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June 16, 2014

VIA ELECTRONIC FILING

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

**Re: Pennsylvania Public Utility Commission, et al v. Peoples Natural Gas Company
LLC - Docket Nos. R-2014-2403939, C-2014-2407227, C-2014-2410707 &
C-2014-2415138**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for Partial Settlement of the Section 1307(f) Rate Investigation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Anthony D. Kanagy', is written over a large, faint circular watermark or stamp.

Anthony D. Kanagy

ADK/jl
Enclosures

cc: Honorable Jeffrey Watson
Certificate of Service

**CERTIFICATE OF SERVICE
(Docket No. R-2014-2403939)**

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

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VIA FIRST CLASS MAIL

Daniel Killmeyer
184 McKay Road
Saxonburg, PA 16056

Date: June 16, 2014


Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2014-2403939
Office of Small Business Advocate	:	C-2014-2407227
Office of Consumer Advocate	:	C-2014-2410707
Daniel Killmeyer	:	C-2014-2415138
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

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

TO ADMINISTRATIVE LAW JUDGE JEFFREY A. WATSON:

Peoples Natural Gas Company LLC (“Peoples”), acting on behalf of its Peoples Division (“Peoples Division”), 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”), parties to the above-captioned proceeding (hereinafter, collectively referred to as the “Joint Petitioners”),¹ hereby file this Joint Petition for Partial Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Settlement”).² As explained below, the Joint Petitioners have agreed to a settlement of all of issues that have been raised in Peoples Division’s 2014 Purchased Gas Cost (“PGC”) proceeding at Docket Nos. R-2014-2403939, C-2014-2407227, C-2014-2410707, C-2014-2415138. The

¹ The Pennsylvania Independent Oil & Gas Association (“PIOGA”) has indicated that it does not oppose the Settlement. Daniel Killmeyer, a customer complainant in this proceeding, is not a party to the Settlement. A copy of the Settlement is being served upon Mr. Killmeyer.

² The Commission’s Policy Statement at 52 Pa. Code § 69.401 defines a Partial Settlement as a comprehensive resolution of all issues in which less than all interested parties have joined. This Settlement is a comprehensive resolution of all the issues raised by the parties in this proceeding. However, as noted above, Mr. Killmeyer is not a party to the Settlement. Therefore, the Settlement is being referred to as a Partial Settlement.

Joint Petitioners respectfully request that Administrative Law Judge Jeffrey A. Watson (the “ALJ”) recommend approval of, and the Commission approve, this Settlement as set forth below without modification. The Joint Petitioners also request that the Commission: (1) authorize Peoples Division to file the form of tariff supplement provided as Appendix A hereto, with rates to become effective October 1, 2014, subject to updates and tariff modifications traditionally performed on October 1; and (2) make all associated findings required by Section 1307(f) and Section 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307(f), 1318. In support of this Settlement, the Joint Petitioners state the following:

I. INTRODUCTION

1. Peoples is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission’s regulatory jurisdiction. Peoples operates two divisions – the Peoples Division and the Equitable Division (“Peoples-Equitable”), which was formerly Equitable Gas Company. Peoples is an affiliate of Peoples TWP LLC (“Peoples TWP”).

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

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

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

5. On January 31, 2014, Peoples Division made its PGC 60-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code § 53.65.

6. On February 20, 2014, OSBA filed a Notice of Appearance and a Formal Complaint at Docket No. C-2014-2407227.

7. On February 28, 2014, Peoples Division made its PGC 30-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code §§ 53.64-53.65.

8. On March 11, 2014, I&E filed a Notice of Appearance.

9. On March 17, 2014, OCA filed a Notice of Appearance and a Formal Complaint at Docket No. C-2014-2410707.

10. On April 1, 2014, Peoples Division filed with the Commission its definitive PGC filing including its direct testimony, exhibits, and a Pro Forma Tariff Supplement reflecting actual and projected changes in natural gas costs and other tariff changes.

11. On April 1, 2014, a Prehearing Conference Order was issued by the Honorable Jeffrey A. Watson (the "ALJ"), directing the parties to file Prehearing Memoranda before 3:00 p.m. on April 14, 2014.

12. Also on April 1, 2014, a Notice was issued scheduling a Prehearing Conference before the ALJ on April 17, 2014, in Piatt Place, 301 Fifth Avenue, Suite 220, Pittsburgh, PA

15222, and in the Commonwealth Keystone Building, 400 North Street, Hearing Room 5, Harrisburg, PA 17120.

13. On April 9, 2014, Daniel Killmeyer filed a Formal Complaint at Docket No. C-2014-2415138.

14. On April 11, 2014, Peoples Division filed an Amended Peoples Exhibit No. 19.

15. On April 13, 2014, PIOGA filed a Petition to Intervene.

16. A prehearing conference was held on April 17, 2014. Prehearing conference memoranda were submitted by Peoples Division, I&E, OCA, OSBA, and PIOGA. A litigation schedule and discovery rule modifications were established and subsequently memorialized in the ALJ's Prehearing Order, dated April 25, 2014. The Prehearing Order also consolidated the complaints of OCA, OSBA, and Daniel Killmeyer with Peoples Division's PGC filing at Docket No. R-2014-2403939 and granted PIOGA's Petition to Intervene.

17. On April 28, 2014, Peoples Division filed an unopposed Motion for Protective Order.

18. Also on April 28, 2014, a Notice was issued scheduling initial and further hearings for May 27, 2014, and May 28, 2014.

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

20. On April 30, 2014, OCA, OSBA, and I&E served written direct testimony.

21. On May 12, the ALJ granted the Motion for Protective Order.

22. On May 15, 2014, Peoples Division and OSBA served written rebuttal testimony.

23. In accordance with the Commission's Rules of Practice and Procedures, 52 Pa. Code § 5.231, the parties engaged in numerous settlement discussions in an effort to achieve a

full settlement. As a result of those conferences, the Joint Petitioners were able to reach a Settlement in Principle of all of their issues. The Joint Petitioners advised the ALJ of the Settlement in Principle on May 21, 2014.

24. On May 22, 2014, the ALJ issued an Interim Order that rescheduled the hearing date to May 29, 2014, and established litigation procedures.

25. A hearing was held on May 29, 2014 at which time the parties' pre-filed testimony and exhibits were admitted into the record.

26. The Joint Petitioners are in full agreement that the Settlement is in the best interest of Peoples Division's customers, Peoples Division and the Joint Petitioners.

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

II. SETTLEMENT TERMS

Approval of the 2014 Definitive Filing as Modified

28. The Joint Petitioners agree that Peoples Division's April 1, 2014 1307(f) Definitive Filing is approved except to the extent that it is modified by this Settlement.

Natural Gas Supply Rates as of October 1, 2014

29. Peoples Division shall place into effect, for service rendered on and after October 1, 2014, the form of tariff supplement attached hereto as Appendix A. The form of tariff supplement shall be subject to updates and tariff modifications traditionally performed on October 1.

Lost and Unaccounted For Gas, Company Use and Retainage

30. Based upon Peoples Rebuttal Exhibit No. 1 which demonstrates that Peoples Division's proposed retainage rates will recover amounts of Lost and Unaccounted For Gas and Company Use from transportation customers that equals the projected amounts included in PGC

rates applicable to sales customers for the application period October 1, 2014 through September 30, 2015, Peoples Division's proposed retainage rates are approved.

31. Peoples Division will calculate the retainage rates proposed in its 2015 and 2016 PGC filings using a two-year average level of lost and unaccounted for gas in a manner consistent with its proposal in this proceeding.

32. In its 2015 PGC proceeding, Peoples Division will report the level of lost and unaccounted for gas for its distribution and transmission system, excluding lost and unaccounted for gas on its gathering system and storage losses separately from total system amounts.

33. Peoples Division will continue its efforts to reduce lost and unaccounted for gas on its gathering, distribution and transmission facilities.

Adjustment to AVC Charges

34. Peoples Division will adjust future PGC rates to reverse the error in Allegheny Valley Connector ("AVC") charges billed to Peoples by Equitrans L.P. ("Equitrans") commencing March 1, 2014. Peoples Division will reflect adjusted charges from Equitrans in prospective quarterly PGC filings once Equitrans adjusts the AVC charges and provides any credits or refunds to customers relating to previously billed charges.

BB&A Charge

35. The demand charge under Peoples' NAESB supply contract for the Peoples Division with EQT Energy, LLC ("EQT Energy") will be included in determining banking, balancing, and advancing ("BB&A") charges commencing October 1, 2014, resulting in BB&A charges of \$0.1491 for SGS and MGS customers and \$0.0347 for LGS customers as opposed to the rates proposed by Peoples of \$0.1397 and \$0.0326, respectively.

Contract Renewals and Changes

36. The Joint Petitioners agree that the Commission should approve the renewals and changes in gas supply, pipeline and storage capacity contracts that are explained in Peoples Statement No. 2 and related exhibits included in the 2014 Definitive Filing.

Merger of the Peoples Division and Peoples-Equitable PGC Rates

37. Peoples Division has advised the Parties that it expects to propose to merge the PGC rates of its Peoples and Equitable Divisions in its 2015 PGC filings. Peoples Division and Peoples-Equitable will file separate PGC filings for the Divisions and proposals for merger of PGC rates. The parties reserve the right to comment on and oppose any merger of rates proposal. The Joint Petitioners agree and request that the 2015 PGC filings of the Peoples and Equitable Divisions should be consolidated for hearing and decision.

Least Cost Fuel Procurement Policy – Reconciliation Period

38. Each of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code, 66 Pa.C.S. §§ 1318(a) and (b), applies to Peoples Division for the 12-month period of February 1, 2013 through January 31, 2014 and, as a result, the natural gas costs that Peoples Division incurred over the 12-month period of February 1, 2013 through January 31, 2014 were incurred under a “least cost fuel procurement policy, consistent with [Peoples Division’s] obligation to provide safe, adequate and reliable service to its customers.”

Least Cost Fuel Procurement Policy – Projected Period

39. Each of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code, 66 Pa.C.S. §§ 1318(a) and (b), appear to apply to Peoples Division for the 20-month period of February 1, 2014 through September 30, 2015 and, as a result, the natural gas costs that Peoples will incur over the 20-month period of February 1, 2014 through

September 30, 2015 appear that they will be incurred under a “least cost fuel procurement policy, consistent with [Peoples Division’s] obligation to provide safe, adequate and reliable service to its customers.”

40. It is understood and expressly agreed that the Commission’s findings and conclusions relating to the projected 20-month period of February 1, 2014 through September 30, 2015, are made solely for the purpose of setting prospective rates. The terms and conditions of this Settlement are not intended to limit or prevent in any way the Parties or any future complainant from challenging (1) the application of the seven specific findings set forth in Sections 1318(a) and (b) of the Public Utility Code to Peoples Division for the actual 20-month period of February 1, 2014 through September 30, 2015 and, therefore, (2) whether the natural gas costs actually incurred by Peoples Division over that 20-month period were incurred pursuant to a “least cost fuel procurement policy, consistent with [Peoples Division’s] obligation to provide safe, adequate and reliable service to its customers.”

