



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Michael W. Hassell

mhassell@postschell.com
717-612-6029 Direct
717-731-1985 Direct Fax
File #: 153108

December 12, 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: Petition of Peoples Natural Gas Company LLC for Approval of a Distribution System Improvement Charge - Docket No. P-2013-2344596

**Office of Consumer Advocate v. Peoples Natural Gas Company LLC
Docket No. C-2013-2348847**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of Peoples Natural Gas Company LLC is the Partial Stipulation of Certain Issues in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

MWH/jl
Enclosures

cc: Certificate of Service
Honorable Mary D. Long
Honorable Jeffrey Watson

CERTIFICATE OF SERVICE
(Docket Nos. P-2013-2344596 and C-2013-2348847)

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).

VIA E-MAIL AND FIRST CLASS MAIL

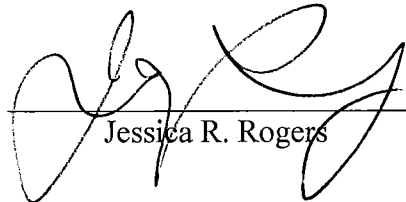
Erin L. Gannon, Esquire
Christy M. Appleby, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Allison C. Kaster, Esquire
Pennsylvania Public Utility Commission
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265

Elizabeth Rose Triscari, Esquire
Office of Small Business Advocate
Commerce Building, Suite 1102
300 N. Second Street
Harrisburg, PA 17101

Kevin J. Moody, Esquire
Vice President and General Counsel
Pennsylvania Independent Oil & Gas
Association
212 Locust Street, Suite 300
Harrisburg PA 17101

Date: December 12, 2013



Jessica R. Rogers

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Peoples Natural Gas Company	:	
LLC for Approval of a Distribution System	:	Docket No. P-2013-2344596
Improvement Charge	:	
Office of Consumer Advocate,	:	
	:	
v.	:	Docket No. C-2013-2348847
	:	
Peoples Natural Gas Company LLC	:	

PROPOSED STIPULATION OF CERTAIN ISSUES

**TO ADMINISTRATIVE LAW JUDGE MARY D. LONG AND ADMINISTRATIVE
LAW JUDGE JEFFREY A. WATSON:**

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples” or “Company”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”),¹ collectively referred to as the “Parties” herein, hereby join in this Proposed Stipulation of Certain Issues (“Partial Settlement”) in the above captioned Distribution System Improvement Charge (“DSIC”) proceedings. The Pennsylvania Independent Oil & Gas Association (“PIOGA”), the only other active party to this proceeding, is not a party to the Partial Settlement but has indicated it does not oppose the Partial Settlement. The Parties respectfully request that Administrative Law

¹ The Commission’s Bureau of Investigation and Enforcement (“I&E”) did not participate in the proceedings.

Judges Mary D. Long and Jeffrey A. Watson (the “ALJs”) and the Pennsylvania Public Utility Commission (“Commission”) approve this Partial Settlement.

II. BACKGROUND

1. Peoples is a natural gas distribution company providing sales, transportation, and supplier of last resort services to more than 360,000 customers in 16 counties in Western and Central Pennsylvania, subject to the regulatory jurisdiction of the Commission. (Peoples Exhibit 2, page 2, ¶ 2).

2. On January 23, 2013, Peoples filed a Petition for Approval of its Long Term Infrastructure Improvement Plan (“LTIIIP Petition”) pursuant to Section 1352 of the Public Utility Code, 66 Pa. C.S. § 1352. On January 31, 2013, pursuant to Section 1353, Peoples filed a Petition for Approval of a Distribution System Improvement Charge (“DSIC Petition”). 66 Pa. C.S. § 1353. With the DSIC Petition, Peoples submitted written direct testimony in support of its DSIC. The two Petitions were docketed at P-2013-2344596.

3. On February 12, 2013, OCA filed Comments on the LTIIIP Petition. On February 19, 2013, PIOGA filed a Petition to Intervene with respect to the DSIC Petition. On February 20, 2013, OCA filed an Answer, Notice of Intervention and Formal Complaint and Public Statement with respect to the DSIC Petition. Also on February 20, 2013, OSBA filed an Answer, Notice of Intervention, Public Statement, and Notice of Appearance with respect to the DSIC Petition.

4. On February 25, 2013, Daniel Killmeyer, an individual customer, filed a complaint.

5. On March 4, 2013, Peoples filed an Answer to the OCA’s Complaint. On March 22, 2013, Peoples filed a letter indicating that it was delaying the filing of its updated DSIC rate

and tariff until the Commission had issued an order in the LTIP and DSIC proceedings. On April 8, 2013, Peoples filed a letter clarifying certain statements made in its LTIP and DSIC Petitions and their supporting documents.

6. On April 29, 2013, United States Steel Corporation (“US Steel”) filed a Petition to Intervene with respect to the DSIC Petition.

7. By Order entered May 23, 2013, the Public Utility Commission (“Commission”) approved Peoples’ LTIP and DSIC (the “May 23 Order”). The DSIC was approved subject to refund, pending final resolution of issues raised in the Parties’ filings and identified in the Commission’s Order. In the May 23 Order, the Commission also denied US Steel’s Petition to Intervene as untimely; US Steel was permitted to file a Petition to Intervene nunc pro tunc at hearings.² The May 23 Order also dismissed the complaint of Mr. Killmeyer.

8. An initial prehearing conference was held on June 21, 2013, before the ALJs. The Parties who participated in the prehearing conference filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule was established at the initial prehearing conference.

