gas supply competition, and to develop rules and practices that are consistent with its affiliate Peoples Natural Gas Company LLC's ("Peoples") Choice program rules.³ (PTWP St. 4, pp. 5-6). The resulting collaborative process, which included the participation of 15 marketers and the OCA, provided important feedback into the design of revised Choice and transportation policies, and resulted in a proposal that was modeled after the very successful Peoples' program (PTWP St. 4, p. 7). The details of the revised policies are set forth at pages 8-14 of PTWP St. 4. Associated with the improvements to PTWP's Choice program, the Company proposed to enhance its currently-dormant Purchase of Receivables ("POR") program by eliminating the administrative adder of 0.81% contained in the current POR tariff rules (PTWP St. 13, p. 25).⁴ No party opposed the revised Choice and transportation rules, and the Settlement provides for adoption of the rules (Settlement ¶¶ 27 and 28). These revised rules provide a substantial public benefit, as

³ "60. [PTWP] will convene a collaborative conference with interested parties, including OCA, OTS, OSBA and interested natural gas suppliers and customers, within 12 months of closing in order to develop a strategy to promote retail natural gas supply competition.

61. [PTWP] will review policies of Peoples with regard to "Customer Choice" and meet with Peoples to develop procedures to assist in the creation of a small customer transportation "Choice" program on [PTWP's] system. [PTWP] will develop rules and practices that are, to the extent permissible by operation of its system, consistent with those of Peoples to encourage participation in the "Choice" programs by marketers on both systems." Acquisition Settlement, ¶¶ 60, 61.

⁴ The Company currently has no marketers on its system who offer Choice service to residential or small general service customers, and therefore does not presently purchase receivables (PTWP St. 4, p. 13).

marketers on Peoples' system will be encouraged to extend their offerings to customers on PTWP's system.

2. Customer Class Revenue Allocation

An important aspect of the Settlement is that the parties were able to agree upon an allocation of the revenue increase among the customer classes. Often, revenue allocation can be among the most contentious issues in a case. In this case, the various parties proposed revenue requirement allocations that were based on the results of different cost of service studies. Despite the fact that the Joint Petitioners were not able to agree on a specific class "cost of service" methodology in the Settlement, they were able to agree to a revenue allocation that is within the range of the various allocations proposed by the Joint Petitioners in this proceeding, and PTWP believes that the Settlement revenue allocation meets the "cost of service" standards adopted by the Commission and the courts. The chart below shows the revenue allocations proposed by PTWP, OCA and OSBA in their direct cases, the percentage increase to each class and the percentage increase under the Settlement, based upon an acceptance of the LGS class discounting presented by the Company.⁵

⁵ The Company discounts rates to most of its LGS customers due to the threat of interstate bypass. The Settlement contains provisions regarding the Company's agreement to establish more formal documentation of the need for, and level of, discounts provided to competitive customers. An explanation of that provision is provided in Section III.E.1 of this Statement in Support.

	PTWP		OCA		OSBA		Settlement	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
RS	\$16,585	88.9%	\$15,055	80.7%	\$17,408	94.9%	\$12,162	88.1%
SGS	1,582	8.4%	1,582	8.4%	614	3.3%	607	4.4%
MGS	—	0.0%	1,530	8.2%	128	0.7%	553	4.0%
LGS	498	2.7%	498	2.7%	199	1.1%	479	3.5%
	\$18,665	100%	\$18,665	100%	\$18,349 ⁶	100%	\$13,800	

