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File #: 161576

June 23, 2015

***VIA ELECTRONIC FILING***

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

**Re: Pennsylvania Public Utility Commission, Office of Small Business Advocate, and  
Office of Consumer Advocate v. Peoples Natural Gas Company LLC - Docket Nos.  
R-2015-2465172, C-2015-2472257 & C-2015-2472614**

**Pennsylvania Public Utility Commission, Office of Small Business Advocate, and  
Office of Consumer Advocate v. Peoples Natural Gas Company LLC - Equitable  
Division - Docket Nos. R-2015-2465181, C-2015-2472271 & C-2015-2472826**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for 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,

Michael W. Gang

MWG/jl  
Enclosures

cc: Honorable Jeffrey Watson  
Certificate of Service

**CERTIFICATE OF SERVICE**  
**(Docket Nos. R-2015-2465172 & R-2015-2465181)**

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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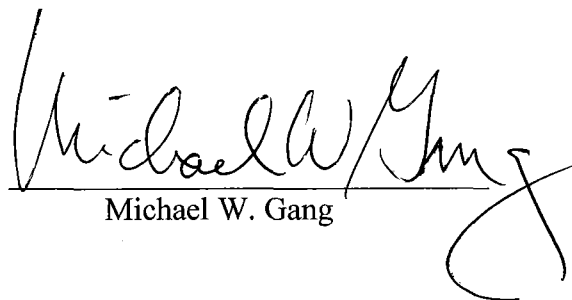
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Date: June 23, 2015

  
Michael W. Gang

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, : Docket Nos. R-2015-2465172  
Office of Small Business Advocate & : C-2015-2472257  
Office of Consumer Advocate : C-2015-2472614

v. :

Peoples Natural Gas Company LLC :

Pennsylvania Public Utility Commission, : Docket Nos. R-2015-2465181  
Office of Small Business Advocate & : C-2015-2472271  
Office of Consumer Advocate : C-2015-2472826

v. :

Peoples Natural Gas Company LLC - :  
Equitable Division :

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

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**TO ADMINISTRATIVE LAW JUDGE JEFFREY A. WATSON:**

Peoples Natural Gas Company LLC (“Peoples”), acting on behalf of its Peoples Division (“Peoples Division”) and its Equitable Division (“Peoples-Equitable 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 consolidated proceeding (hereinafter, collectively referred to as the “Joint Petitioners”),<sup>1</sup> hereby file this Joint Petition for Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Settlement”). As explained

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<sup>1</sup> The Pennsylvania Independent Oil & Gas Association (“PIOGA”) and Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) have indicated that they do not oppose the Settlement.

below, the Joint Petitioners have agreed to a settlement of all of issues that have been raised in: (1) the Peoples Division’s 2015 Purchased Gas Cost (“PGC”) proceeding at Docket Nos. R-2015-2465172, C-2015-2472257, and C-2015-2472614; and (2) Peoples-Equitable Division’s PGC proceeding at Docket Nos. R-2015-2465181, C-2015-2472271, and C-2015-2472826. The 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, 2015, subject to updates and tariff modifications traditionally performed on October 1; (2) authorize Peoples-Equitable Division to file the form of tariff supplement provided as Appendix B hereto, with rates to become effective October 1, 2015, subject to updates and tariff modifications traditionally performed on October 1, 2015; and (3) 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 Peoples-Equitable Division. Peoples also 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. Peoples-Equitable Division provides retail natural gas sales and transportation services to approximately 270,000 customers throughout its service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Clarion, Fayette, Greene, Indiana, Jefferson, Washington, and Westmoreland.

5. 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.

6. Because Peoples-Equitable Division's annual operating revenues derived from providing gas service to customers in Pennsylvania exceed \$40 million, Peoples-Equitable 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.

7. On January 30, 2015, Peoples Division and Peoples-Equitable Division made their PGC 60-day pre-filings 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.

8. On March 2, 2015, Peoples Division and Peoples-Equitable Division made their purchased gas costs (“PGC”) 30-day pre-filings 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.