9. Peoples served written supplemental direct testimony on July 1, 2013. OCA and OSBA served written direct testimony on August 6, 2013. On September 5, 2013, Peoples served rebuttal testimony. OCA and OSBA served surrebuttal testimony on October 3, 2013. On October 17, 2013, Peoples served rejoinder testimony.

10. The Parties held several settlement discussions over the course of the proceedings. As a result of these discussions and the efforts of the Parties to examine the issues raised in this proceeding, a settlement in principle of all but two issues related to the calculation of the DSIC

² US Steel did not seek to participate further in the proceedings.

charge was achieved prior to the date scheduled for evidentiary hearings. The two reserved issues are common to issues being litigated in pending DSIC proceedings of other utilities.

11. As a result of the settlement in principle, the Parties agreed to waive cross-examination of witnesses, both with respect to the settled issues and the issues reserved for litigation. A hearing was held on November 12, 2013, to admit testimony and exhibits into evidence.

12. The Partial Settlement terms are as follows:

III. SETTLEMENT TERMS

13. The Company agrees to modify the language in its DSIC surcharge tariff related to the application of the DSIC to competitive customers as follows:

All Customer Classes. The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider K to any customers with competitive alternatives who are paying flexed or discounted rates and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

The Parties acknowledge that the DSIC may be waived or reduced if a customer is paying flexed or discounted rates, or has a negotiated contract, because the customer has an economically viable competitive option, even if such option is not physically installed. The Company further acknowledges its intention to apply the DSIC to current competitive customers if contractually eligible, and to negotiate with competitive customers to attempt to include the DSIC in the future, when flexed or negotiated rate contracts come up for renewal.

14. The Company agrees to withdraw at this time its proposal to include in the DSIC information technology hardware and software that support Special Metering Technology (“AMR”). The Company reserves the right to present a future claim to include AMR technology support costs at such time when the Company actually installs AMR support technology. The Company shall clearly identify such claim in a future filing if made. Other Parties reserve their right to oppose such a claim if made.

15. The Parties agree that the Company may include in its DSIC investment in barcoding hardware, software, and reading devices. Investment in barcodes affixed to DSIC-eligible plant also shall be included in the DSIC. Investment in barcodes affixed to plant that is not DSIC-eligible shall not be reflected in the DSIC.

16. Investments in the replacement of customer-owned service lines will be reflected in the Company’s DSIC.

17. The Parties agree that gathering system improvements may be reflected in the Company’s DSIC. Peoples agrees to exclude from the DSIC such investments in gathering system improvements that are placed into service between December 1, 2012 and November 30, 2015, and that are part of the annual \$3.8 million commitment contained in the settlement of Peoples’ 2012 rate case to invest as incremental annual expenditures to reduce lost and unaccounted for gas on Peoples’ gathering facilities or for gathering system upgrades used to deliver local gas to Peoples and its customers (“Gathering Expenditures”).³ Peoples’ agreement in this proceeding shall not be cited as precedent for determining the ratemaking treatment of investments in gathering system improvements in future rate proceedings.

³ The annual commitment to spend \$3.8 million under the 2012 rate case settlement includes operating and maintenance expense, capital improvements that do not qualify as DSIC-eligible property and capital improvements that do meet the statutory definition of DSIC-eligible property. If total incremental Gathering Expenditures exceed \$3.8 million in a year ending November 30, any excess DSIC-eligible plant investment may be included in the DSIC.

IV. ISSUES RESERVED FOR LITIGATION

18. The Parties have reserved for litigation issues regarding the impact of accumulated deferred income taxes (“ADIT”) and the calculation of state income taxes.

19. These issues reserved for litigation will be fully briefed by the interested Parties.

V. CONDITIONS OF PARTIAL SETTLEMENT

20. The Partial Settlement is conditioned upon the Commission’s approval of the terms and conditions contained in this Partial Settlement without modification. If the Commission modifies the Partial Settlement, any Party may elect to withdraw from the Partial Settlement and may proceed with litigation as to the settled issues, and, in such event, this Partial Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an Order modifying the Partial Settlement.

21. This Partial Settlement is proposed by the Parties to settle all but two issues in the instant proceeding, which will be fully briefed. If the Commission does not approve the Partial Settlement and the proceedings continue with respect to the non-litigated issues, the Parties reserve their respective procedural rights to cross-examination and briefing, and to argue their respective positions. The Partial 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.

22. This Partial Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Partial Settlement.

23. This Partial Settlement is being presented only in the context of this proceeding in an effort to resolve certain issues in the proceeding in a manner which is fair and reasonable.

The Partial Settlement is the product of compromise. This Partial Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Partial Settlement.

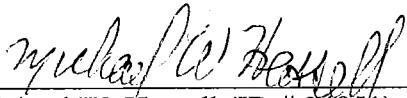
24. Attached as Appendices A through C are Statements of Support submitted by Peoples, OCA, and OSBA, which set forth the bases upon which they believe the Partial Settlement is in the public interest. Appendix D is PIOGA's letter of non-opposition to the Partial Settlement.

25. If the ALJs adopt the Partial Settlement without modification, the Parties waive their rights to file Exceptions with respect to such adoption; provided, however, that the Parties do not waive rights to file Briefs, Reply Briefs, Exceptions, and Reply Exceptions with respect to the issues reserved for litigation.

VI. CONCLUSION

WHEREFORE, the Parties, by their respective counsel, respectfully request that the Honorable Administrative Law Judge Mary D. Long and the Honorable Administrative Law Judge Jeffrey A. Watson and the Commission approve this Proposed Stipulation of Certain Issues including all terms and conditions thereof and that the Commission enter an Order consistent with this Partial Settlement and which incorporates the Commission's determination regarding the impact of ADIT and calculation of state income taxes.