(PTWP St. 13-R, p. 6).⁷

As can be seen from the foregoing, the Joint Petitioners have agreed to a revenue allocation that is a compromise of their respective litigation positions. The RS class allocation percentage is slightly less than the Company's proposal, and falls between the OCA and OSBA positions. In addition, consistent with I&E's position, the large majority of the scaleback from \$18.665 million to \$13.800 million is provided to the residential class (I&E St. 3, pp. 69-70). Similarly, the SGS class allocation percentage under the Settlement lies between the allocation percentages proposed by the Company, OCA, and OSBA. The MGS class allocation percentage under the Settlement is between the Company's original proposal for no increase to the MGS class and OCA's proposal that the class receive approximately 8% of the proposed increase. Finally, the Settlement provides for no scaleback to the LGS class from the Company's proposal (Settlement ¶ 32). The difference in revenues relates principally to the Company's loss of a competitively situated LGS customer during the pendency of the proceeding (PTWP St. 13-R, p. 19). It is reasonable that no scaleback be applied to the LGS class. As explained by the

⁶ The OSBA summarized revenue allocation excludes FTS revenue, forfeited discounts and net pooling fee revenues from the LGS class for presentation purposes.

⁷ I&E did not propose a different revenue allocation at the full increase, but did propose that any scaleback be shared between the Residential and SGS classes (I&E St. 3, pp. 69-72).

Company, the LGS class contains highly competitive customers with interstate supply and local gas alternatives, which limit the Company's ability to obtain any greater increase in revenues from the class (PTWP St. 13-R, p. 8). However, it is appropriate to obtain the most revenue possible from the class, and as such no scaleback for the LGS class is proposed in the Settlement.

Because of the disagreement over cost allocation studies and the "black box" nature of the Settlement, it is not possible to precisely calculate the extent to which the Settlement moves rates closer to cost of service for all Joint Petitioners. However, given the relative revenue allocations of the parties and the resulting allocation compromise, PTWP believes the Settlement achieves progress in aligning rates toward cost of service, within the constraints of the interstate bypass alternatives available to the LGS class.

3. Rate Design - Customer Charges

The Settlement also reflects a compromise of various parties' rate design proposals for customer charges (Settlement ¶ 30). The Settlement provides for an increase in the residential customer charge from \$12.75 per month to \$15.75 per month. In the proceeding, the parties set forth different calculations of customer costs based upon their respective preferred cost of service calculations and other considerations such as gradualism and the effect upon low use and low income customers. PTWP proposed a residential customer charge of \$20.00 per month, based upon calculated residential customer costs of \$24.59 per month (PTWP St. 13-R, p. 13). I&E proposed a residential customer charge of \$16.60 per month based upon its calculation of residential customer costs of \$16.59 per month (I&E St. 3-SR, p. 28). OCA proposed a residential customer charge of \$15.50 per month, based upon calculated customer costs of \$19.00/month (OCA St. 3, p. 33). The Settlement increase to the residential customer charge is a reasonable compromise of the parties' positions, and is less than any of the customer cost calculations presented. The resulting percentage increase to the residential charge also is less

than the percentage increase to the residential delivery rate, which will result in a lower than average percentage increase to low use residential customers compared to the residential class as a whole.

The customer charges contained in the Settlement for SGS and MGS customers also reflect a compromise of parties' positions. The customer charge of \$35 per month for SGS-I customers (customers with annual usage under 500 Mcf) under the Settlement is below the Company's as-filed proposal of \$40 per month and equal to the OSBA's revised customer charge for those customers (OSBA St. 1-SR, p. 25). The customer charge for SGS-II customers (annual usage 500 Mcf and above but below 1,000 Mcf) pursuant to the Settlement is \$65 per month. This is below the Company's proposal of \$70 per month, but above the amount of \$55 per month set forth in OSBA's surrebuttal testimony (OSBA St. 1-SR, p. 25). Under the Settlement, the MGS-1 customer charge is \$75 per month, and the MGS-II customer charge is \$175 per month. These are below the Company's proposals of \$80 per month and \$200 per month, respectively, and above the OSBA's proposals of \$70 per month and \$150 per month, respectively (PTWP St. 13, p. 15; OSBA St. 1-SR, p. 26).

Finally, consistent with the revenue allocation agreement to not scaleback the LGS class increase, the Company's proposed customer charges for the LGS class under the Settlement remain as filed (Settlement ¶ 30).