9. On March 12, 2015, counsel for OSBA filed Notices of Appearance in the Peoples Division proceeding and the Peoples-Equitable Division proceeding.

10. On March 12, 2015, counsel for I&E filed Notices of Appearance in the Peoples Division proceeding and the Peoples-Equitable Division proceeding.

11. On March 17, 2015, OSBA filed Formal Complaints in the Peoples Division proceeding and the Peoples-Equitable Division proceeding.

12. On March 18, 2015, counsel for OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in the Peoples Division proceeding.

13. On March 19, 2015, counsel for OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in the Peoples-Equitable Division proceeding.

14. On March 20, 2015, counsel for Peoples Division and Peoples-Equitable Division filed Notices of Appearance.

15. On April 1, 2015, Peoples Division and Peoples-Equitable Division filed with the Commission their definitive PGC filings including their direct testimony, exhibits, and Pro Forma Tariff Supplements reflecting actual and projected changes in natural gas costs and other tariff changes.

16. On April 6, 2015, DES filed a Petition to Intervene in both proceedings.

17. On April 9, 2015, a Prehearing Conference Order was issued by the ALJ, directing the parties to file Prehearing Memoranda before 3:00 p.m. on April 16, 2015.

18. Also on April 9, 2015, a Notice was issued scheduling a Prehearing Conference before the ALJ on April 17, 2015, in Piatt Place, 301 Fifth Avenue, Suite 220, Pittsburgh, PA 15222, and in the Commonwealth Keystone Building, 400 North Street, Hearing Room 3, Harrisburg, PA 17120.

19. On April 15, 2015, OSBA filed additional Notices of Appearance in both proceedings.

20. On April 16, 2015, PIOGA filed a Petition to Intervene in both proceedings.

21. A prehearing conference was held on April 17, 2015. Prehearing conference memoranda were submitted by Peoples on behalf of both Divisions, and by I&E, OCA, OSBA, DES, and PIOGA. A litigation schedule and discovery rule modifications were established and subsequently memorialized in the ALJ's Prehearing Order, dated April 27, 2015. The Prehearing Order also: (1) consolidated the complaints of OCA and OSBA with Peoples Division's PGC filing at Docket No. R-2015-2465172; (2) consolidated the complaints of OCA and OSBA with Peoples-Equitable Division's PGC filing at Docket No. R-2015-2465181; (3) consolidated Peoples-Equitable Division's PGC filing at Docket No. R-2015-2465181 with Peoples Division's PGC filing at Docket No. R-2015-2465172; and (4) granted PIOGA's Petition to Intervene and DES's Petition to Intervene.

22. On May 1, 2015, Peoples filed an unopposed Motion for Protective Order.

23. On May 6, 2015, DES filed a Notice of Entry of Appearance.

24. On May 8, 2015, OCA, OSBA, and I&E served written direct testimony.

25. On May 18, 2015, Peoples-Equitable Division served written supplemental direct testimony.

26. On May 27, 2015, Peoples, on behalf of both Divisions, served written rebuttal testimony.

27. On May 28, 2015, the ALJ granted the Motion for Protective Order.

28. On June 2, 2015, a Notice was issued scheduling initial and further hearings for June 8, 2015, through June 10, 2015.

29. On June 3, 2015, OCA served written surrebuttal testimony.

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

31. In accordance with the Commission's Rules of Practice and Procedures, 52 Pa. Code § 5.231, the Parties engaged in 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 June 4, 2015.

32. A hearing was held on June 8, 2015, at which time the Parties' pre-filed testimony and exhibits were admitted into the record.

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

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

## **II. SETTLEMENT TERMS**

### **A. NATURAL GAS SUPPLY RATES AS OF OCTOBER 1, 2015**

35. People Division shall place into effect, for service rendered on and after October 1, 2015, the form of tariff supplement attached hereto as Appendix A. Peoples-Equitable

Division shall place into effect, for service rendered on and after October 1, 2015, the form of tariff supplement attached hereto as Appendix B. The form of tariff supplements in Appendices A and B shall be subject to updates and tariff modifications traditionally performed on October 1.