III. PROPOSED FINDINGS OF FACT

41. On March 19, 2013, Peoples, Peoples TWP, and Equitable Gas Company (“Equitable”) filed a Joint Application with the Commission requesting various approvals, some of which included: (1) the transfer of 100% of the membership interests in Equitable to PNG Companies LLC, Peoples’ direct parent and indirect subsidiary of SteelRiver Infrastructure Fund North America LP; (2) the merger of Equitable with Peoples and the operation of the former Equitable properties and business as an operating division of Peoples; (3) the transfer of certain storage and transmission assets of Peoples to EQT Corporation; and (4) the associated gas capacity, storage, and supply service agreements among Peoples, Peoples TWP, Equitable,

and/or EQT Energy, LLC (“EQT Energy”) (“Acquisition Proceeding”). (Peoples Statement No. 1, p. 5.)

42. The Joint Application was docketed at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651 and referred to the Office of Administrative Law Judge for hearing. (Peoples Statement No. 1, p. 5.)

43. The active parties in the Acquisition Proceeding were able to reach an agreement resolving all issues in the case. On November 1, 2013, the ALJ entered an Initial Decision approving the Joint Petition for Settlement. On November 14, 2013, the Commission entered an Order approving the Initial Decision and thereby approving the Settlement. (Peoples Statement No. 1, p. 5.)

44. On December 17, 2013, the transaction was closed between the parties that allowed for the transfer of the Equitable natural gas distribution business and its merger into Peoples. (Peoples Statement No. 1, pp. 5-6.)

45. Peoples Division pursues its goal of low cost reliable service through a combination of local and interstate assets and supplies. The local assets are Peoples Division’s on-system storage facilities and a gathering system, which have allowed Peoples Division to enhance the deliverability of local natural gas supplies produced in Pennsylvania and purchased by Peoples acting on behalf of Peoples Division from Pennsylvania producers. Through the sale of assets to EQT Corporation and entering into long-term contracts with Equitrans, Peoples has reallocated its local and interstate assets but will continue to utilize the same storage facilities and access the same local gas supplies by means of storage and transportation services from Equitrans. (Peoples Statement No. 2, p. 6.)

46. Peoples Division's interstate assets are comprised of a portfolio of transportation and storage services that Peoples, acting on behalf of the Peoples Division, has contracted for with various Federal Energy Regulatory Commission ("FERC") regulated pipelines, including Dominion Transmission, Inc. ("DTI"), Texas Eastern Transmission LP ("TETCO"), Equitrans, and National Fuel Gas Supply Corporation ("NFG"). Those assets give Peoples Division access to a variety of locations at which it can receive gas supplies that are produced upstream of the Peoples Division's system. Peoples Division's interstate supplies are gas that it purchases from suppliers upstream of the Peoples Division's system for delivery into various receipt points of the interstate pipelines and occasionally purchases on a delivered-to-the-city gas basis. (Peoples Statement No. 2, pp. 6-7.)

47. As part of the consideration for the Equitable acquisition, Peoples transferred certain transmission and storage assets to EQT Corporation and its subsidiaries. This transfer included four storage facilities (Gamble- Hayden, Webster, Truittsburg, and Rager Mountain) and high pressure transmission pipelines and associated facilities. Peoples, acting on behalf of Peoples Division, and Equitrans entered in transportation service agreements and a storage service agreement under which Equitrans will provide year-round firm transportation and storage services to Peoples Division using the AVC system. These service agreements were approved in the acquisition proceeding, and the rates under these agreements recover a cost level similar to what otherwise would have been incurred by Peoples had it continued to own and operate these assets. The transfer occurred on December 17, 2013, and EQT's subsidiary, Equitrans immediately began operating these storage and transmission assets as the AVC System of its FERC-regulated pipeline operations. (Peoples Statement No. 1, p. 6.) Specifically, the Equitrans' services consist of transportation service under Rate Schedule FTS, no-notice

transportation service under Rate Schedule FTSS, and Storage Service under Rate Schedule GSS. (Peoples Statement No. 1, p. 7; Peoples Statement No. 2, pp. 20-21.)

48. Beginning April 1, 2014, Peoples Division began receiving firm transportation service under Rate Schedule FTS from Equitrans' Sunrise and Mainline systems. This firm capacity replaces 251,700 Dth per day of firm transportation and storage capacity previously provided by DTI under service agreements that expired on March 31, 2014. Gas transported under this agreement is sourced from receipt points on the Sunrise system and delivered to Equitrans' Ginger Hill station, which is the point of interconnection between Equitrans' Mainline and AVC systems. (Peoples Statement No. 2, p. 21.)

49. On December 19, 2012, Peoples, acting on behalf of its Peoples Division, and EQT Energy entered into a base NAESB contract for the sale of natural gas by EQT Energy to Peoples. On December 17, 2013, Peoples, acting on behalf of its Peoples Division, and EQT Energy executed a transaction confirmation under their base NAESB contract with an effective date of April 1, 2014. Under this agreement, EQT Energy will sell to Peoples an annual volume of 15 MMDth, with Peoples having the right to call up to 251,700 Dth per Day. During any month of the year, Peoples can purchase gas supplies under a First of the Month Call Option at the Inside FERC DTI Appalachian Index. During the winter period, Peoples can purchase gas supplies at a varying daily quantity under an Intra-Month Call Option at Gas Daily Midpoint, Appalachian Dominion South Point prices. The Intra-Month Call Option allows Peoples to call on commodity supplies of up to 251,700 Dth per Day on 24 hours' notice throughout the winter. In exchange for the right to call on significant volumes of gas on a daily basis throughout the winter, Peoples will pay a winter-only daily demand charge equal to \$0.1746/Dth. EQT Energy will deliver gas under this agreement to certain receipt points on Equitrans' Sunrise and Mainline

systems from which it will be delivered to Peoples Division's city-gates under Peoples' firm transportation agreements with Equitrans. (Peoples Statement No. 1, pp. 12-13.)

50. DTI has historically been Peoples Division's principal interstate pipeline service provider. DTI has provided Peoples Division with three kinds of services: no-notice transportation service under DTI's Rate FTNN, storage service under DTI's Rate GSS, and transportation service that supports the storage service under DTI's Rate FTNN-GSS, all under rates set by the FERC. Corresponding with the April 1, 2014 effective date of the new firm transportation service from Equitrans, Peoples opted not to renew contracts for its Peoples Division for a corresponding amount of its DTI firm storage and transportation services that expired on March 31, 2014. Instead, on February 20, 2014, Peoples, acting on behalf of its Peoples Division, entered into new FTNN and GSS service agreements with DTI to be effective April 1, 2014, that provide for year-round FTNN no-notice transportation service and GSS storage service. There are parts of the Peoples Division's distribution system that are particularly well suited for gas deliveries from DTI, and these agreements will allow those gas deliveries to continue. (Peoples Statement No. 2, pp. 21-22.)

51. TETCO provides Peoples Division with firm transportation service under rates set by the FERC. Peoples Division requires deliveries of gas at Ebensburg, Claysburg and Rockwood, in the eastern portion of its service territory. TETCO is the only pipeline that physically interconnects with those three receipt points. Peoples purchases gas on TETCO at its firm primary receipt point at the Kosciusko interconnect in Mississippi (or at secondary points if advantageous), and moves it over TETCO's facilities to the Claysburg and Ebensburg delivery points where it was needed. Peoples, acting on behalf of its Peoples Division, has contracted for firm delivered-to-Peoples supply arrangements to meet its needs from the TETCO system at the

Rockwood delivery point. TETCO also provides an operational balancing agreement that helps Peoples Division to manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 2, p. 24.)

52. On October 4, 2011, Peoples, acting on behalf of its Peoples Division, issued an RFP for firm delivered supply into its system at points in TETCO's M2 points. At the same time, Peoples pursued available TETCO transportation capacity options in the capacity release markets. After evaluating responses to the RFP and released capacity options, Peoples accepted a release of firm transportation capacity with receipt points located in the Gulf Coast. Peoples purchased spot supplies as needed during the 2011-2012 winter period and shipped the supply on the released firm transportation capacity. Based on a continuing need for firm access to such supplies, Peoples issued an RFP for the 2012-2013 winter supply on September 25, 2012. Peoples accepted the offer of South Jersey Resources to deliver firm supply with no reservation fee or minimum take obligation. On October 11, 2013, Peoples extended this agreement through the 2013-2014 winter period. (Peoples Statement No. 2, p. 35.)

53. Peoples, acting on behalf of its Peoples Division, issued an RFP for a firm city-gate delivered gas supply contract for the November 1, 2011 through March 31, 2012 and November 1, 2012 through March 31, 2013 periods. As a result of the RFP, Peoples entered into firm-delivered supply arrangements for November 1, 2011 through March 31, 2012, and also for the November 2012 through March 2013 winter. Both agreements required the supplier to utilize Tennessee pipeline delivery points directly into Peoples at Pittsburgh Terminal and Pulaski. In addition, the agreements required deliveries into the Columbia Gas of Pennsylvania ("CPA") natural gas distribution system at New Castle, PA. This supply supports an exchange agreement under which CPA delivers gas into the Grove City area of Peoples Division's service

territory, an area that is not physically integrated with the rest of the Peoples Division's system. (Peoples Statement No. 2, p. 27.)

54. On June 15, 2013, Peoples, acting on behalf of its Peoples Division, issued another RFP for firm delivered supply on Tennessee. Peoples accepted the least-cost proposal, which was submitted by Hess, and executed an agreement on August 27, 2013, that provides for Hess to deliver on a firm basis at the same Tennessee delivery points as previous years' agreements natural gas for the winter periods of November 2013 through March 2014 and November 2014 through March 2015. The agreement has no minimum take obligation and requires no reservation fees. Tennessee also provides Peoples with an operational balancing agreement to manage unanticipated swings in demands at the Tennessee/Peoples physical interconnections. (Peoples Statement No. 2, p. 28.)

55. NFG provides Peoples Division with storage service and firm transportation service under rates approved by the FERC. Peoples Division uses NFG's services primarily to serve the isolated Grove City area of its service territory. Like its other storage assets, Peoples Division uses its storage service from NFG as a way to reduce natural gas costs, by buying supplies when they generally are cheaper during the summer months and injecting them into storage, and to enhance reliability, by withdrawing the volumes from storage during the winter when demand is highest. Peoples Division utilizes its firm transportation service from NFG both to support the NFG storage service and for deliveries from other supply sources. (Peoples Statement No. 2, p. 30.)