The various customer charges reflect a compromise of parties' proposals, are reasonable and are in the public interest.

4. Merchant Function Charge ("MFC") and Gas Procurement Charge ("GPC")

The Commission's regulations at 52 Pa. Code § 62.223 direct Natural Gas Distribution Companies ("NGDC") to unbundle uncollectibles associated with natural gas costs from base

rates and recover such costs through a MFC. The regulations also provide for unbundling of natural gas procurement costs from base rates and recovery of such costs through a GPC.

The Settlement complies with these requirements. Under the Settlement, the MFC for residential retail customers is 2%, and the MFC for SGS retail customers is 0.41%. These are the uncollectible accounts percentages claimed by the Company in the case, which were not opposed by any party (PTWP St. 13, p. 29) (Settlement ¶ 25).

In addition, the Settlement provides for a GPC of \$0.14 per Mcf applicable to all sales service customers. The GPC rate is a compromise of respective parties' positions in the case and includes the various cost components required under the Commission's regulations, with recognition that the Settlement provides for a lesser increase than the Company's original request.

5. Acquisition Credit Allocation

Under the Settlement, the Joint Petitioners have agreed to the allocation of the Acquisition Credit among customer classes (Settlement ¶ 33). That allocation is as follows:

	<u>Credit</u>
Residential	\$1,727,876
SGS	176,952
MGS	95,172
LGS	<u>0</u>
	\$2,000,000

The Acquisition Credit is applied to customer charges and delivery rates, as shown in Appendix "A" to the Settlement. The resulting rate credits are as follows:

	<u>Customer Charge Credit</u>	<u>Delivery Rate Credit</u>
Residential	(\$0.6944)	(\$0.2731)
SGS	(\$0.8243)	(\$0.1745)
MGS	(\$2.1273)	(\$0.1117)

The LGS class will receive no share of the Acquisition Credit, as this class is primarily comprised of flex rate customers who are not entitled to receipt of the Acquisition Credit.

The allocation of the Acquisition Credit is consistent with the provisions of Paragraph 27(c) of the Acquisition Settlement, and should be accepted.

6. Rate NGPV

In its filing, PTWP proposed the addition of new Rate NGPV – Natural Gas Powered Vehicles (PTWP St. 13, pp. 41-42). The rate is to apply to the use of natural gas (retail or transportation service) as a motor vehicle fuel by an operator of a public fueling station. The rate schedule is modeled after a similar rate offered by PTWP’s affiliate, Peoples (PTWP St. 13, p. 41). The Company proposed the rate to prepare for the potential that new public natural gas fueling stations would seek to be constructed in the Company’s service territory as a result of the prevalence of Marcellus gas in western Pennsylvania (PTWP St. 13, p. 41). The rate would allow for a negotiated customer charge and either a fixed commodity charge or a methodology to determine the commodity charge. The negotiated rate provisions will enable the Company to offer a rate that would justify the upfront costs of conversion from gasoline to natural gas (PTWP St. 13-R, p. 30). No customers currently qualify for service under the proposed schedule.

The OCA’s litigation position was that any discounting of revenues would have to be retained within the NGPV class, and there would have to be a separate accounting of costs for the class (OCA St. 3, pp. 38-39). However, as the Company explained in rebuttal, at least initially and for some years into the future, the discounting needed to “jump start” this promising

new service would likely result in NGPV class revenues below costs. The OCA's conditions would make the rate uneconomic for the Company to offer (PTWP St. 13-R, p. 32).

The Company proposed a compromise that would place NGPV customers into the Rate SGS or MGS class, as applicable based upon volumetric usage of the individual customer (PTWP St. 13-R, p. 32). If service under the rate schedule ultimately expands to a significant level, the Company will consider segregating NGPV customers into a separate class for cost allocation and rate design purposes. In future rate cases, the impact of any discounting will be addressed. At that time, the Company and parties can present arguments regarding the treatment of discounting based upon an analysis of the results of cost of service studies and rate design impacts. Parties may also present public policy arguments supporting the appropriate recovery of discounting, such as societal benefits from encouraging natural gas as a vehicle fuel (PTWP St. 13-R, p. 31). The Settlement adopts this compromise (Settlement ¶ 31).