**B. COMBINATION OF PEOPLES DIVISION'S AND PEOPLES-EQUITABLE DIVISION'S PGC RATES**

36. Peoples' proposal to combine the PGC rates of its Peoples and Equitable Divisions, including over/under collection factors, effective October 1, 2015, should be approved. Appendix C shows the effects of consolidating the Peoples Division and Peoples-Equitable Division rates under the Settlement. As explained in Paragraph 35 above, the combined rates will be subject to updates traditionally performed on October 1. Anticipating approval to combine the PGC rates, the Joint Petitioners agree that the Company shall file a 60-day tariff filing to be effective October 1, 2015, that proposes to merge the separate Merchant Function Charge ("MFC") and Gas Procurement Charge ("GPC") of the Divisions so that a single price-to-compare rate is effective October 1, 2015. All parties reserve their rights to comment on and oppose this tariff filing.

37. Peoples will make a single PGC (1307(f)) filing combining data and over/under collections for both Divisions in 2016.

**C. CAPACITY LEVELS**

38. The Parties to the Settlement agree that the total level of capacity proposed for the Peoples and Peoples-Equitable Divisions for the projected period commencing October 1, 2015 (which includes an arrangement for firm gas supplies of 25,000 Dt/day from TETCO at Ebersburg for late winter season reliability reasons), is appropriate and should be approved.

This Settlement agreement is not intended to approve any methodology for determining capacity requirements or design day criteria in any future proceeding.

39. Peoples agrees to prepare and file a study of the combined capacity requirements and design day criteria for the proposed capacity requirements for the combined requirements of its two Divisions with its PGC filing in 2016.

**D. AVC AUTHORIZED OVERRUN CHARGES**

40. Peoples Division agrees to remove the \$1,005,000 of Allegheny Valley Connector (“AVC”) authorized overrun charges from the historic period (12 months ended January 2015) costs, and recover such costs from 1307(f) retail sales customers and choice customers through capacity charges and non-choice transportation customers through the BB&A charge, for a one-year period beginning October 1, 2015. The recovery rate is based on total projected annual throughput of both Divisions. This Settlement agreement is not intended to approve any methodology or affect the manner in which authorized overrun charges are recovered in future PGC proceedings.

**E. BANKING, BALANCING AND ADVANCING (“BB&A”) CHARGES**

41. Balancing charges for non-priority 1 transportation customers of both Divisions shall be combined and reflect the adjustments made in Peoples’ Supplemental and Rebuttal Testimony and Paragraph 40 of this Settlement.

42. If there are subsequent changes to interstate pipeline capacity contracts not identified in this proceeding, and such changes would affect the stand-by and/or balancing charges during the PGC period commencing October 1, 2015, the effects of such changes shall be reflected in future standby and/or balancing charges commencing October 1, 2016. This provision includes any contracts entered into to maintain system reliability.

**F. STORAGE ACCOUNTING**

43. In support of the continued use of the annualized LIFO rate for the Peoples Division, Peoples Division's proposal to use the combined average purchased gas cost of both Divisions that excludes demand costs will be approved effective October 1, 2015.

44. The annual LIFO storage accounting rate for 2015 for the Peoples Division shall include 9 months of Peoples Division costs (including demand costs) for the period of January 1, 2015 through September 30, 2015) and 3 months of combined Division costs (excluding demand costs for the period of October 1, 2015 through December 31, 2015).

45. In support of the continued use of the WACOG rate for the Peoples-Equitable Division, the Company's proposal to use the combined monthly average commodity cost of gas of both Divisions, will be approved effective October 1, 2015.

**G. RETAINAGE**

46. Effective October 1, 2015, the tariffed retainage rate for all rate classes of both the Peoples Division and Peoples-Equitable Division shall be 5%.

47. To support the basis for future retainage calculations, Peoples will provide a reconciliation of the volumes used to calculate retainage in the 1307(f) filing with the volumes reported in the annual UFG report.

48. The newly negotiated waivers of retainage contained in Peoples Division and Peoples-Equitable Division Confidential Exhibit Nos. 12, should be approved.