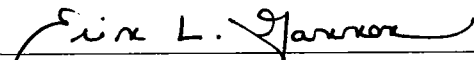
Respectfully submitted,



Michael W. Hassell (ID # 34851)
Jessica R. Rogers (ID # 309842)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
For Peoples Natural Gas Company LLC

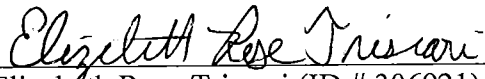
Date: 12/11/2013

William H. Roberts (ID # 54724)
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212



Erin L. Gannon (ID # 83487)
Christy M. Appleby (ID # 85824)
Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17101-1923
For Office of Consumer Advocate

Date: 12/11/2013



Elizabeth Rose Triscari (ID # 306921)
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
For Office of Small Business Advocate

Date: 12/12/2013

Appendix A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Peoples Natural Gas Company LLC	:	
for Approval of a Distribution System	:	P-2013-2344596
Improvement Charge	:	
Office of Consumer Advocate	:	
	:	
v.	:	C-2013-2348847
	:	
Peoples Natural Gas Company LLC	:	

**STATEMENT OF PEOPLES NATURAL GAS COMPANY LLC
IN SUPPORT OF PROPOSED STIPULATION OF CERTAIN ISSUES**

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples” or the “Company”) hereby submits this Statement in Support of the Proposed Stipulation of Certain Issues (“Partial Settlement”) entered into by Peoples, the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”), collectively the “Joint Petitioners.” The Pennsylvania Independent Oil & Gas Association, an intervenor in the proceeding, does not oppose the Partial Settlement. Peoples respectfully requests that Administrative Law Judges Mary D. Long and Jeffrey A. Watson (the “ALJs”) recommend approval of, and the Pennsylvania Public Utility Commission (“Commission”) approve, the Partial Settlement, including the terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all but two issues regarding Peoples Distribution System Improvement Charge (“DSIC”) raised in the proceeding. Specifically, the Partial Settlement resolves issues concerning the application of the DSIC to competitive customers, the use of the DSIC to recover information technology investments that support

Special Metering Technology/Automated Meter Reading (“AMR”), the use of the DSIC to recover investment in barcoding technology, the use of the DSIC to recover replacement of customer-owned services lines and the use of the DSIC to recover investments in gathering system improvements. The two issues reserved for litigation are whether the DSIC charge should include an adjustment to DSIC-eligible plant for Accumulated Deferred Income Tax (“ADIT”) and whether the DSIC charge should not include a gross-up for state income taxes. Pursuant to the procedural schedule adopted in this proceeding, main briefs on the reserved issues are being filed contemporaneously with the filing of the Partial Settlement.

The Partial Settlement was achieved only after a comprehensive investigation of Peoples DSIC filing. The Joint Petitioners filed multiple rounds of testimony and exhibits, including direct, rebuttal, surrebuttal and rejoinder. The information developed through discovery and testimony clarified parties’ positions on the issues and enabled them to resolve any remaining differences on the settled issues. The parties participated in a series of negotiations, which ultimately led to the Partial Settlement.

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

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that 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. Although not a full settlement of the proceeding, the Partial Settlement does

resolve a series of issues that are somewhat unique to Peoples (and its affiliate Peoples TWP), and leaves for litigation only issues that are being presented in other utilities' DSIC proceedings.

In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Oct. 4, 2004); *Pa. PUC v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the following reasons, Peoples believes the Partial Settlement is just, reasonable, and in the public interest and, therefore, should be approved without modification.

II. SPECIFIC SETTLEMENT PROVISIONS

A. Discounting for Competitive Customers

On August 2, 2012, the Commission issued its Final Implementation Order, at Docket No. M-2012-2293611, establishing procedures and guidelines to implement Act 11 of 2012 ("Act 11"). One of the matters considered by the Commission was the application of the DSIC to customers with negotiated or discounted rates. The Commission concluded as follows:

Moreover, upon review, we agree with EAP and other commenters that Act 11 does not overturn the existing requirements of recovery based on cost-causation and non-discrimination, and that utilities should have the flexibility to *not* apply the DSIC surcharge to customers with competitive alternatives and customers having negotiated contracts from the utility. Where the customer has negotiated rates based on competitive alternatives, it would be contrary to the contract terms and counterproductive in the long term to add costs that may induce the customer to leave the system and provide no support for infrastructure costs. Accordingly, the DSIC need not be applied to these specific customers, but the general DSIC rate applicable to the customer class itself must be the same for all customer classes.

Final Implementation Order, p. 46.

Based upon this determination, Peoples included the following provision in its DSIC tariff:

The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider K to any customer with competitive alternatives or potential competitive alternatives and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

OCA proposed to delete the words “or potential competitive alternatives” from the Company’s DSIC tariff, and to add the phrase “who are paying flexed or discounted rates” (OCA St. 1, p. 15). OCA’s stated concern was that the term “potential competitive alternatives” could be interpreted to allow for discounting of the DSIC even where a competitive alternative was not economic, and a customer was not otherwise receiving discounted rates (Peoples St. 1-R, p. 14).