The compromise is reasonable and in the public interest. The proposal allows the Company to offer a NGPV rate now to encourage construction of new natural gas fueling stations. It recognizes that issues concerning revenue allocation and rate design should await future proceedings, when facts and circumstances involving service to actual customers would be known. It also recognizes that, at least initially, service under the schedule is anticipated to be very limited, which would not justify the creation of a separate customer class for cost of service purposes.

7. Rate FTS

The Company notes that the Settlement rates relative to Rate FTS have increased slightly from the Company's filed amount of \$0.4701/Mcf to \$0.4771 Mcf. Rate FTS allows producers to deliver gas into the Company's transmission system for redelivery to another local distribution company or interstate pipeline. Service under Rate FTS is interruptible. To develop the

interruptible rate, the Company divides transmission mains cost by total throughput (PTWP St. 13, p. 23). Because the Settlement provides for a change in total system throughput, the rate for service was revised.

8. Other Tariff Changes

A variety of other changes were made to the Company's tariff, to correct terminology and to be consistent with the major tariff restructuring resulting from creation of new rate classes and new Choice and transportation rates. The list of changes is set forth in PTWP Ex. APW-10, and the revised tariff is set forth as Appendix "B" to the Settlement. No party challenged these other tariff changes, and they are adopted by the Settlement (Settlement ¶ 29).

C. UNIVERSAL SERVICE AND CONSERVATION

1. Customer Assistance Program

The Company proposed a variety of changes to its existing customer assistance program. These changes were developed following a best practices review of PTWP's and Peoples' customer assistance programs (PTWP St. 5, p. 4). OCA generally endorsed the program changes, but proposed certain modifications and clarifications (OCA St. 4, pp. 13-20). The Settlement sets forth the Joint Petitioners' agreement as to changes to PTWP's customer assistance program.

Under the Settlement, PTWP will rename its existing Energy Help Fund ("EHF") to the Customer Assistance Program ("CAP") (Settlement ¶ 34(a)). The Settlement also adopts, and clarifies, the Company's proposal to forgive preprogram arrearages over a 36 month period. Arrearage forgiveness is applied when CAP customers make their full monthly CAP payment (PTWP St. 5-R, p. 8). OCA witness Colton requested clarification regarding the manner in which PTWP applies arrearage forgiveness credits to CAP customers, to ensure that CAP customers receive arrearage forgiveness when full monthly payments are made, even if a

payment is received late (OCA St. 4, pp. 15-16). The Company explained in rebuttal that a CAP customer will receive the full amount of their arrearage forgiveness benefits when a CAP customer brings their CAP payment plan up-to-date (PTWP St. 5-R, pp. 8-9). The Settlement adopts PTWP's proposal to revise its arrearage forgiveness credit so that CAP customer arrearage forgiveness credits will be set to equal 1/36 of each CAP customer's pre-program arrearage (Settlement ¶ 34(b)), and provides that the Company will grant arrearage forgiveness for each full month equivalent bill payment received by the customer once the account is current (Settlement Appendix B, p. 77). In addition, the Settlement adopts OCA's proposal that delinquent CAP customers will not be removed from CAP, but will remain in CAP, where they will be subject to active collection and termination (Settlement ¶ 34(d)). Finally, the Settlement provides that CAP customers will not be subject to late payment penalties (Settlement ¶ 34(e)).