56. Peoples' storage service agreement and firm transportation service agreement with NFG were both entered into in the mid-1990s, and the primary terms of those contracts expired on March 31, 2003; however, each of the contracts contains a one-year notice of

termination provision so that if neither party gives the other party one-year's notice of termination, the contract automatically renews for another year. Peoples has not given NFG notice of termination, so the contracts automatically renewed on April 1 of each year since 2003 and renewed again effective April 1, 2014. (Peoples Statement No. 2, pp. 30-31.)

57. Peoples and Peoples TWP have an exchange agreement that provides for an exchange of equivalent volumes between Peoples and Peoples TWP where the receipt of gas from the other party would provide for more efficient operation of the recipient's system and will improve service reliability for both companies. Under the exchange arrangement, Peoples TWP receives gas from Peoples at an interconnection located in Mars, PA. In exchange, Peoples receives equivalent volumes of gas from Peoples TWP at the six interconnections in the Saxonburg area and another interconnection located in White Township, PA. (Peoples Statement No. 2, pp. 33-34.)

58. Peoples has been purchasing spot market supplies since 1986. Along with its local gas supplies, these are the supplies that Peoples Division uses to meet the demands of those of its customers who continue to buy their supplies from Peoples Division. These are also the supplies that Peoples Division uses its various interstate pipeline assets to transport and store. (Peoples Statement No. 2, p. 44.)

59. Peoples monitors and participates in various proceedings before the FERC. Peoples undertakes legal action as necessary to protect the interests of its ratepayers. (Peoples Exhibit No. 18.)

IV. PROPOSED CONCLUSIONS OF LAW

60. The Commission has jurisdiction over the parties and subject matter of this proceeding. 66 Pa.C.S. §§ 1307(f), 1317-18.

61. Peoples Division has met the requirements of Section 1318 of the Public Utility Code by pursuing a least cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. 66 Pa.C.S. § 1318.

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

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

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

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

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

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

68. Neither Peoples nor its affiliated interests have withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 13181(b)(3).

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

V. PROPOSED ORDERING PARAGRAPHS

70. That the Settlement among Peoples Natural Gas Company LLC, acting on behalf of its Peoples Division, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate in the above-captioned case is hereby approved and adopted.

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

72. That Peoples Natural Gas Company LLC, Peoples Division, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate shall comply with the terms and conditions of the Settlement submitted in this proceeding as though each term and condition stated therein had been subject of an individual ordering paragraph.

73. That upon Peoples Natural Gas Company LLC, Peoples Division's filing of a tariff supplement acceptable to the Commission as conforming with this order and the Settlement

and the Commission's approval thereof, the purchased gas rates established therein shall become effective for service rendered on and after October 1, 2014.

74. That the complaint filed by the Office of Small Business Advocate in these proceedings at Docket No. C-2014-2407227 be marked closed.

75. That the complaint filed by the Office of Consumer Advocate in these proceedings at Docket No. C-2014-2410707 be marked closed.

76. That the complaint filed by Daniel Killmeyer in these proceedings at Docket No. C-2014-2415138 be marked closed.

77. That the investigation at Docket No. R-2014-2403939 be marked closed.

VI. THE PUBLIC INTEREST

78. This Settlement was achieved by the Joint Petitioners after an extensive investigation of Peoples' filing, including extensive informal and formal discovery and the service of written direct testimony by Peoples Division, OCA, OSBA, and I&E and written rebuttal testimony by Peoples Division and OSBA.

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

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

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

VII. CONDITIONS OF SETTLEMENT

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

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

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

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

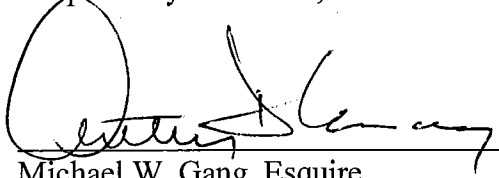
86. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the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

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

VIII. CONCLUSION

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that: (1) the Honorable Administrative Law Judge Jeffrey A. Watson recommend approval of and the Commission approve this Settlement, including all terms and conditions thereof without modification, and make the findings contained therein; and (2) the Commission enter a final order approving this Settlement.

Respectfully submitted,

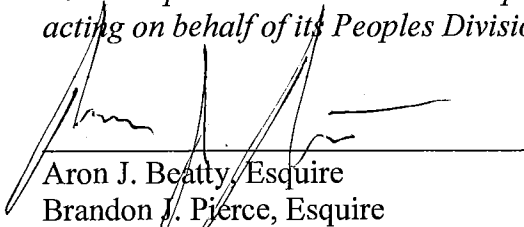


Michael W. Gang, Esquire
Anthony D. Kanagy, Esquire
Devin T. Ryan, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

Date: 6/16/14

William H. Roberts II, Esquire
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212

*For Peoples Natural Gas Company LLC,
acting on behalf of its Peoples Division*



Aron J. Beatty, Esquire
Brandon J. Pierce, Esquire
Office of Consumer Advocate
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Harrisburg, PA 17101-1923

Date: 6/16/14

For Office of Consumer Advocate

Carrie B. Wright

Carrie B. Wright, Esquire
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
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PO Box 3265
Harrisburg, PA 17105-3265

Date: 6/16/14

For Bureau of Investigation and Enforcement

Elizabeth Rose Triscari

Elizabeth Rose Triscari, Esquire
Office of Small Business Advocate
Commerce Building
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Harrisburg, PA 17101

Date: 6/16/2014

For Office of Small Business Advocate

Appendix "A"

PEOPLES NATURAL GAS COMPANY LLC

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

Annual 1307(f) Gas Cost Filing

ISSUED:

**BY: Morgan K. O'Brien
President
375 North Shore Drive, Suite 600
Pittsburgh, PA 15212**

EFFECTIVE:

NOTICE

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

LIST OF CHANGES

Pages 3 through 4a updated to reflect the pricing changes provided below.

	<u>Present Base Rates</u>	<u>Proposed Base Rates</u>	<u>Increase (Decrease)</u>
Rate GS-SB	\$0.3430	\$0.7017	\$0.3587
Rider B			
<u>Rate RS, SGS, MGS, LGS, NGPV</u>			
Capacity Charge	\$0.3430	\$0.7017	\$0.3587
Gas Cost Adjustment	\$0.0012	\$0.4714	\$0.4702
Natural Gas Supply Charge	\$4.5672	\$4.2279	(\$0.3393)
Rate RS, GS-T (Residential)			
AVC Capacity Charge	\$0.6180	\$0.7254	\$0.1074
Rate SGS, GS-T (SGS)			
AVC Capacity Charge	\$0.5808	\$0.7008	\$0.1200
Rate MGS, GS-T (MGS)			
AVC Capacity Charge	\$0.4279	\$0.4795	\$0.0516
Rate LGS, GS-T (LGS)			
AVC Capacity Charge	\$0.2112	\$0.1830	<\$0.0282>
Rate GS-T			
BB&A Charge – SGS, MGS	\$0.1771	\$0.1491	(\$0.0280)
BB&A Charge – LGS	\$0.0469	\$0.0347	(\$0.0122)
Retainage Percentage – RS, SGS, and MGS	5.0%	5.2%	0.2%
Retainage Percentage – LGS	4.1%	4.6%	0.5%

ISSUED:

EFFECTIVE:

Annual 1307(f) Gas Costs

	Rider B - Gas Cost Charges				Base Rate Charges (5)	Rider A STAS (6)	Rider E MFC (7)	Rider F USR (8)	Rider G GPC (9)	Rider H Rate Credit (10)	Rider K DSIC Charge (11)	Bill Display Total Rate (12=SUM 1 to 11)
	Capacity (1)	AVC Capacity (2)	GCA (3)	Commodity (4)								
Residential Sales						0.11%					0.76%	
Customer Charge					\$ 13.9500					\$ -	\$ 0.1060	\$ 14.0560
Capacity	\$ 0.7017	\$ 0.7254				\$ 0.0122					\$ 0.0001	\$ 1.4394
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.1621		\$ 0.0900			\$ 0.0019	\$ 4.9533
Delivery Charge					\$ 3.1497		\$ 0.3693			\$ -	\$ 0.0267	\$ 3.5457
State Tax Surcharge						\$ 0.0035						\$ 0.0035
Total per MCF						\$ 0.1743						\$ 9.9419
Commercial SGS												
Customer Charge												
0 to 499 MCF/Yr					\$ 14.8800					\$ (1.2900)	\$ 0.1131	\$ 13.7031
500 to 999 MCF/Yr					\$ 27.0000					\$ (1.2900)	\$ 0.2052	\$ 25.9152
Capacity	\$ 0.7017	\$ 0.7008				\$ 0.0026					\$ 0.0000	\$ 1.4051
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 2.1939						\$ 0.0167	\$ 2.2106
State Tax Surcharge						\$ 0.0024						\$ 0.0024
Total per MCF						\$ 0.0378						\$ 8.4436
Industrial SGS												
Customer Charge												
0 to 499 MCF/Yr					\$ 20.0000					\$ (1.2900)	\$ 0.1520	\$ 18.8620
500 to 999 MCF/Yr					\$ 27.0000					\$ (1.2900)	\$ 0.2052	\$ 25.9152
Capacity	\$ 0.7017	\$ 0.7008				\$ 0.0026					\$ 0.0000	\$ 1.4051
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 1.7623						\$ 0.0134	\$ 1.7757
State Tax Surcharge						\$ 0.0019						\$ 0.0019
Total per MCF						\$ 0.0378						\$ 8.0082
Commercial MGS												
Customer Charge												
1,000 to 2,499 MCF/Yr					\$ 50.0000					\$ (23.5800)	\$ 0.3800	\$ 26.8000
2,500 to 24,999 MCF/Yr					\$ 77.0000					\$ (36.3200)	\$ 0.5852	\$ 41.2652
Capacity	\$ 0.7017	\$ 0.4795				\$ 0.0026					\$ 0.0000	\$ 1.1838
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 2.1904					\$ (0.1105)	\$ 0.0166	\$ 2.0965
State Tax Surcharge						\$ 0.0024						\$ 0.0024
Total per MCF						\$ 0.0378						\$ 8.1082

ISSUED:

EFFECTIVE:

Annual 1307(f) Gas Costs

	Rider B - Gas Cost Charges				Base Rate Charges (5)	Rider A STAS (6)	Rider E MFC (7)	Rider F USR (8)	Rider G GPC (9)	Rider H Rate Credit (10)	Rider K DSIC Charge (11)	Bill Display Total Rate (12=SUM 1 to 11)
	Capacity (1)	AVC Capacity (2)	GCA (3)	Commodity (4)								
Industrial MGS												
Customer Charge											0.11%	
1,000 to 2,499 MCF/Yr				\$	50.0000					\$ (23.5800)	\$ 0.3800	\$ 26.8000
2,500 to 24,999 MCF/Yr				\$	77.0000					\$ (36.3200)	\$ 0.5852	\$ 41.2652
Capacity	\$ 0.7017	\$ 0.4795				\$ 0.0026					\$ 0.0000	\$ 1.1838
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 1.5243				\$ (0.1105)		\$ 0.0116	\$ 1.4254
State Tax Surcharge						\$ 0.0017						\$ 0.0017
Total per MCF						\$ 0.0378						\$ 7.4363
Commercial LGS												
Customer Charge												
25,000 to 49,999 MCF/Yr					\$ 443.0000					\$ (324.6400)	\$ 3.3668	\$ 121.7268
50,000 to 99,999 MCF/Yr					\$ 545.0000					\$ (399.3900)	\$ 4.1420	\$ 149.7520
100,000 to 199,999 MCF/Yr					\$ 793.0000					\$ (581.1200)	\$ 6.0268	\$ 217.9068
Over 200,000 MCF/Yr					\$ 1,215.0000					\$ -	\$ 9.2340	\$ 1,224.2340
Capacity	\$ 0.7017	\$ 0.1830				\$ 0.0026					\$ 0.0000	\$ 0.8873
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 2.3913				\$ (0.0918)		\$ 0.0182	\$ 2.3177
State Tax Surcharge						\$ 0.0026						\$ 0.0026
Total per MCF						\$ 0.0378						\$ 8.0331
Industrial LGS												
Customer Charge												
25,000 to 49,999 MCF/Yr					\$ 443.0000					\$ (324.6400)	\$ 3.3668	\$ 121.7268
50,000 to 99,999 MCF/Yr					\$ 545.0000					\$ (399.3900)	\$ 4.1420	\$ 149.7520
100,000 to 199,999 MCF/Yr					\$ 1,144.0000					\$ (838.3400)	\$ 8.6944	\$ 314.3544
Over 200,000 MCF/Yr					\$ 2,009.0000					\$ -	\$ 15.2684	\$ 2,024.2684
Capacity	\$ 0.7017	\$ 0.1830				\$ 0.0026					\$ 0.0000	\$ 0.8873
PTC- Commodity Charge			\$ 0.4714	\$ 4.2279		\$ 0.0352		\$ 0.0900			\$ 0.0010	\$ 4.8255
Delivery Charge					\$ 1.7553				\$ (0.0918)		\$ 0.0133	\$ 1.6768
State Tax Surcharge						\$ 0.0019						\$ 0.0019
Total per MCF						\$ 0.0378						\$ 7.3915

ISSUED:

EFFECTIVE:

Annual 1307(f) Gas Costs

	Base Rate Charges (1)	Rider A STAS (2)	Rider E MFC (3)	Rider F USR (4)	Rider B Capacity (5) AVC Capacity (6)		BB&A (7)	Rider H Rate Credit (8)	Rider K DSIC Charge (9)	Bill Display Total Rate (10=SUM 1 to 9)
Rate GS-T Residential										
Customer Charge	\$ 13.9500	0.11%						\$ -	\$ 0.1060	\$ 14.0560
Capacity			\$ 0.0122		\$ 0.7017	\$ 0.7254			\$ 0.0001	\$ 1.4394
Delivery Charge	\$ 3.1497			\$ 0.3693			\$ -	\$ 0.0267		\$ 3.5457
State Tax Surcharge		\$ 0.0035								\$ 0.0035
Total per MCF										\$ 4.9886
Rate GS-T Commercial SGS										
Customer Charge										
0 to 499 MCF/Yr	\$ 14.8800						\$ (1.2900)	\$ 0.1131		\$ 13.7031
500 to 999 MCF/Yr	\$ 27.0000						\$ (1.2900)	\$ 0.2052		\$ 25.9152
1/ Capacity/BB&A			\$ 0.0026		\$ 0.7017	\$ 0.7008		\$ 0.0000		\$ 1.4051
Delivery Charge	\$ 2.1939							\$ 0.0167		\$ 2.2106
State Tax Surcharge		\$ 0.0024								\$ 0.0024
Total per MCF										\$ 3.6181
Rate GS-T Industrial SGS										
Customer Charge										
0 to 499 MCF/Yr	\$ 20.0000						\$ (1.2900)	\$ 0.1520		\$ 18.8620
500 to 999 MCF/Yr	\$ 27.0000						\$ (1.2900)	\$ 0.2052		\$ 25.9152
1/ Capacity/BB&A					\$ 0.7008	\$ 0.1491				\$ 0.8499
Delivery Charge	\$ 1.7623							\$ 0.0134		\$ 1.7757
State Tax Surcharge		\$ 0.0019								\$ 0.0019
Total per MCF										\$ 2.6275
Rate GS-T Commercial MGS										
Customer Charge										
1,000 to 2,499 MCF/Yr	\$ 50.0000						\$ (23.5800)	\$ 0.3800		\$ 26.8000
2,500 to 24,999 MCF/Yr	\$ 77.0000						\$ (36.3200)	\$ 0.5852		\$ 41.2652
1/ Capacity/BB&A					\$ 0.4795	\$ 0.1491				\$ 0.6286
Delivery Charge	\$ 2.1904						\$ (0.1105)	\$ 0.0166		\$ 2.0965
State Tax Surcharge		\$ 0.0024								\$ 0.0024
Total per MCF										\$ 2.7276

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

ISSUED:

EFFECTIVE:

Annual 1307(f) Gas Costs

	Base Rate Charges	Rider A STAS	Rider E MFC	Rider F USR	Rider B Capacity AVC Capacity		BB&A	Rider H Rate Credit	Rider K DSIC Charge	Bill Display Total Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10=SUM 1 to 9)
Rate GS-T Industrial MGS										
Customer Charge										
1,000 to 2,499 MCF/Yr	\$ 50.0000							\$ (23.5800)	\$ 0.3800	\$ 26.8000
2,500 to 24,999 MCF/Yr	\$ 77.0000							\$ (36.3200)	\$ 0.5852	\$ 41.2652
1/ Capacity/BB&A					\$ 0.4795		\$ 0.1491			\$ 0.6286
Delivery Charge	\$ 1.5243							\$ (0.1105)	\$ 0.0116	\$ 1.4254
State Tax Surcharge		\$ 0.0017								\$ 0.0017
Total per MCF										\$ 2.0557
Rate GS-T Commercial LGS										
Customer Charge										
25,000 to 49,999 MCF/Yr	\$ 443.0000							\$ (324.6400)	\$ 3.3668	\$ 121.7268
50,000 to 99,999 MCF/Yr	\$ 545.0000							\$ (399.3900)	\$ 4.1420	\$ 149.7520
100,000 to 199,999 MCF/Yr	\$ 793.0000							\$ (581.1200)	\$ 6.0268	\$ 217.9068
Over 200,000 MCF/Yr	\$ 1,215.0000							\$ -	\$ 9.2340	\$ 1,224.2340
1/ Capacity/BB&A					\$ 0.1830		\$ 0.0347			\$ 0.2177
Delivery Charge	\$ 2.3913							\$ (0.0918)	\$ 0.0182	\$ 2.3177
State Tax Surcharge		\$ 0.0026								\$ 0.0026
Total per MCF										\$ 2.5380
Rate GS-T Industrial LGS										
Customer Charge										
25,000 to 49,999 MCF/Yr	\$ 443.0000							\$ (324.6400)	\$ 3.3668	\$ 121.7268
50,000 to 99,999 MCF/Yr	\$ 545.0000							\$ (399.3900)	\$ 4.1420	\$ 149.7520
100,000 to 199,999 MCF/Yr	\$ 1,144.0000							\$ (838.3400)	\$ 8.6944	\$ 314.3544
Over 200,000 MCF/Yr	\$ 2,009.0000							\$ -	\$ 15.2684	\$ 2,024.2684
1/ Capacity/BB&A					\$ 0.1830		\$ 0.0347			\$ 0.2177
Delivery Charge	\$ 1.7553							\$ (0.0918)	\$ 0.0133	\$ 1.6768
State Tax Surcharge		\$ 0.0019								\$ 0.0019
Total per MCF										\$ 1.8965

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

ISSUED:

EFFECTIVE:

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

- 4) All standby volumes contracted for the month by the ratepayer.

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

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

- (9) Unless otherwise agreed under paragraph (17) below, the Company will arrange its utilization of available capacity by endeavoring to fairly accommodate, to the extent practicable, the interests of its retail and transportation ratepayers.
- a. Available System Capacity for Transportation Service: Capacity for the transportation of ratepayer-owned gas is available on the Company's system to the same extent as capacity is available for the general system supplies that the Company acquires for its retail ratepayers, except where operational constraints may require otherwise. Those operational constraints can include the safety of persons or property and the displacement of locally produced or purchased retail gas supplies.
 - b. Actual Unavailability of or Restrictions on Capacity: In the event that capacity on the Company's system either is unavailable for the transportation of ratepayer-owned gas or is available but restricted, the Company will provide its transportation ratepayer or the ratepayer's designated representative with a written explanation of why capacity is unavailable or restricted and the steps examined by the Company to alleviate the unavailability or restriction. Where capacity is restricted, the Company will allocate capacity to its transportation ratepayers without regard to the sources of the ratepayers' natural gas supplies.
 - c. Anticipated Unavailability of or Restrictions on Capacity: Whenever the Company anticipates that an extraordinary activity or occurrence will make capacity either unavailable or available but restricted, the Company will provide written notice to Pennsylvania producers, as early as possible, of the specific portions of the Company's system on which capacity may be unavailable or available but restricted and of the length of time that the unavailability or restriction likely will last.
- (10) As soon as practical after the ratepayer learns of any disruption or interruption in its supply of gas, the ratepayer shall notify the Company.
- (11) The measurements at the point of receipt and delivery shall be the responsibility of the Company. All quantities of gas received, transported, and delivered shall be expressed in terms of "Mcf." If the ratepayer's gas is received by the Company in Btus, the Company will divide the number of Btus by 1.030, or such other factor as the Company may determine appropriate, to determine the Mcf of gas received by the Company for transportation.
- (12) The Company shall retain 5.2 percent of the total volume of gas received into its system on behalf of residential (l) and ratepayers classified as small and medium general service and 4.6 percent of the total volume of gas (l) received into its system on behalf of ratepayers classified as large general service as gas used in Company operations and for unaccounted-for gas under Transportation Agreements that have been or are entered into pursuant to this rate, except in the following circumstances, where the Company may exercise its discretion to waive retainage in conjunction with a positive cost/benefit analysis:

ISSUED:

EFFECTIVE:

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

A banking, balancing, and advancing (BB&A) charge will be assessed against each Mcf of gas transported at \$0.1491 per Mcf for small and medium general service ratepayers and \$0.0347 per Mcf for large general service (D) ratepayers. This rate will be recalculated in each of the Company's annual 1307(f) gas cost proceedings.