In rebuttal, the Company indicated that it could accept OCA’s proposed modification, provided it was clear that the DSIC could be reduced or eliminated if an economically viable competitive option exists, even if not physically installed (Peoples St. 1-R, p. 14). The Company will discount rates if needed to compete with a viable competitive alternative, such as interstate bypass, and it can be in the Company’s interest to offer such discounted rates to induce a customer to not actually install the bypass. In that way, the Company can maximize the throughput to, and thereby the obtained revenues from, the customer.

The Partial Settlement accepts the OCA’s modified language related to the application of the DSIC to competitive customers. The Partial Settlement further acknowledges the parties’ understanding that the DSIC may be waived or reduced if the customer is paying flexed rates or has a negotiated contract because the customer has a viable competitive option, even if the option is not physically installed. As a result, the Partial Settlement recognizes and responds to both

OCA's and the Company's legitimate concerns that discounting of the DSIC be permitted for real competitive alternatives.

The Partial Settlement further confirms the Company's intent to apply the DSIC to current competitive customers if contractually eligible, and to negotiate with competitive customers to attempt to include the DSIC in the future when contracts come up for renewal. Such provision reaffirms the Company's original statement of intent to apply the DSIC to all customers where possible, while recognizing that competition may make it impossible to apply the DSIC in some situations (Peoples St. 1, p. 5).

The Company notes that this modification to the tariff language will have no direct effect on the DSIC rate, as it represents no substantive change to the Company's intended application of the DSIC to competitive customers. To the extent the Company is able to charge the DSIC to competitive customers, this will increase the revenue base subject to the DSIC, which will incrementally reduce the calculated DSIC charge.

This settlement provision is consistent with the Final Implementation Order and reasonably addresses parties' concerns. The provision is in the public interest and should be approved.

B. AMR Information Technology

As part of its Long Term Infrastructure Improvement Plan ("LTIIP"), Peoples identified, as an area of "special consideration" to be included in the DSIC, investment in the future deployment of AMR support technology to obtain meter reading data remotely (Peoples Exhibit A, attached Exhibit 2, pp. 7-8, 10-11).¹ Peoples explained that it included no claim for AMR support technology in its DSIC at this time, and that the AMR support technology was included

¹ The Company proposed to include all capital investment in AMR, including meter transponders, information technology hardware and software (Peoples St. 1-R, p. 4).

only as a placeholder in the event the Company decides to go forward with AMR in the future (Peoples St. 2, p. 6).

OCA opposed the recovery of AMR technology costs through the DSIC, and offered several reasons why it believed these investments should not be included in the DSIC (OCA St. 1, p. 5). The Company responded to OCA's contentions, and argued that AMR technology costs were DSIC-eligible (Peoples St. 1-R, pp. 4-7).

To resolve this issue, Peoples agreed to withdraw, at this time, its proposal to include in the DSIC AMR technology, hardware and software support costs. Peoples reserved its right to make a claim for such costs in the future, and all parties reserved their rights to oppose such a claim if made. Peoples commits that it shall clearly identify any such claim if made.

This provision is clearly in the public interest. At this time, the Company has made no claim for AMR, and has not developed any estimate of costs or even a definitive timeframe for installing AMR. There is no reason for the ALJs or the Commission to render what would amount to an advisory opinion on the eligibility of AMR support technology for DSIC treatment. Such determination should await an actual claim for cost recovery, at which time the Commission can weigh facts and circumstances to assess whether the installed property should be considered DSIC-eligible. *See Joint Petition of Metro. Edison Co., Pa. Elec. Co. and Pa. Power Co. for Approval of Smart Meter Tech. Procurement and Installation Plan*, Docket No. M-2009-2123950, 2010 Pa. PUC LEXIS 1803, at *6-8 (Aug. 3, 2010) (finding, on reconsideration, that the Commission's order should not have included "an advisory opinion on an [electric distribution company's] ability to roll smart meter costs into base rates in a future base rate proceeding" because such an issue "should be left for consideration in an appropriate future case").

C. Barcoding Technology

In its LTIP filing, Peoples also proposed to include, in its DSIC, company investment in barcoding hardware, software and reading devices. The Company intends to affix barcodes to all new pipes, valves, fittings and couplings. Barcoding will allow for enhanced tracking of pipeline assets, enabling the Company to maintain important information such as type of material, location, date of installation, manufacturer and other data (Peoples St. 1-R, pp. 7-8). This information will allow the Company to be more efficient and precise in identifying pipe for repairs, PA One-Calls and replacement (Peoples St. 1-R, p. 8). In surrebuttal testimony, OCA withdrew any objection to recovery of barcoding technology through the DSIC, provided that the costs of installing barcoding on non-DSIC eligible property would not be reflected in the DSIC (OCA St. 1-S, p. 3). The Company concurred with this position (Peoples St. 1-RJ, p. 4). No other party opposed the Company's claim. The Partial Settlement adopts the parties' position on the issue. Barcoding satisfies the requirements of Section 1353(a) of the Public Utility Code, 66 Pa. C.S. § 1353(a), that costs be incurred to repair, improve or replace eligible property to ensure and maintain safe and adequate service. Barcoding technology further satisfies the criteria for recovery of "other capitalized costs" under Section 1353(a). Therefore, this settlement provision is just, reasonable, and in the public interest and should be approved.

D. Replacement of Customer-Owned Services Lines

Pursuant to Sections 4 and 19 of the Company's tariff, the customer is responsible for installation, maintenance and replacement of the customer service line, except for customers in the cities of Johnstown and Altoona.² By Petition filed on February 1, 2013 at Docket No. P-2013-2346161, Peoples sought a limited waiver of this tariff provision in Section 4, to allow the

² Section 1510 of the Public Utility Code, 66 Pa. C.S. §1510, prohibits the Company from acquiring or assuming ownership of customer-owned services.