In addition, the Settlement adopts PTWP's proposed modifications to its current CAP recertification requirement that customers recertify their incomes every three years (PTWP St. 5, p. 6). Recertification is a process in which the Company reviews a customer's income information to determine if the customer remains eligible for CAP and if the customer's current percentage of income payment amount is still appropriate. (*Id.*) Under the Settlement, CAP customers that receive Low Income Home Energy Assistance Program benefits or are on a fixed income, including social security, pension or disability, will now be required to recertify their income every two years, while all other CAP customers will be required to recertify their income annually (Settlement ¶ 34(c)). Further, the Settlement provides that PTWP will contract with Dollar Energy Fund ("DEF") to perform recertifications, which are currently conducted in-house. (*Id.*) DEF currently supports this process for Peoples and will enable the single PTWP employee that currently performs PTWP's recertifications to assume responsibility over the

Company's new Emergency Furnace and Line Repair Program that will be implemented upon approval of the Settlement (PTWP St. 5-R, p. 6; Settlement ¶ 36). The DEF recertification costs are external administrative costs of CAP, and as such will be recovered through the Company's Rider USP (Settlement Appendix B, p. 95).

These provisions will improve the operation of the Company's CAP and are in the public interest.

2. Low-Income Usage Reduction Program ("LIURP")

The Joint Petitioners have agreed to an increase in annual LIURP funding from \$230,000 to \$255,000, with costs recovered through the Company's Rider Universal Service Program ("Rider USP") (Settlement ¶ 35). In addition, the Settlement reflects an adoption of the Company's proposal that up to 20% of the Company's LIURP budget may be used to assist customers whose income is within 150%-200% of the Federal Poverty Level (Settlement ¶ 35). This provision prioritizes CAP customer participation in the Company's LIURP but also recognizes the importance of the benefits to be realized by low-income customers that are not CAP customers (OCA St. 4, pp. 24-27).

3. Emergency Furnace and Line Repair Program

In this proceeding, PTWP proposed to implement an Emergency Furnace and Line Repair program to assist low-income customers that experience an unexpected service line or furnace failure (PTWP St. 5, p. 11). The Settlement adopts the Company's proposal to implement this important program (Settlement ¶ 36).

4. Residential Customer Personally Identifiable Information ("PII")

In this proceeding, OCA witness Colton recommended that the Company "refresh" its Identity Theft Program (OCA St. 4, p. 34). The Settlement provides that the Company will

“refresh” its Identify Theft Program consistent with applicable state and federal law, and will provide a copy to interested parties within six months after the conclusion of these proceedings (Settlement ¶ 37). This Settlement term is consistent with the Company’s rebuttal testimony in this proceeding. As addressed by PTWP witness Kroeck, although the Company believes its vendors understand and take appropriate steps to maintain privacy of customer PII, the Company will seek to amend agreements with existing vendors who have access to customer PII and that those vendors shall be required to provide reasonable privacy protections for customer PII (PTWP St. 5-R, p. 14). To the extent such vendors will not accommodate the Company’s request to amend the existing agreements, the Company would evaluate contracting with new vendors upon the termination of the existing third-party agreement. (*Id.*) In addition, the Company stated that it intends to refresh its Identify Theft Prevention (Red Flags) Program in the fall of 2013. In doing so, the Company will conduct a comprehensive review of its existing Identify Theft Prevention Program, revise the Program as needed, and refresh training for those employees who routinely communicate with customers as well as those that have access to customer PII. (*Id.*)

D. DSIC RELATED PROVISIONS

1. Zeroing Out of DSIC

Section 1358(b)(1) of the Public Utility Code, 66 Pa.C.S. § 1358(b)(1), provides as follows:

The [DSIC] shall be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the [DSIC].

In accordance with the foregoing provisions, PTWP’s DSIC will be reset to 0% as of the effective date of new base rates in this proceeding (Settlement ¶ 38). This reset ensures that

there is no duplication of recovery of plant addition costs in both the DSIC and base rates (PTWP St. 11-R, p. 15).