**H. SHARING MECHANISMS**

49. Parties agree that the current 75% customer/25% company capacity release and off-system sales sharing mechanism shall be extended for an additional two-year period through September 30, 2017.

**I. MISCELLANEOUS**

50. Except as revised by this Settlement, the proposed rates and other requested approvals contained in the PGC filings of the Peoples and Equitable Divisions of Peoples should be approved.

**J. LEAST COST FUEL PROCUREMENT POLICY – RECONCILIATION PERIOD**

51. 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 and Peoples-Equitable Division for the 12-month period of February 1, 2014 through January 31, 2015 and, as a result, the natural gas costs that Peoples Division and Peoples-Equitable Division incurred over the 12-month period of February 1, 2014 through January 31, 2015 were incurred under a “least cost fuel procurement policy, consistent with [Peoples Division’s and Peoples-Equitable Divisions’s] obligation to provide safe, adequate and reliable service to its customers.”

**K. LEAST COST FUEL PROCUREMENT POLICY – PROJECTED PERIOD**

52. 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 and Peoples-Equitable Division for the 20-month period of February 1, 2015 through September 30, 2016 and, as a result, the natural gas costs that Peoples will incur over the 20-month period of February 1, 2015 through September 30, 2016 appear that they will be incurred under a “least cost fuel procurement policy, consistent with [Peoples Division’s and Peoples-Equitable Division’s] obligation to provide safe, adequate and reliable service to its customers.”

53. It is understood and expressly agreed that the Commission’s findings and conclusions relating to the projected 20-month period of February 1, 2015 through September 30, 2016 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 and Peoples-Equitable Division for the actual 20-month period of February 1, 2015 through September 30, 2016 and, therefore, (2) whether the natural gas costs actually incurred by Peoples Division and Peoples-Equitable Division over that 20-month period were incurred pursuant to a “least cost fuel procurement policy, consistent with [Peoples Division’s and Peoples-Equitable Division’s] obligation to provide safe, adequate and reliable service to its customers.”

### **III. PROPOSED FINDINGS OF FACT**

54. In December, 2013, Peoples’ parent, PNG Companies LLC, acquired the outstanding membership interests of Equitable Gas Company, LLC (“EGC”). EGC was then immediately merged into Peoples with Peoples as the surviving entity. However, Peoples proposed and the parties in the acquisition case, and then ultimately the Commission, agreed that the former EGC would initially be operated as a separate division of Peoples for ratemaking and other regulatory purposes. Thus, currently Peoples Division and Peoples-Equitable Division are a single legal entity – Peoples Natural Gas Company LLC – but they are separate operating divisions of the same company. Peoples Division and Peoples-Equitable Division currently maintain separate tariffs and charge different rates for both delivery service and the recovery of gas costs. (Peoples and Equitable Division Statement No. 1, p. 8.)

55. The Company has a goal to fully consolidate the Divisions through a multi-year transitional process. It began soon after the merger when the back office administrative functions and operations management of Peoples and Equitable were merged into a single operations and management unit. It continued with the implementation of very similar interstate

gas supply arrangements for both Divisions early last year. These consist of Commission-approved long-term interstate pipeline contracts at Peoples and long-term commodity purchase agreements at Peoples Division and Peoples-Equitable Division, which, incidentally, performed very well during the two most recent, much colder-than-normal winters. Also last year, Peoples began the process to standardize the form of local gas purchase agreement (which continues today) used by each Division, merged many aspects of each Division's various universal service programs through a series of approved regulatory filings, and undertook an Energy Choice collaborative designed to improve retail shopping and create consistent transportation program rules for both Divisions. (Peoples and Equitable Division Statement No. 1, pp. 9-10.)

56. The settlement agreements in last year's 1307(f) filings for Peoples Division and Peoples-Equitable Division included paragraphs that anticipated the proposal to merge the PGC rates of Peoples Division and Peoples-Equitable Division. (Peoples and Equitable Division Statement No. 1, pp. 11-12.)