Company to replace customer-owned service lines in conjunction with main replacements.³ The cost of the replacement service would be recorded as part of the associated mains replacement, similar to the accounting for the cost of repairing other customer-owned property, such as driveways, that may be necessary as part of a main replacement. Peoples requested this limited waiver in order to more effectively carry out its main replacement program. By Order entered May 23, 2013, the Commission granted Peoples' Petition for limited waiver.

Peoples also proposed to recover the cost of such customer-owned service line replacements through the DSIC. As the cost of the replacement would be booked to the mains account, it qualifies as part of the cost of piping or, alternatively, as other related capitalized costs, under Section 1351(a). In direct testimony, OCA stated that it did not oppose recovery of these replacements through the DSIC (OCA St. 1, p. 4), and no other party opposed recovery.

As no party opposes such recovery, and such investments clearly qualify as eligible property under Section 1351 of the Public Utility Code, this settlement provision is reasonable and should be approved.

E. Gathering System Improvements

There is no disagreement that improvements to gathering lines that are part of the Company's system are generally recoverable through the DSIC (OCA St. 1, p. 5). However, an issue was raised in this proceeding regarding whether Peoples should be allowed to reflect in the DSIC investments in gathering system improvements that were part of the Company's commitment, in the settlement of its 2012 base rate case, to spend \$3.8 million annually between December 1, 2012 and November 30, 2015, as incremental annual expenditures to reduce lost and unaccounted for gas on Peoples gathering facilities or for gathering system upgrades used to

³ Bare steel lines and any customer-owned service lines that fail a pressure test would be replaced pursuant to the waiver request.

deliver local gas to Peoples and its customers (“Gathering Expenditures”). OCA and OSBA both opposed recovery through the DSIC of capital expenditures on gathering facilities that are undertaken as part of the 2012 base rate case settlement commitment (OCA St. 1, pp. 5-7; OSBA St. 1, pp. 4-5).

To resolve this dispute, Peoples has agreed in this Partial Settlement to exclude from the DSIC such investments in gathering system improvements that are placed into service between December 1, 2012 and November 30, 2015, and that are part of the annual \$3.8 million commitment for Gathering Expenditures. The Partial Settlement acknowledges that the Gathering Expenditures commitment includes operating and maintenance expenses, capital improvements that do not qualify as DSIC-eligible property and capital improvements that do not meet the statutory definition of DSIC-eligible property.⁴ The Partial Settlement further recognizes that if total incremental Gathering Expenditures exceed \$3.8 million in any year ending November 30, any further investment in DSIC-eligible plant may be included in the DSIC.

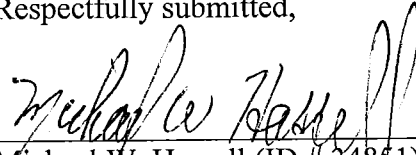
The Partial Settlement resolves the issue by accepting OCA’s and OSBA’s positions for purposes of the DSIC. The DSIC charge calculation will not include the plant in question, resulting in a slightly lower DSIC rate than would be produced if the plant were included. Such provision is in the public interest and should be adopted.

⁴ Mr. Gregorini’s rejoinder testimony explains that Peoples’ planned 2013 Gathering Expenditures include \$2.8 million in non-DSIC eligible capital expenditures and operating and maintenance expenses (Peoples St. 4-RJ, p. 5).

III. CONCLUSION

Peoples believes that the Partial Settlement results in a fair and reasonable compromise of the issues resolved therein. Peoples fully supports the Partial Settlement and respectfully requests that the ALJs and the Commission adopt the Partial Settlement without modification as part of this decision in this proceeding.

Respectfully submitted,



Michael W. Hassell (ID # 34851)

Jessica R. Rogers (ID # 309842)

Post & Schell, P.C.

17 North Second Street

12th Floor

Harrisburg, PA 17101-1601

Phone: 717-731-1970

Fax: 717-731-1985

E-mail: mhassell@postschell.com

E-mail: jrogers@postschell.com

Of Counsel:

Post & Schell, P.C.

Date: December 12, 2013

Attorneys for Peoples Natural Gas Company LLC

Appendix B

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Peoples Natural Gas Company :
LLC for Approval of a Distribution System : Docket No. P-2013-2344596
Improvement Charge :

Office of Consumer Advocate :

v. : Docket No. C-2013-2348847
: :
Peoples Natural Gas Company LLC :

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF PARTIAL STIPULATION
OF CERTAIN ISSUES

The Office of Consumer Advocate (OCA), one of the signatory parties to the Partial Stipulation of Certain Issues (Partial Stipulation), finds the terms and conditions of the Partial Stipulation to be in the public interest for the following reasons:

I. INTRODUCTION

Pursuant to Act 11 of 2012, on January 31, 2013, Peoples filed a Petition for Approval of a Distribution System Improvement Charge (DSIC Petition). 66 Pa. C.S. § 1353. Peoples proposed a DSIC rate of 0.35% for the effective period of July 1, 2013 through September 30, 2013. See generally, Peoples St. 1, Exh. APW-1S. On February 19, 2013, the Pennsylvania Independent Oil and Gas Association (PIOGA) filed a Petition to Intervene. The OCA filed an Answer, Notice of Intervention, and Formal Complaint and Public Statement on February 20, 2013. Also on February 20, 2013, OSBA filed an Answer, Notice of Intervention and Public Statement.