Specifically, the DSIC will recover costs of actual qualifying plant additions installed prior to the effective date of base rates in this proceeding. The Company's rate base claim in this proceeding includes projected plant additions installed through January 31, 2015. Thus, the Company's rate base claim encompasses plant additions that are, or will be, reflected in the DSIC prior to the date the DSIC is reset to 0%. Recovery of the annual costs (return and depreciation) associated with such plant effectively will be moved from the DSIC into base rates, thereby ensuring there is no double recovery of costs.

2. Reinstitution of DSIC

Section 1358(b)(2) of the Public Utility Code, 66 Pa.C.S. § 1358(b)(2), provides as follows:

After the reset date under paragraph (1), only the fixed costs of new eligible property that have not previously been reflected in the utility's rate base shall be reflected in the quarterly updates of the [DSIC].

Under the foregoing provision, DSIC-eligible plant additions not included in base rates may be reflected in the DSIC calculation. Therefore, for future DSIC purposes, it is necessary to establish relevant plant balances for the Company out of this proceeding. Thus, the Settlement provides that following the effective date of rates in this proceeding, PTWP will be eligible to include plant additions in the DSIC once eligible account balances exceed the levels projected by PTWP at January 31, 2015 (Settlement ¶ 39). The Joint Petitioners agree that this provision is included solely for purposes of calculating the DSIC, and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a fully-projected future test year filing.

E. OTHER PROVISIONS

1. Competitive Discount Customers

In this proceeding, both OSBA and OCA criticized the Company's failure to have, respectively, an "economic analysis" and "quantitative evidence" justifying the discounted rates negotiated with customers who have the ability to by-pass PTWP's system to satisfy their energy requirements (OSBA St. 1, pp. 28-32; OCA St. 3, pp. 35-37). Despite these criticisms, OSBA witness Knecht and OCA witness Mierzwa acknowledged that it is reasonable for a utility to analyze the expected costs of any alternative energy source that provides a customer a bypass opportunity that the customer then uses to negotiate a discounted rate from the utility (OSBA St. 1, p. 28; OCA St. 3, p. 34). Once a customer establishes a possibility of bypassing the Company's system, the Company must properly balance the competing demands of rate maximization against revenue retention (PTWP St. 14-R, p. 5). As addressed by Mr. Nehr, the Company has performed analyses to support the non-NGDC bypass opportunities of customers currently receiving discounted rates. The Company's analysis of each individual customer identifies the alternative energy source that is available, the estimated cost of accessing the alternative energy source, and other information relevant to assessing competitive risk (PTWP St. 14-R, pp. 10-13). PTWP has historically performed such analyses on an ongoing informal basis as its negotiates each customer's contract (PTWP St. 14-R, p. 13).

However, to address the concerns raised by the parties in this proceeding prospectively, the Joint Petitioners have agreed that the Company will establish a more formal documentation of the need for, and level of, discounts offered to customers in competitive situations (Settlement ¶ 40). The documentation will reflect information made available to the Company during negotiations with customers regarding capital and operating costs for bypass or alternative fuels and considered in determining whether to negotiate a discounted rates. In addition, the

Company's documentation will reflect the iterative process of negotiating with customers by identifying offers made in negotiations, risks and lost potential revenues if a customer decides to install and use alternative facilities in whole or in part. (*Id.*)

This Settlement represents a compromise of the Parties' positions and should be approved as it is in the public interest.

2. Reporting Provisions

As noted above, this is the first case filed by PTWP using the fully projected future test year provisions of Act 11. I&E contended that PTWP should be required to provide reports on its futures expenditures, to allow the Commission to compare projected to actual investments (I&E St. 3, pp. 10-11). Under the terms of the Settlement, on or before May 1, 2014, PTWP will provide the Commission's Bureau of Technical Utility Services ("TUS"), I&E, OCA and OSBA an update to PTWP Exhibit AC-2, which will include actual capital expenditures, plant additions, and retirements by month for the twelve months ending January 31, 2014 (Settlement ¶ 41). Further, on or before May 1, 2015, PTWP will update Exhibit AC-2 filed in this proceeding for the twelve months ending January 31, 2015. (*Id.*) Also, as part of the Company's next base rate proceeding, the Company will prepare a comparison of its actual expenses and rate base additions for the twelve months ended January 31, 2015 to its projections in this case. However, it is recognized by the Joint Petitioners that this is a "black box" settlement that is a compromise of Joint Petitioners' positions on various issues.