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

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

ISSUED:

EFFECTIVE:

RATE GS-SB
GENERAL SERVICE - STANDBY**AVAILABILITY**

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

RULES AND DELIVERY TERMS**Priority-One Transportation Ratepayers**

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

Non-Priority-One Transportation Ratepayers

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

Back-up Standby Service

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

RATE TABLE**Capacity Charges Applicable under the Rate Schedule:**

RS Capacity Charge per Mcf	\$0.7017 (I)
SGS Capacity Charge per Mcf	\$0.7017 (I)
MGS Capacity Charge per Mcf	\$0.7017 (I)
LGS Capacity Charge per Mcf	\$0.7017 (I)

Standby Charges for Priority One Transportation Ratepayers

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

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

ISSUED:

EFFECTIVE:

RIDER B
RECOVERY OF PURCHASED GAS COSTS (1307(f) RATES)

COMPUTATION OF PURCHASED GAS COSTS

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

$$\text{Demand} = \frac{\text{DC} - \text{BB\&A} - \text{DOU}}{\text{S} + \text{P1AC} + \text{SBC}}$$

$$\text{Commodity} = \frac{\text{CC-R}}{\text{S} + \text{SBR}}$$

$$\text{Over/Under Collection} = \frac{\text{E}}{\text{S} + \text{SBR} + \text{MR}}$$

$$\text{AVC Capacity} = \frac{\text{AVC} - \text{AVCOU}}{\text{S} + \text{P1AC} + \text{NP1}}$$

(For definitions of "AVC", "DC", "CC", "E", "S", "SBC", "NP1", "P1AC", "R", "BB&A", and "DOU" refer to Section below this rider).

The purchased gas cost rates are as follows:

SALES Rate Schedule	Capacity Charge – Demand 1/	Gas Cost Adjustment Charge – (Over)/Under Collection	Natural Gas Supply Charge – Commodity	AVC Capacity Charge 1/
Rate RS	\$0.7017 (I)	\$0.4714 (I)	\$4.2279 (D)	\$0.7254 (I)
Rate SGS	\$0.7017 (I)	\$0.4714 (I)	\$4.2279 (D)	\$0.7008 (I)
Rate MGS	\$0.7017 (I)	\$0.4714 (I)	\$4.2279 (D)	\$0.4795 (I)
Rate LGS	\$0.7017 (I)	\$0.4714 (I)	\$4.2279 (D)	\$0.1830 (D)

TRANSPORTATION P1 Rate Schedule	Capacity Charge	AVC Capacity Charge 1/
GS-T Residential	\$0.7017 (I)	\$0.7254 (I)
GS-T Commercial SGS	\$0.7017 (I)	\$0.7008 (I)
GS-T Commercial MGS	\$0.7017 (I)	\$0.4795 (I)
GS-T Commercial LGS	\$0.7017 (I)	\$0.1830 (D)

TRANSPORTATION NP1 Rate Schedule	AVC Capacity Charge 1/
GS-T Commercial SGS	\$0.7008 (I)
GS-T Industrial SGS	\$0.7008 (I)
GS-T Commercial MGS	\$0.4795 (I)
GS-T Industrial MGS	\$0.4795 (I)
GS-T Commercial LGS	\$0.1830 (D)
GS-T Industrial LGS	\$0.1830 (D)

1/ The AVC Capacity Charge will be subject to adjustment through the ongoing 1307(f) mechanism as a result of a modernization and compliance tracker for system improvements on the AVC system.

(continued)

ISSUED:

EFFECTIVE:

RIDER E

MERCHANT FUNCTION CHARGE (MFC)

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

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

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

Capacity Charge per Mcf	\$0.0122	(D)
Gas Cost Adjustment Charge per Mcf	\$0.0000	
Commodity Charge per Mcf	\$0.1621	(D)
Total MFC per Mcf	\$0.1743	

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

Capacity Charge per Mcf	\$0.0026	(D)
Gas Cost Adjustment Charge per Mcf	\$0.0000	
Commodity Charge per Mcf	\$0.0352	(D)
Total MFC per Mcf	\$0.0378	

**PROFORMA TO
GAS -- PA PUC No. S-2**

PEOPLES NATURAL GAS COMPANY LLC

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

Annual 1307(f) Gas Cost Filing

ISSUED:

EFFECTIVE:

**By: Morgan K. O'Brien
President
375 North Shore Drive, Suite 600
Pittsburgh, PA 15212**

NOTICE

LIST OF CHANGES

Rate P-1 (1) Assignment of Capacity

Language changes proposed to reflect assignment of capacity shall be structured at zero cost to NGs.

ISSUED:

EFFECTIVE:

RATE P-1
PRIORITY ONE POOLING SERVICE

1. Assignment of Capacity (continued)

to the customer to the earlier of the end of the seasonal period (Winter releases shall terminate March 31 and summer releases shall terminate October 31.) or the termination date of the contract(s) between the Company and the upstream pipeline or the last month in which the NGS renders commodity service to the customer on whose behalf the capacity had been assigned; provided however, the Company may in its discretion release such capacity on a monthly basis. The NGS must comply with all upstream pipeline requirements to become an eligible shipper on the upstream pipeline system. The NGS is responsible for paying the upstream pipeline directly for capacity assigned under this provision, which payments shall include all applicable pipeline surcharges. To the extent the NGS's customers are paying equivalent capacity charges in accordance with the Company's Retail Tariff, the Company will reimburse the NGS for these pipeline charges.

The firm transportation capacity released pursuant to the previous section shall be recallable by the Company only under the following circumstances:

- a. the customer on whose behalf the capacity has been assigned is no longer served by the NGS or
- b. the NGS has failed to comply with the terms and conditions set forth herein.

Consistent with FERC rules and regulations for capacity releases under state retail choice programs, upstream pipeline storage capacity held by the Company shall be assigned to the NGS as agent for the ratepayers of the NGS's Priority-One Pool. The assignment shall be structured as a release of capacity ~~at the full maximum rates paid by the Company at zero cost~~ and may be (C) subject to conditions of release (including, but not limited to, injection and withdrawal rights) that differ from the applicable upstream pipeline storage service. The release shall terminate at the end of the then-current storage season pursuant to the applicable upstream pipeline rate schedule terms and conditions; provided however, the Company may in its discretion release such capacity on a monthly basis. ~~The NGS is responsible for paying the upstream pipeline directly for capacity assigned~~ (C) ~~under this provision, which payments shall include all pipeline surcharges. To the extent the~~ (C) ~~NGS's customers are paying equivalent capacity charges in accordance with the Company's tariff,~~ (C) ~~the Company will reimburse the NGS for these pipeline charges.~~ (C)

Capacity released pursuant to this section shall be recallable by the Company only upon failure of the NGS to comply with the terms and conditions set forth herein or in connection with a buyback of gas by the Company as set forth in paragraph 2 of this rate schedule.

ISSUED:

EFFECTIVE:

Appendix “B”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2014-2403939
Office of Small Business Advocate	:	C-2014-2407227
Office of Consumer Advocate	:	C-2014-2410707
Daniel Killmeyer	:	C-2014-2415138
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

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

TO ADMINISTRATIVE LAW JUDGE JEFFREY A. WATSON:

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples” or the “Company”), acting on behalf of its Peoples Division (“Peoples Division”), hereby files this Statement in Support of the Joint Petition for Partial Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Settlement”) entered into by Peoples, the Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (hereinafter, collectively “Joint Petitioners”)¹ in the above-captioned purchased gas cost proceeding. Peoples respectfully requests that Administrative Law Judge Jeffrey A. Watson (the “ALJ”) recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

¹ The Pennsylvania Independent Oil & Gas Association (“PIOGA”) has indicated that it does not oppose the Settlement. Daniel Killmeyer, a customer complainant in this proceeding, is not a party to the Settlement.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including whether Peoples Division's historic natural gas costs were incurred and projected natural gas costs will be incurred under a least cost fuel procurement policy. The Settlement is in the interests of the Company, its Peoples Division customers, and the other Joint Petitioners and is otherwise in the public interest. It should accordingly be approved without modification.

The Settlement was achieved only after a comprehensive investigation of Peoples Division's natural gas procurement policies and operations. In addition to informal discovery, Peoples responded to numerous formal discovery requests (many of which had multiple subparts). In support of their positions, Peoples, I&E, OCA and OSBA served testimony and accompanying exhibits, which were subsequently admitted into the record at the evidentiary hearing held on May 29, 2014. The Joint Petitioners and PIOGA participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

Finally, the Joint Petitioners and PIOGA, as well as their experts and counsel, have considerable experience in purchased gas cost ("PGC") proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus on the settled issues.

For these reasons and the reasons set forth below, the Settlement is just and reasonable and Peoples' 2014 1307(f) Filing, as modified by the Settlement, should be approved.

II. COMMISSION POLICY FAVORS SETTLEMENT

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

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

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

The Settlement reflects a carefully-balanced compromise of the interests of all of the Joint Petitioners while producing just and reasonable gas cost rates.

A. NATURAL GAS SUPPLY RATES AS OF OCTOBER 1, 2014

The rates that Peoples proposes to place into effect on October 1, 2014, for its Peoples Division are supported by record evidence. Peoples explained in detail the development of the natural gas supply rates utilizing cost projections, sales projections, and the reconciliation process. Peoples' testimony provides full support for the rates and their underlying calculations. (Peoples Statement No. 3, pp. 4-13; Peoples Exhibit Nos. 1, 5-9, 19-22.)

Accordingly, under the terms of the Settlement, the Joint Petitioners agree that, on October 1, 2014, Peoples shall place into effect, for service rendered on and after October 1, 2014, the form of tariff supplement attached to the Settlement as Appendix A. (Settlement ¶ 29.) The form of tariff supplement shall be subject to updates and tariff modifications traditionally performed on October 1. (Settlement ¶ 29.)

B. ADJUSTMENT TO AVC CHARGES

On March 19, 2013, Peoples, Peoples TWP LLC ("Peoples TWP"), and Equitable Gas Company, LLC ("Equitable"), filed a Joint Application with the Commission requesting various approvals, some of which included: (1) the transfer of 100% of the membership interests in Equitable to PNG Companies LLC, Peoples' direct parent and indirect subsidiary of SteelRiver Infrastructure Fund North America LP; (2) the merger of Equitable with Peoples and the

operation of the former Equitable properties and business as an operating division of Peoples (“Peoples-Equitable Division”); (3) the transfer of certain storage and transmission assets of Peoples to EQT Corporation (“EQT”); and (4) the associated gas capacity, storage, and supply service agreements among Peoples, Peoples TWP, Equitable, and/or EQT Energy LLC (“EQT Energy”) (“Merger Proceeding”). (Peoples Statement No. 1, p. 5.)