2013. Also on February 20, 2013, OSBA filed an Answer, Notice of Intervention and Public Statement.

On May 23, 2013, the Public Utility Commission (Commission) *inter alia* approved Peoples' DSIC (May 23 Order). The DSIC was approved subject to refund, pending final resolution of issues raised in the parties' filings.

Pursuant to the established litigation schedule in this matter, the OCA served the Direct and Surrebuttal Testimonies of Thomas S. Catlin. On November 6, 2013, the parties informed the ALJs that a Partial Settlement of the Issues had been reached on all but two issues related to the Accumulated Deferred Income Taxes (ADIT) and state income taxes. The parties were unable to resolve the two issues related to ADIT and state income taxes and will be filing Main Briefs regarding only these issues on December 12, 2013.

The OCA submits that the proposed Partial Stipulation consists of several key terms as set forth below. OCA witness Catlin addressed six issues in his Direct Testimony including: (1) the replacement of customer-owned service lines; (2) the recovery of special metering technology, such as automated meter reading (AMR) technology through the DSIC; (3) the recovery of pipeline barcoding technology through the DSIC; (4) the treatment of competitive customers; (5) ADIT; and (6) state taxes. The Partial Stipulation addresses the first four of these issues, and reserves the last two issues for litigation.

As set forth below, the terms and conditions of the Partial Stipulation are in the public interest and should be approved.

II. TERMS AND CONDITIONS OF THE PARTIAL STIPULATION

A. Competitive Customers (Partial Stipulation ¶ 13)

The Partial Stipulation provides that the Company will modify the language in the DSIC surcharge tariff related to the application of the DSIC to competitive customers to read as follows:

All Customer Classes. The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider K to any customers with competitive alternatives who are paying flexed or discounted rates and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

Partial Stipulation at ¶ 13. The Partial Stipulation also clarifies that the DSIC may be waived or reduced if the customer is paying flexed or discounted rates or has a negotiated contract because the customer has an economically viable option, even if the option is not yet physically installed.

Id. Peoples agrees that it intends to apply the DSIC to current competitive contracts when contractually eligible and that the Company plans to negotiate with competitive customers to attempt to include the DSIC when flexed or negotiated rate contracts come up for renewal. Id.

The proposed Stipulation language is in the public interest and addresses the OCA's concerns with respect to the treatment of competitive customers. In Direct Testimony, OCA witness Catlin testified regarding Peoples' proposed DSIC Tariff language which stated that the "Company may reduce or eliminate the Rider DSIC to any customers with competitive alternatives or **potential competitive alternatives** and customers having negotiated contracts with the Company, if it is reasonably necessary to do so." OCA St. 1 at 15, citing Proposed DSIC Tariff at page 113 (emphasis in original). The principle concern expressed by OCA witness Catlin was to address the language regarding the "potential" competitive alternatives. Id. The OCA wanted to ensure that a discount on or waiver of the DSIC rider would only be

provided to a competitive customer who has an economically viable alternative option. The OCA submits that this limitation on when a customer qualifies for a discount is also consistent with the Commission's Final Implementation Order. In re: Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Final Implementation Order (Aug. 2, 2012). Further, Peoples' ongoing commitment to apply the DSIC to all customers, where possible, is consistent with Act 11's requirement and the Commission's Model Tariff, which provide that the DSIC "shall be applied equally to all customer classes." 66 Pa. C.S. § 1358(d)(1); Final Implementation Order, App. A at 8.

B. Special Metering Technology (Partial Stipulation ¶ 14)

The Company has agreed to withdraw its proposal to include information technology hardware and software that support Special Metering Technology in the DSIC. Partial Stipulation at ¶ 14. The Company reserves the right to present a future claim to include AMR technology support cost in the future if the Company installs AMR support technology. All other parties reserve their respective rights to oppose such a claim.

The Stipulation provides for the withdrawal of the proposal to include AMR technology in the DSIC at this time. The OCA had several concerns with the Company's proposal and the withdrawal of the proposal would address the OCA's concerns raised in this proceeding. OCA witness Catlin testified that the recovery of AMR should not be permitted for two reasons: (1) the installation of AMR does not comport with the fundamental purpose of the DSIC mechanism, which is to allow for cost recovery for the repair and the replacement of a utility's existing infrastructure; and (2) the new AMR technology is likely to result in cost savings in areas including reduced meter reading costs, reduced costs of addressing customer complaints due to estimated meter readings, and reduced read orders. OCA St. 1 at 5. These potential cost

savings could serve as a significant cost offset to AMR costs which would make the recovery of the capital costs unnecessary in the DSIC mechanism. Id. The Company's agreement to withdraw its request at this time addresses the OCA's concern with the proposal.

C. Barcoding Technology (Partial Stipulation at ¶ 15)

The Partial Stipulation provides that the Company may include in its DSIC the investment in barcodes which are affixed to DSIC-eligible plant and the investment in barcoding hardware, software and reading devices necessary to operate the barcoding technology. Partial Stipulation at ¶ 15. Pipeline barcoding is a new technology which provides potential benefits compared to the Company's existing capital management system. OCA St. 1 at 7. OCA witness Catlin testified that he was only concerned about the potential recovery through the DSIC of pipeline barcoding costs directly associated with plant that is not eligible for inclusion in the DSIC, *e.g.*, the costs associated with installing barcoding on pipes, valves, fittings and couplings that are installed for system expansion or growth. OCA St. 1-S at 3. The Partial Stipulation resolves this concern by specifically excluding investment in barcodes affixed to plant that is not DSIC-eligible.