3. Early Effective Date of Rates

The Joint Petitioners have agreed to endeavor to obtain approval in time for new rates to become effective by January 1, 2014 (Settlement ¶ 42). This early effective date was an important consideration for PTWP in agreeing to the amount of the revenue increase. Such

provision is consistent with provisions of the Acquisition Settlement that PTWP would not increase its base rates prior to January 1, 2014.

F. RESPONSE TO ISSUES RAISED IN PUBLIC INPUT HEARING

During the July 23, 2013 public input hearing for this proceeding, individual customers raised concerns regarding the Company's proposed increase in base rates and other operational issues. As explained below, these concerns have been addressed by either the Settlement, the Company in its rebuttal testimony or both.

At the public input hearing, comments were made by customers that the Company should not have both a DSIC and a base rate increase for infrastructure replacement. As addressed by PTWP witness Lynda Petrichevich, there is no duplication of recovery of these charges (PTWP St. 11-R, p. 15). Further, the Settlement confirms that the DSIC will be reset to 0% effective with the effective date of rates and that the Company will not be eligible to include plant additions in the DSIC until the plant account balances exceed the level projected by PTWP at January 31, 2015 (Settlement ¶¶ 38 and 39). Some customers also questioned whether there will be a process in place to assure that the rate increase is spent on plant investment. As explained by Ms. Petrichevich, Act 11 requires that the Company file quarterly and annual reports identifying plant investment (PTWP St. 11-R, pp. 14-15). Further, under the Settlement, PTWP will provide updates to Commission staff and the Joint Petitioners of its projections in this case relative to capital expenditures, plant additions, and retirements (Settlement ¶ 41).

Customers also raised concerns regarding the Company's budget payment amounts and the impact of the proposed rate increase on low-income customers. PTWP witness Sadie Kroeck explained in her rebuttal testimony that just prior the July 2013 public input hearing, the Company initiated a required automated quarterly budget review process in its current billing system (PTWP St. 5-R, p. 16). Following the July public input hearing, the Company

investigated the concerns raised by its customers by manually reviewing the budget bills for customers. The Company identified a system error in the automated update of budget bills and adjusted customer payment amounts for future bills. (*Id.*) Further, Ms. Kroeck noted that the Company will convert to a new and proven billing system in January 2014 that is currently used by Peoples, and will not employ the automated quarterly process again using the old system.

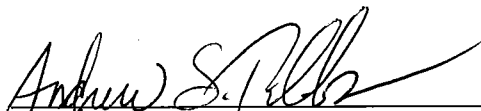
The Settlement also addresses the impact of the Company's rate increase on low-income customers. Specifically, as detailed above in Section II.B.3, the Settlement provides for a lower customer charge for residential customers than that proposed by the Company in its filing (Settlement ¶ 30). In addition, the Settlement increases funding to the Company's LIURP, which will provide additional weatherization assistance to the Company's low-income customers (Settlement ¶ 35).

The Joint Petitioners have thoroughly investigated PTWP's base rate filing and, as modified by the Settlement, have determined that it is just and reasonable and in the public interest.

III. CONCLUSION

The Settlement is the result of a detailed examination of PTWP's proposals, multiple rounds of discovery, direct, rebuttal and surrebuttal testimony, and compromise by all active parties. PTWP believes that fair and reasonable compromises have been achieved on the settled issues in this case, as is evident by the fact that all parties, including PTWP, I&E, OCA, and OSBA have reached an agreement on all issues in this proceeding. PTWP fully supports this Settlement and respectfully requests that the ALJ and the Commission review and approve the Settlement in its entirety without modification.

Respectfully submitted,



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