The active parties in the Merger Proceeding were able to reach an agreement resolving all issues in the case. On November 1, 2013, the ALJ entered an Initial Decision approving the Joint Petition for Settlement. On November 14, 2013, the Commission entered an Order approving the Initial Decision and thereby approving the Settlement. (Peoples Statement No. 1, p. 5.) On December 17, 2013, the transaction was closed between the parties that allowed for the transfer of the Equitable natural gas distribution business and its merger into Peoples. (Peoples Statement No. 1, pp. 5-6.)

As part of the Merger Proceeding, Peoples transferred certain transmission, pipeline and storage assets to EQT and its subsidiaries. This transfer included four storage facilities (Gamble-Hayden, Webster, Truittsburg, and Rager Mountain) with aggregate storage capacity of approximately 15 Bcf. Peoples also transferred approximately 200 miles of high pressure transmission pipelines and associated facilities to EQT. The transfer occurred on December 17, 2013, and Equitrans immediately began operating these storage and transmission assets as the AVC System of its FERC-regulated pipeline operations. (Peoples Statement No. 1, p. 6.)

The AVC assets have been and will continue to be essential in providing service to the Peoples Division’s customers. As approved by the Commission in the Merger Proceeding, the transportation and storage rates under these agreements that Peoples pays to EQT’s FERC regulated pipeline, Equitrans LLC (“Equitrans”), are cost of service based rates that are designed

to recover a cost level similar to what otherwise would have been incurred by Peoples had it continued to own and operate these assets. The cost of service formula in these agreements also provides for ongoing annual adjustments in rates to reflect: 1) changes in rate base for accumulated depreciation and modernization/compliance investments; 2) an adjustment to O&M expenses based on a standard inflation factor; and 3) and an adjustment to reflect actual taxes other than income. As provided in the AVC service agreements, the annual adjustment in rates shall be based on the adjusted annual revenue requirement as of December 31 of each year and be effective on March 1st of the following year. The initial AVC rates were effective from December 31, 2013 through February 28, 2014. New AVC rates became effective on March 1, 2014. (Peoples Statement No. 1, pp. 6-8.)

In this proceeding, Peoples advised the parties that the annual AVC rate adjustment in March 2014 included modernization investment associated with two projects that should not have been included in the AVC cost of service. (Peoples Statement No. 1-R, p. 11; OCA Statement No. 1, p. 6.) Under the Settlement, Peoples Division will adjust future PGC rates to reverse the error in AVC charges billed to Peoples. Peoples Division will reflect adjusted charges from Equitrans in prospective quarterly PGC filings once Equitrans adjusts the AVC charges and provides any credits or refunds to customers relating to previously billed charges. (Settlement ¶ 34.) This Settlement provision is in the public interest because it ensures that the AVC rate error will be corrected and customers will receive the benefit of such correction.

C. LOST AND UNACCOUNTED FOR GAS, COMPANY USE AND RETAINAGE

1. Lost and Unaccounted For Gas

Over the past several years, Peoples has undertaken substantial efforts to reduce lost and unaccounted for gas (“UFG”) on its facilities, now the facilities of the Peoples Division. These

efforts are explained in more detail in the Direct Testimony of Jeffrey S. Nehr, Peoples St. No. 2. Under its UFG Plan, the Peoples Division systematically diagnoses each segment of its system to determine the root causes of UFG. The Peoples Division has devoted significant resources to the following UFG reduction initiatives:

1. Enhanced Leak Repair Program, which prioritizes leak repairs;
2. Measurement improvements designed to audit and improve measurements at producer interconnects and to study the impact of temperature on the measurement accuracy of non-compensated meters;
3. Interconnect improvements designed to eliminate the possibility of gas backflow; and
4. Pipeline improvements to abandon or replace pipelines that are obsolete or cannot be repaired.

Peoples St. No. 2, pp. 56-57.

These initiatives have produced significant reductions in UFG over the past several years. The Peoples Division's overall UFG, company use gas and storage loss percentages have decreased from 7.9% for the 12 months ended July 31, 2010, to 7.4% for the 12 months ended July 31, 2011 to 6.5% for the 12 months ended July 31, 2012, to 6.1% for the 12 months ended July 31, 2013. See Peoples Exh. No. 17. All of these UFG percentages reflect Peoples' operations prior to the transfer of those certain storage and transmission assets to EQT which became Equitrans' AVC System, and these percentages would be reduced if adjusted to reflect Peoples' operations without these assets.

I&E witness Mr. Cline recommended that the Company continue to implement measures to reduce UFG. (I&E Statement No. 1, p. 6.) Peoples Division agreed with Mr. Cline's recommendation. (Peoples Statement No. 1-R, pp. 4-5.) In its testimony, Peoples Division explained that it will continue to focus on gathering system improvements including enhanced leak repair, upgrading producer measurement and integration practices, eliminating idle producer

interconnects, and abandoning non-essential gathering pipelines. Peoples further explained that it will identify gathering pipelines with high leak frequency and prioritize them for its Repair/Protect/Replace program. (Peoples Statement No. 2, p. 58.) These actions are designed to further reduce UFG and are in the public interest.

2. Retainage

Peoples requires transportation customers to deliver to Peoples Division's system slightly more gas than is used by the customer and "retains" the difference between deliveries and consumption to compensate for UFG, company use gas, and storage losses. This process is referred to as "retainage." Retainage is usually stated as a percentage of gas delivered into the distribution system. Setting the retainage percentage is important because a retainage rate that is excessive will cause transportation customers to overpay for UFG, company use gas, and storage losses. Conversely, a retainage rate that is too low will harm 1307(f) customers by causing them to pay for more than their share of UFG, company use gas and storage losses.

Peoples Division's retainage rates established on October 1, 2013, in Peoples' 2013 1307(f) proceeding and prior to the AVC asset transfer were 7.75% for Rate Residential Service ("RS"), Small General Service ("SGS"), and Medium General Service ("MGS") customers and 6.8% for Large General Service ("LGS") customers. Peoples proposed that the new retainage rates to be effective October 1, 2014, be set at 5.2% for Rate RS, SGS, and MGS customers and 4.6% for LGS customers, (Peoples Statement No. 1, p. 21; Peoples Exhibit No. 3.) which reflects both the AVC asset transfer as well as the reduction in UFG, company use and storage losses. The new retainage rates are based on a two-year average of UFG, company use gas and storage losses, as adjusted to remove storage losses from the AVC system and fuel that Peoples

Division's natural gas suppliers will be charged by Equitrans L.P. ("Equitrans") for moving gas on the AVC transmission system. (Peoples Statement No. 1, p. 22.)²

In this proceeding, I&E proposed to increase the Company's retainage rates from 5.2% to 5.9% for RS, SGS and MGS customers and from 4.6% to 5.35% for non-discounted LGS customers. (I&E Statement No. 1, p. 9.) I&E's primary concern was that retainage rates for non-discounted transportation customers should reflect consistent levels of UFG charges to sales (or 1307(f)) customers. I&E's proposal relied on historic UFG applied to historic transportation volumes to calculate the retainage rates for the projected period.³

In addition, the OSBA proposed to increase the Company's retainage rates from the Company proposed 5.2% to 5.7% for RS, SGS and MGS customers and from 4.6% to 5.1% for non-discounted LGS customers. (OSBA Statement No. 1, p. 4.) The OSBA's proposal was based on using a three-year average of UFG, company use gas and storage losses.

Pursuant to the Settlement, the Joint Petitioners agreed that Peoples Division's proposed retainage rates should be approved based upon Peoples Rebuttal Exhibit No. 1, which demonstrates that Peoples Division's proposed retainage rates are projected to recover similar percentages of UFG, company use gas and storage losses from both non-discounted transportation customers and sales (or 1307(f)) customers for the application period October 1, 2014 through September 30, 2015. (Settlement ¶ 30.) This addresses I&E's concern that non-discounted transportation customers and sales or 1307(f) customers should pay similar retainage percentages.

The Joint Petitioners also agreed that Peoples Division will calculate the retainage rates proposed in its 2015 and 2016 PGC filings using a two-year average level of lost and

² For a further description of the AVC system, please see Section III(B) and Peoples Statement No. 1, p. 6.

³ Peoples explained that it is more reasonable to apply the UFG percentage to projected, rather than historic, transportation volumes because UFG changes with usage. (Peoples Statement No. 1-R, p. 7.)

unaccounted for gas in a manner consistent with its proposal in this proceeding. (Settlement ¶ 31.) This provision is intended to address OSBA's proposal to use a consistent methodology to calculate retainage rates. (OSBA Statement No. 1, pp. 5-6.)

D. BB&A CHARGE

As proposed by Peoples, the banking, balancing, and advancing ("BB&A") charges did not include the demand charge under Peoples' NAESB supply contract for the Peoples Division with EQT Energy. OCA witness Mierzwa argued that the EQT Energy reservation charges should be included in the design of the BB&A charges because the EQT Energy agreement replicates a storage service and all other storage service costs are included in the design of the BB&A charges. (OCA Statement No. 1, p. 8.) Under the Settlement, Peoples Division agreed to include the demand charge under Peoples' NAESB supply contract for the Peoples Division with EQT Energy in determining the BB&A charges. (Settlement ¶ 35.) Consequently, the parties have agreed that, commencing October 1, 2014, the BB&A rate for SGS and MGS customers will be \$0.1491, and the BB&A rate for LGS customers will be \$0.0347, as opposed to the rates proposed by Peoples of \$0.1397 and \$0.0326, respectively. (Settlement ¶ 35.) This Settlement provision resolves OCA's concerns regarding this issue.

E. CONTRACT RENEWALS AND CHANGES

As explained in Peoples Statement No. 2, there were several renewals and changes in gas supply, pipeline, and storage capacity contracts in this proceeding. (Peoples Statement No. 2, pp. 4-47). The Joint Petitioners agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Statement No. 2 and related exhibits included in the 2014 Definitive Filing. (Settlement ¶ 36.)

No party in this proceeding challenged Peoples Division's gas supply, pipeline or storage capacity contracts. These contracts are in the public interest for the reasons explained in Peoples Division's testimony and exhibits, and these contracts should be approved.

F. MERGER OF THE PEOPLES DIVISION AND PEOPLES-EQUITABLE DIVISION PGC RATES

As explained above, Peoples acquired Equitable and established its Peoples-Equitable Division as a result of the Merger Proceeding. Peoples did not propose to merge the gas cost rates in the current annual 1307(f) filings of Peoples Division and Peoples-Equitable Division; however, Peoples advised the Parties that it is taking steps now to align gas cost rates for Peoples Division and Peoples-Equitable Division to support the blending of their gas cost rates in the near future. (Peoples Statement No. 1, p. 14.) Consequently, Peoples also advised the parties that it expects to propose to merge the PGC rates of its Peoples and Peoples-Equitable Divisions in its 2015 PGC filings. (Settlement ¶ 37.) Peoples will file separate PGC filings for the Divisions and proposals for merger of PGC rates. (Settlement ¶ 37.) Under the Settlement, the Joint Petitioners also agree and request that the 2015 PGC filings of the Peoples and Equitable Divisions should be consolidated for hearing and decision. (Settlement ¶ 37.) The Joint Petitioners reserve the right to comment on and oppose any merger of rates proposal. (Settlement ¶ 37.)