D. Customer-owned Service Lines (Partial Stipulation at ¶ 16)

The Partial Stipulation provides that investments in the replacement of customer-owned service lines will be reflected in the Company's DSIC. Partial Stipulation at ¶ 16. Except under unusual circumstances, the DSIC should only be used to recover the reasonable and prudent costs of repairing, improving or replacing utility-owned distribution plant consistent with Act 11 of 2012 and the Commission's Final Implementation Order and not the costs of replacing customer-owned facilities. However, in western Pennsylvania, the service lines, which are qualifying plant under the Model Tariff, are customer-owned. The Company previously

requested to recover the costs of customer-owned lines in rates. The Commission has specifically approved this request. Petition of Peoples Natural Gas Company, LLC, Inc. for Limited Waiver of Certain Tariff Rules Related to Customer Service Line Replacement, Docket No. P-2013-2346161, Order at 9-10, 64 (May 23, 2013). Therefore, due to those unique

~~circumstances and the efficiencies gained by replacing customer-owned service lines in~~
coordination with the accelerated mains replacement program, OCA witness Catlin stated that he could accept Peoples' proposal in this case. OCA St. 1 at 4. For all of these reasons, the OCA submits that recovery of the costs of the replacement of the customer-owned service lines through the DSIC is in the public interest in these unique circumstances.

E. Gathering System Improvements (Partial Stipulation at ¶ 17).

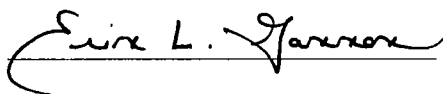
The Partial Stipulation provides for the recovery of the costs of gathering system improvements in the Company's DSIC. Partial Stipulation at ¶ 17. OCA witness Catlin agreed in his Direct Testimony that the replacement of gathering lines would normally be considered DSIC-eligible, provided that the gathering lines are part of the utility's distribution system and that all customers who use and benefit from the replacement of those lines bear a share of the costs. OCA St. 1 at 5. The OCA's concern, however, was that the Company not be allowed to recover gathering system improvements through the DSIC until its investment exceeds the amount already provided for in base rates. Id. at 5-7. Specifically, in the Settlement of its 2012 base rate case, Docket No. R-2012-2285985, Peoples agreed to invest \$3.8 million per year of revenues from Production Enhancement Services for a period of up to three years to be used to invest as incremental annual expenditures for the purpose of reducing lost and unaccounted for gas on Peoples' gathering facilities or for gathering system upgrades used to deliver local gas to Peoples and its customers. OCA St. 1 at 6.

Accordingly, Paragraph 17 of the Partial Stipulation provides that Peoples will exclude from the DSIC such investments in gathering system improvements that were put into service between December 1, 2012 and November 30, 2015 and are a part of the annual \$3.8 million commitment contained in the Settlement of the Peoples' 2012 base rate Settlement. The OCA submits that this provision of the Partial Stipulation addresses the OCA's concern regarding the potential double recovery of gathering system improvement costs through base rates and the DSIC.

III. CONCLUSION

The Office of Consumer Advocate submits that terms and conditions of the Partial Stipulation are in the public interest and in the interest of Peoples' ratepayers. Based on above reasons, the Office of Consumer Advocate submits that the proposed Partial Stipulation should be approved.

Respectfully Submitted,



Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-Mail: CAAppleby@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

DATE: December 11, 2013
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Appendix C

The OSBA filed an Answer, Notice of Intervention, and Public Statement on February 20, 2013, in response to the DSIC Petition.

The Office of Consumer Advocate (“OCA”) filed comments to the LTIIIP Petition on February 12, 2013, and on February 20, 2013, filed an Answer, Formal Complaint, Notice of ~~Intervention, and Public Statement in response to the DSIC Petition.~~

Petitions to Intervene were filed by Pennsylvania Independent Oil and Gas Association (“PIOGA”) on February 19, 2013, and United States Steel Corporation (“U.S. Steel”) on April 29, 2013.

Peoples filed a letter on March 22, 2013, explaining that it was delaying filing an updated DSIC rate (due 10 days prior to the DSIC effective date), because the Commission had not yet approved the DSIC Petition and, therefore, the DSIC could not go into effect on April 1, 2013, as requested.

On April 8, 2013, Peoples filed a letter seeking to clarify certain statements that had been made in its Long Term Infrastructure Improvement Plan (“LTIIIP”) concerning the recovery of incremental plant equipment costs.

The Commission entered an Order dated May 23, 2013, *inter alia*, approving the LTIIIP Petition, approving the DSIC Petition subject to modifications consistent with the Order, referring certain DSIC-related issues to the Office of Administrative Law Judge (“OALJ”) for hearing and recommended decision, and rejecting U.S. Steel’s Petition to Intervene as untimely, but providing that U.S. Steel could file a petition to intervene *nunc pro tunc* limited to the issues referred to the OALJ.¹

¹ On June 3, 2013, counsel for U.S. Steel sent an email to the presiding officers and the parties stating that U.S. Steel would not be participating further in this proceeding.

The specific issues that have been assigned to the OALJ are as follows: (1) DSIC-recovery of costs related to customer-owned service lines, reliability improvements, special meter technology, information technology support, and vehicles, tools and equipment; (2) impact of accumulated deferred income taxes associated with DSIC investments; and (3) calculation of ~~the state income tax component of the DSIC revenue requirement.~~

Administrative Law Judge (“ALJ”) Mary D. Long and ALJ Jeffrey Watson were assigned to this proceeding and issued a Prehearing Conference Order on June 4, 2013, informing the parties that the initial Prehearing Conference on this case will be held on June 21, 2013 at 10:30 a.m. The OSBA and OCA submitted prehearing memoranda in accordance with that Order on June 18, 2013, each requesting that limited additional issues be addressed in this proceeding. Specifically, the OSBA was concerned with:

1. Whether the eligible property included in Peoples’ proposed DSIC is consistent with that permitted by Act 11 of 2012;
2. Whether the DSIC should apply to all customers that currently pay less than 100% of Peoples’ full tariff rate for delivery service; and
3. Whether the Company’s proposal to include certain unaccounted for gas (“UFG”) related expenditures in its DSIC calculation is appropriate.