Peoples believes that these Settlement provisions are in the public interest because they provide the Parties and the Commission with notice of Peoples' intentions regarding the proposed merger of PGC rates in next year's PGC proceedings, provide for a procedural mechanism to evaluate such proposal and further allow the Parties and the Commission to better prepare for the proposed merger of rates.

G. MISCELLANEOUS UNCONTESTED ITEMS

Under the Settlement, the parties have agreed that Peoples' April 1, 2014 1307(f) Definitive Filing is approved except to the extent that it is modified by the Settlement. (Settlement ¶ 28.) The parties have thoroughly investigated Peoples' PGC filing through discovery and the submission of testimony. Peoples has addressed the contested issues through the specific provisions of the Settlement and requests that the ALJ and the Commission approve the Companies' Definitive Filing as to the uncontested issues.

H. SECTION 1318 REQUIREMENTS

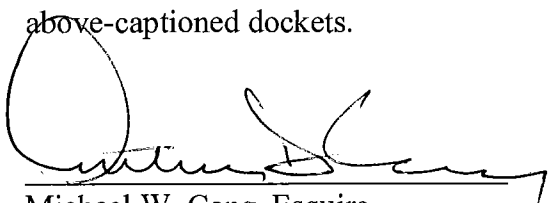
In the Settlement, the Joint Petitioners have represented that the record in this proceeding is sufficient to form the basis for the findings that the Commission is required to make pursuant to Section 1318 of the Public Utility Code. (Settlement ¶¶ 38-40.) Section 1318 contains seven specific sub-findings that the Commission must make in support of a conclusion that Peoples is pursuing a least cost fuel procurement policy. Peoples submits that the record amply supports the required findings on each of the seven issues.

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

IV. CONCLUSION

Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a Settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement is the result of detailed examination of Peoples' natural gas procurement policies on behalf of its Peoples Division through numerous discovery responses, testimony and accompanying exhibits, and settlement negotiations. A fair and reasonable compromise has been achieved in this case, as is evident by the fact that various parties, including Peoples, I&E, OCA, and OSBA have agreed to the resolution of the issues in this proceeding.

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



Date: June 16, 2014

Michael W. Gang, Esquire
Anthony D. Kanagy, Esquire
Devin T. Ryan, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

William H. Roberts II, Esquire
Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212

*For Peoples Natural Gas Company LLC,
acting on behalf of its Peoples Division*

Appendix “C”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	R-2014-2403939
Peoples Natural Gas Company, LLC	:	
1307(f)	:	

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

TO ADMINISTRATIVE LAW JUDGE JEFFREY WATSON:

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

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

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

3. On April 1, 2014, Peoples pursuant to section 1307(f) of the Public Utility Code, made its Gas Cost Rate ("GCR") filing.

4. A Prehearing Conference was scheduled before Administrative Law Judge Jeffrey Watson (the "ALJ") for April 17, 2014. At the Prehearing Conference a procedural schedule was established.

5. On April 30, 2014, I&E, OSBA, and OCA served their direct testimony.

6. On May 15, 2014, 2013 Peoples served rebuttal testimony.

7. The parties were able to reach a partial Settlement and informed the ALJ on May 21, 2014.

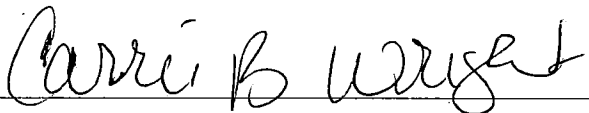
8. I&E agrees that the terms and conditions of the Settlement are in the public interest for a number of reasons, including the following:

- (a) Peoples proposed retainage rates should be approved. Charging the appropriate retainage rate to transportation customers is important because it protects all customers. A retainage rate that was too high would cause transportation customers to pay for more than their share of losses and a retainage rate that was too low would cause residential customers to pay for unaccounted for gas ("UFG") and company use ("CU") gas that should be paid for by transportation customers. Retainage is a function of UFG and CU gas. The Company's claimed UGF is the difference between the gas metered going into the system and the delivered. The information provided by Peoples demonstrates that the proposed retainage rates recover amounts of UFG and CU from transportation customers equal to the projected amounts included in PGC rates applicable to sales customers. Therefore, I&E agrees that the retainage rates are reasonable and should be approved;

- (b) the Company has agreed calculate it retainage rates proposed in the 2015 and 2016 PGC filings using a two year average of UFG. The use of a two year average is consistent with what Peoples has previously used in its 1307(f) filings. The use of a two year average to calculate UFG is appropriate as it will reflect recent data while eliminating year to year fluctuations;
- (c) resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense;
- (d) I&E represents that the settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary on the issues contained in the Settlement and considers its investigation of this filing complete.

9. In conclusion, the Bureau of Investigation and Enforcement has been thoroughly involved in the instant proceeding. I&E reiterates that it fully supports the settlement as being in the public interest and respectfully requests that Administrative Law Judge Jeffrey Watson recommend, and the Commission subsequently approve without modification, the proposed settlement as set forth in the Joint Petition.

Respectfully submitted,



Carrie B. Wright
Prosecutor

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 783-6156

Dated: June 16, 2014

Appendix “D”

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket Nos. R-2014-2403939
Office of Small Business Advocate	:	C-2014-2407227
Office of Consumer Advocate	:	C-2014-2410707
Daniel Killmeyer	:	C-2014-2415138
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

STATEMENT IN SUPPORT OF
THE OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA) is one of the signatories to the Joint Petition for Partial Settlement of the Section 1307(f) Rate Investigation (Joint Petition or Settlement) filed in the above-captioned proceeding.¹ The signatories are as follows: Peoples Natural Gas Company LLC (Peoples), acting on behalf of its Peoples Division (Peoples Division), 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), (collectively referred to as the Joint Petitioners).² The OCA submits that the terms and conditions of the proposed Settlement are in the public interest. The OCA requests Commission approval of the Settlement without modification.

¹ As noted in the Joint Petition, “The Commission’s Policy Statement at 52 Pa. Code § 69.401 defines a Partial Settlement as a comprehensive resolution of all issues in which less than all interested parties have joined. This Settlement is a comprehensive resolution of all the issues raised by the parties in this proceeding. However, ... Mr. [Daniel] Killmeyer [a customer complainant] is not a party to the Settlement. Therefore, the Settlement is being referred to as a Partial Settlement.” Jt. Pet. at 1 n. 2.

² The Pennsylvania Independent Oil and Gas Association (PIOGA) has indicated that it does not oppose the Settlement.

I. INTRODUCTION AND BACKGROUND

The Joint Petition, at pages 1-5, sets forth the procedural history and background of this proceeding. The OCA would add the following regarding its participation. In accord with the statutory mandate of Sections 1307(f), 1317, and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f), 1317, and 1318, and the Public Utility Commission's regulations at 52 Pa. Code § 53.64, the OCA reviewed the Company's purchasing policies and practices for its natural gas supply for the twelve-month period ending January 31, 2014. This analysis included an evaluation of numerous issues associated with Peoples' historic and projected purchasing practices and policies, including, but not limited to:

- 1) Reasonableness and prudence of historic purchased gas costs, and assessment of compliance with Commission Orders in prior 1307(f) cases;
- 2) Reasonableness and accuracy of estimating gas costs during the interim and prospective periods;
- 3) Reasonableness and prudence of the Company's gas supply mix, including purchases of local gas supplies, the use of LNG, and price volatility risk management programs and policies;
- 4) Reasonableness and prudence of the Company's mix of demand entitlements, storage and local production, to include an assessment of the reasonableness of the Company's estimate of design day requirements;
- 5) Reasonableness and prudence of contracts with pipelines and suppliers, and in particular, long-term contracts that provide for special reservation charges, minimum take commitments, or other fixed contract requirements, especially in light of any other subsidies or unreasonable discrimination between customer classes;
- 6) Reasonableness and prudence of the Company's use of capacity release, off-system sales and interruptible sales, and the crediting of such revenues to PGC ratepayers and the Company;
- 7) Assessment of the value of the purchased gas cost incentive mechanisms as components of a least cost fuel procurement policy. These may include incentive mechanisms for off-systems sales and capacity release;

- 8) Reasonableness of sales volumes projections; and
- 9) Technical issues pertaining to the gas cost recovery mechanism, including computation of quarterly adjustments to purchased gas costs, treatment of supplier refunds, provision of carrying costs associated with gas in storage, interest on gas overcollections, and proper computation of the E-factor and migration riders.

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

II. TERMS AND CONDITIONS OF JOINT SETTLEMENT PETITION

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

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

respective issues and how those parts of the Settlement support the public interest standard required for Commission approval of the Joint Petition.

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

- The charges assessed to Peoples from Equitrans, LP for Allegheny Valley Connector (AVC) services are based on a cost of service formula which is updated each March 1 to reflect certain modernization investments made by Equitrans in AVC facilities during the previous year. The AVC charges which became effective March 1, 2014 included the investment associated with two projects that were improperly included in the AVC cost of service formula. I recommend that Peoples identifies in its rebuttal testimony the impact of the improperly included costs on AVC charges and address how it will refund the improperly collected costs; and
- The demand charges associated with Peoples' gas supply agreement with EQT Energy should be included in the design of the Company's Banking, Balancing and Advancing (BB&A) charges.

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

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

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

2. The Settlement provides a reasonable resolution to the adjustment of charges assessed for Allegheny Valley Connector (AVC) services.

In his Direct Testimony, OCA Witness Mierzwa explained the charges assessed to Peoples from Equitrans, LP for AVC services are based on a cost of service formula which is updated each March 1 to reflect certain modernization investments made by Equitrans in AVC facilities during the previous year. OCA Direct Testimony at 5. The AVC charges which became effective March 1, 2014 included the investment associated with two projects that were improperly included in the AVC cost of service formula. OCA Direct Testimony at 6. Mr. Mierzwa recommended that Peoples identify in its rebuttal testimony the impact of the improperly included costs on AVC charges and address how it will refund the improperly collected costs. OCA Direct Testimony at 6.

In his Rebuttal Testimony, Peoples Witness Gregorini explained that the Company would refund the improperly collected AVC charges. See Peoples Statement 1-R at 10-11. Mr. Gregorini's Rebuttal Testimony is the basis for Settlement provision that resolves this issue, as follows:

Peoples Division will adjust future PGC rates to reverse the error in Allegheny Valley Connector ("AVC") charges billed to Peoples by Equitrans L.P. ("Equitrans") commencing March 1, 2014. Peoples Division will reflect adjusted charges from Equitrans in prospective quarterly PGC filings once Equitrans adjusts the AVC charges and provides any credits or refunds to customers relating to previously billed charges.

Joint Petition for Settlement ¶ 34. The OCA submits that this provision represents a fair and equitable result. The Company will adjust PGC rates on a prospective basis in its quarterly PGC filings and refund or credit customers for previous charges.

3. The Settlement provides a reasonable resolution to OCA concerns regarding Peoples' Banking, Balancing, and Advancing (BB&A) charges.

In his testimony, OCA Witness Mierzwa recommended that the Energy reservation charges associated with Peoples' gas supply agreement with EQT Energy be included in the design of the BB&A charges. OCA Direct Testimony at 8. Mr. Mierzwa explained that this gas supply agreement allows Peoples to adjust deliveries on a daily basis during the winter, which replicates the deliverability of a peaking storage service, as stated by PGW witness Jeffery S. Nehr. OCA Direct Testimony at 8. Mr. Mierzwa further explained that because the EQT Energy agreement functions, in essence, like a storage service and all other storage service costs are included in the design of the BB&A charges, so too should the EQT Energy agreement. OCA Direct Testimony at 8.

In his Rebuttal Testimony, PGW Witness Gregorini explained that even though the EQT Energy agreement would not provide 100% of the BB&A service requirements, given the relatively minor impact on rates, he states that it would be reasonable to adopt Mr. Mierzwa's BB&A rates. PGW Rebuttal Testimony at 12-13.

Under the terms of the Settlement, the BB&A rates are described as follows:

The demand charge under Peoples' NAESB supply contract for the Peoples Division with EQT Energy, LLC ("EQT Energy") will be included in determining banking, balancing, and advancing ("BB&A") charges commencing October 1, 2014, resulting in BB&A charges of \$0.1491 for SGS and MGS customers and \$0.0347 for LGS customers as opposed to the rates proposed by Peoples of \$0.1397 and \$0.0326, respectively.

Joint Petition for Settlement ¶ 35. The OCA submits that this is a reasonable resolution of this issue. Peoples' BB&A charges will reflect those rates as proposed by OCA Witness Mierzwa's Direct Testimony.

4. Other issues addressed by the Settlement

The Joint Petition also equitably addresses a number of other issues not raised by the OCA, but in which the OCA took an interest during settlement discussions. In particular, the Joint Petition provides that Peoples expects to propose to merge the PGC rates of its Peoples and Equitable Divisions in its 2015 PGC filings.

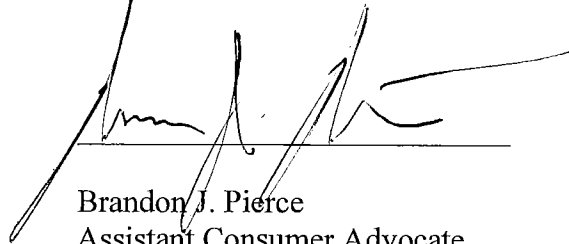
Peoples Division has advised the Parties that it expects to propose to merge the PGC rates of its Peoples and Equitable Divisions in its 2015 PGC filings. Peoples Division and Peoples-Equitable will file separate PGC filings for the Divisions and proposals for merger of PGC rates. The Joint Petitioners reserve the right to comment on and oppose any merger of rates proposal. The Joint Petitioners agree and request that the 2015 PGC filings of the Peoples and Equitable Divisions should be consolidated for hearing and decision.

Joint Petition for Settlement ¶ 37. Peoples will file separate PGC filings for the Divisions and its proposal for merger of PGC rates. By this provision, the OCA and other interested parties will have an opportunity to assess the impact of a combined PGC filing on ratepayers, allowing them to determine whether, and what, if any, benefits to customers would result from such merger of rates. The OCA notes that the Settlement includes language stating that the parties reserve the right to comment on and oppose and merger of rates. The OCA submits that this language protects ratepayers in the event that the merger of rates would not be in the ratepayers' interests. The Joint Petitioners also agreed and will request that the 2015 PGC filings of the Peoples and Equitable Divisions be consolidated for hearing and decision. The OCA submits that the consolidation of 2015 PGC filings will promote judicial economy.

III. CONCLUSION

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

Respectfully Submitted,

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

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June 16, 2014
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Appendix “E”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	DOCKET NO. R-2014-2403939
PEOPLES NATURAL GAS COMPANY, LLC	:	

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

I. INTRODUCTION

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

II. PROCEDURAL BACKGROUND

On January 31, 2014, and February 28, 2014, pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. §1307(f), Peoples submitted pre-filing supporting information concerning its annual Purchased Gas Cost (“PGC”) Rate filing. On April 1, 2014, the Company submitted its annual PGC filing to the Commission.

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

On March 11, 2014, the Commission's Bureau of Investigation and Enforcement ("I&E") entered a notice of appearance.

A Complaint was also filed by the Office of Consumer Advocate ("OCA") on March 17, 2014 and by Daniel Killmeyer on April 9, 2014.

On April 13, 2014, the Pennsylvania Independent Oil and Gas Association ("PIOGA") filed a Petition to Intervene.

A Prehearing Conference was held on April 17, 2014, before Administrative Law Judge ("ALJ") Jeffrey Watson, at which time the parties agreed upon a procedural schedule and discovery modifications.

The OSBA submitted the Direct Testimony and Exhibits of Brian Kalcic on April 30, 2014, marked as OSBA Statement No. 1. Direct Testimony was also submitted by I&E and OCA.

On May 15, 2014, the OSBA submitted the Rebuttal Testimony of Brian Kalcic, marked as OSBA Statement No. 2. Rebuttal Testimony was also filed by Peoples.

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

A hearing was held on May 29, 2014, for the limited purpose of admitting testimony and accompanying exhibits into the record.

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

III. STATEMENT IN SUPPORT OF JOINT PETITION

In its filed testimony, the OSBA raised one issue of concern to Small C&I customers, the Company’s proposed adjustment to retainage rates. As discussed below, the Joint Petition adequately addresses this concern, and provides a just and reasonable outcome to a difficult and complex case. As a result, the OSBA concludes that the Joint Petition is in the best interests of the Company’s Small C&I customers.

A. Retainage Rates

The Company currently retains 5.0% of the natural gas delivered on behalf of Rates RS (residential), SGS (small general service), and MGS (medium general service) transportation customers, and 4.1% of the natural gas delivered on behalf of Rate LGS (large general service) industrial customers. In its PGC filing, Peoples proposed to adjust its existing retainage rates to reflect: (1) changes in lost and unaccounted for gas (“LUFG”) and company use (“CU”) levels; and (2) the removal of fuel (use) associated with the transfer of its Allegheny Valley Connector (“AVC”) storage and transmission assets to Equitrans L.P. on December 17, 2013, as part of Peoples’ acquisition of Equitable Gas Company.

Peoples proposed to increase its existing retainage rates from 5.0% to 5.2% for Rates RS, SGS, and MGS transportation customers, and from 4.1% to 4.6% for Rate LGS

industrial customers. Under Peoples' proposal, the system average retainage rate, before subsequent adjustments would be 6.3%.¹

Peoples arrived at this target system average retainage rate based on the Company's overall LUFG/CU rate of 6.3% for the two-year period ended July 30, 2013.² Peoples' current retainage rates are not based on a two-year system average LUFG/CU level, but rather were established via a "black box" settlement in the Company's 2013 PGC proceeding at Docket No. R-2013-2350915.³ Prior to 2012, Peoples used a three-year average LUFG/CU rate to derive its retainage rates.⁴

OSBA witness Brian Kalcic disagreed with Peoples' use of a two-year system average LUFG/CU level and instead recommended setting retainage rates based on a three-year (rolling) average LUFG/CU level as the Company had done in the past.⁵ Mr. Kalcic explained that because LUFG/CU levels vary from year to year, the Company's past practice of setting retainage rates based on a three-year average LUFG/CU level should produce more stable retainage rates.⁶

Peoples' proposed two-year methodology would also result in significantly lower retainage rates for transportation customers compared to the three-year methodology.⁷ Mr. Kalcic testified that the Company's proposal to use a two-year methodology, at a

¹ OSBA Statement No. 1 at 3.

² See Peoples Exhibit No. 3 at line 3.

³ OSBA Statement No. 1 at 3; OSBA Statement No. 2 at 1.

⁴ *Id.*

⁵ *Id.* at 5.

⁶ *Id.* at 3.

⁷ *Id.* at 5.

time when system losses are *declining*, is biased in favor of transportation customers, because it effectively ignores those periods when transportation customers were assessed retainage rates that were lower than current losses, *i.e.*, when losses were *increasing* year over year.⁸

Using Mr. Kalcic's three-year methodology results in a LUFG/CU rate for the latest three-year period of 6.7%.⁹ The retainage rates necessary to produce this three-year average LUFG/CU rate would be 5.7% for Rates RS, SGS and MGS customers, and 5.1% for Rate LGS customers.¹⁰

Mr. Kalcic also made an alternative recommendation in the event that the Commission adopts Peoples' proposal to base retainage rates on a two-year average LUFG/CU level. Specifically, Mr. Kalcic recommended that the Commission direct the Company that there should be no further changes to its retainage rate methodology going forward.¹¹ In particular, Peoples should not be allowed to return to a three-year (or longer) methodology if, or when, system losses increase. Maintaining a consistent retainage rate methodology over time will ensure that the Company's future retainage rates are unbiased, *i.e.*, favor neither sales nor transportation customers, in the face of year-to-year fluctuations in Peoples' LUFG/CU levels.

The Joint Petition sets retainage rates for Rates RS, SGS and MGS at 5.2% and Rate LGS at 4.6%, as proposed by Peoples.¹² However, the Joint Petition provides that

⁸ *Id.*

⁹ *Id.* at 3-4.

¹⁰ *Id.* at 4.

¹¹ *Id.* at 6.

¹² Joint Petition at ¶30.

Peoples will calculate the retainage rates proposed in its 2015 and 2016 PGC filings using a two-year average level of lost and unaccounted for gas, which is consistent with Mr. Kalcic's alternative recommendation.¹³

The Joint Petition also makes clear that this settlement does not endorse any of the retainage calculation methods employed by any party and each party reserves the right to present alternative retainage calculation methods in future proceedings (except to the extent necessary to effectuate the terms and conditions of this settlement).¹⁴

Because the settlement requires Peoples to calculate the retainage rates proposed in its 2015 and 2016 PGC filings using a two-year average level of lost and unaccounted for gas, and since the settlement does not adopt any one retainage calculation method, the OSBA determines that the settlement retainage rates are reasonable and in the best interest of Peoples' Small C&I customers.

B. Judicial Efficiency

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

¹³ *Id.* at ¶31.

¹⁴ *Id.* at ¶86.

IV. CONCLUSION

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

Respectfully submitted,



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For: John R. Evans
Small Business Advocate

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Dated: June 16, 2014