At the prehearing conference, given the limited nature of the additional matters to be addressed and in the interests of judicial economy, ALJ Long and ALJ Watson granted the request of the OSBA and OCA. The parties also agreed upon a procedural schedule and discovery modifications, which was memorialized in a prehearing order issued on June 24, 2013.

The OSBA served the Direct Testimony of Brian Kalcic, marked as OSBA Statement No. 1 on August 6, 2013, and the Surrebuttal Testimony of Brian Kalcic, marked as OSBA Statement No. 2 on October 3, 2013.

Prior to the scheduled evidentiary hearings, the parties successfully negotiated a ~~settlement of the majority of issues in this proceeding, reserving only two issues for litigation.~~

The parties agreed to waive cross-examination of witnesses, both with respect to the settled issues and the issues reserved for litigation. A hearing was held on November 12, 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 Stipulation of Certain Issues (“Stipulation”). The OSBA submits this statement in support of the Stipulation.

III. STATEMENT IN SUPPORT OF STIPULATION OF CERTAIN ISSUES

The Stipulation adequately addresses the issues of concern to the OSBA with respect to the Company’s DSIC rate calculation, which were identified in its prehearing memorandum and in testimony. As a result, the OSBA concludes that the Stipulation is in the best interests of Peoples’ Small C&I customers.

A. UFG Related Expenditures (Stipulation at p. 5, ¶14)

As part of the settlement in Peoples’ most recent base rate case at Docket No. R-2012-2285985, Peoples agreed to increase its annual expenditures on its gathering facilities by \$3.8 million, in an effort to reduce its overall unaccounted for gas (“UFG”) rate.² According to

² OSBA Statement No. 1 at 1.

Peoples' responses to interrogatories, the Company proposed to include these required expenditures in its DSIC rate calculation.³

OSBA witness Mr. Kalcic disagreed with Peoples' proposal. He testified that since the Company previously agreed to the incremental gathering system expenditures of \$3.8 million, ~~such expenditures do not qualify as an acceleration of infrastructure improvement as required by~~ the Commission's Final Order implementing Act 11 of 2012.⁴ Further, Mr. Kalcic testified that contrary to Peoples' witness Mr. Gregorini's testimony, ratepayers, not the Company, provided the funding for the incremental gathering expenditures at issue.⁵ Therefore, given the source of funding for Peoples' required gathering system expenditures, it is not appropriate for the Company to include such expenditures in its DSIC rate calculation.⁶

Consistent with the OSBA's position, the Stipulation provides for exclusion from the DSIC rate calculation of the annual \$3.8 million commitment contained in the settlement of Peoples' 2012 rate case.⁷

B. Application of DSIC to Competitive Customers (Stipulation at p. 4, ¶13)

The Stipulation also adequately addresses the OSBA's concerns with respect to application of the DSIC to customers that currently pay less than 100% of Peoples' full tariff rate for delivery service ("Competitive Customers"). Peoples agrees to modify the language in its surcharge tariff related to the application of the DSIC to Competitive Customers as follows:

³ See OSBA Statement No. 1 attaching Peoples response to OCA-I-16(b) and OCA-I-19.

⁴ OSBA Statement No. 1 at 4 quoting *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Order entered August 2, 2012) at 24.

⁵ OSBA Statement No. 2 at 1-2.

⁶ *Id.* at 2.

⁷ Stipulation at 5, ¶14.

All Customer Classes. The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider K to any customers with competitive alternatives who are paying flexed or discounted rates and ~~customers having negotiated contracts with the Company, if it is~~ reasonably necessary to do so.⁸

The Stipulation further acknowledges Peoples’ “intention to apply the DSIC to current competitive customers if contractually eligible, and to negotiate with competitive customers to attempt to include the DSIC in the future, when flexed or negotiated rate contracts come up for renewal.”⁹

C. Judicial Efficiency

Lastly, a partial settlement of the issues in 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 parties, 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.

⁸ Stipulation at 4, ¶13.

⁹ *Id.*

IV. CONCLUSION

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

Respectfully submitted,



Elizabeth Rose Triscari
Assistant Small Business Advocate
Attorney ID #306921

For:

John R. Evans
Small Business Advocate

Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
(717) 783-2525
(717) 783-2831 (fax)

Dated: December 12, 2013

Appendix D

December 12, 2013

The Honorable Mary D. Long & Jeffrey A. Watson
Administrative Law Judges
PA Public Utility Commission
Piatt Place
Suite 220
301 5th Avenue
Pittsburgh, PA 15222

RE: Petition of Peoples Natural Gas Company LLC for Approval of a Distribution System Improvement Charge, Docket Nos. P-2013-2344596, C-2013-2348847

Dear Judges Long and Watson:

The Pennsylvania Independent Oil & Gas Association (PIOGA) does not oppose the Partial Settlement in the above-referenced proceeding.



Very truly yours,

Kevin J. Moody
General Counsel
Pennsylvania Independent Oil & Gas Association

KJM/hs