57. Peoples pursues its goal of least cost reliable service through a combination of local and interstate assets and supplies. The local assets are Peoples' on-system storage facilities and a gathering system, which have allowed Peoples to enhance the deliverability of local natural gas supplies produced in Pennsylvania and purchased by Peoples from Pennsylvania producers. Through the exchange of assets with EQT and entering into long-term contracts with Equitrans L.P. ("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. 5.)

58. Peoples' interstate assets are comprised of a portfolio of transportation and storage services that Peoples 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 access to a variety of locations at which it can receive gas supplies that are produced upstream of the Peoples’ system. Peoples’ interstate supplies are gas that it purchases from suppliers upstream of the Peoples’ system for delivery into various receipt points of the interstate pipelines and occasionally purchases on a delivered-to-the-city gate basis. (Peoples Statement No. 2, pp. 5-6.)

59. 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 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. The capacity is seasonal, and the maximum daily quantity is 251,700 Dth during November through March and 62,000 Dth during April through October. (Peoples Statement No. 2, pp. 18-19.)

60. For the first two months of the 1307(f)-2015 reconciliation period, Peoples had 66,258 Dths/day of FTNN firm transportation service, 240,525 Dths/day of GSS firm storage service, and 240,525 Dths/day of FTNN-GSS firm storage transportation service under contract from DTI. Corresponding with the April 1, 2014, effective date of the new firm transportation service from Equitrans, Peoples opted not to renew contracts for a corresponding amount of its DTI firm storage and transportation services that expired on March 31, 2014. Instead, on February 20, 2014, Peoples entered into new FTNN and GSS service agreements with DTI that

became effective April 1, 2014, and provide year-round FTNN no-notice transportation service at 40,000 Dth/day and GSS storage service with capacity of 4.6 MMDth annually and maximum deliverability of 40,000 Dth/day. There are parts of the Peoples distribution system that are particularly well suited for gas deliveries from DTI, and these agreements allow those gas deliveries to continue. (Peoples Statement No. 2, pp. 19-20.)

61. TETCO provides Peoples with firm transportation service under rates set by the FERC. Peoples requires deliveries of gas at Ebensburg, Claysburg and Rockwood, in the eastern portion of its service territory. TETCO is the only pipeline that physically interconnects with those three receipt points. Peoples purchases gas on TETCO and moves it over TETCO's facilities to the Claysburg and Ebensburg delivery points where it is needed. In recent years, Peoples has contracted for firm delivered-to-Peoples supply arrangements (described in a later section) to meet its needs from the TETCO system at the Rockwood delivery point. TETCO also provides an operational balancing agreement that helps Peoples to manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 2, p. 21.)

62. Peoples requires up to 3,000 Dth/Day at its Rockwood interconnection with TETCO in TETCO's market zone M2. Prior to 2007, Peoples satisfied this requirement with TETCO firm transportation capacity, but the Zone M2 firm transportation capacity was not renewed upon its March 31, 2007 expiration. Since then, Peoples has entered into a series of annual agreements for either firm delivered supply or for the purchase of released capacity that Peoples then matched with spot purchases that extended through the 2013-2014 winter period. During the first part of the 1307(f)-2015 reconciliation period, Peoples purchased a delivered firm supply from South Jersey Resources for 0 through 3,000 Dth/day with no reservation fee or

minimum take obligation. This agreement expired March 30, 2014. During the second part of the 1307(f)-2015 reconciliation period (through January 31, 2015), Peoples did not have a firm delivered supply deal at this Rockwood point and relied on spot market purchases. Peoples intends to enter into another delivered firm supply arrangement for 3,000 Dths per day at the Peoples' Rockwood point for the upcoming 2015-2016 winter. (Peoples Statement No. 2, pp. 32-33.)

63. Peoples 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 Gas Pipeline Company, LLC ("Tennessee") pipeline delivery points directly into Peoples at Pittsburgh Terminal and Pulaski. In addition, the agreements also 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' service territory, an area that is not physically integrated with the rest of the Peoples' system. (Peoples Statement No. 2, p. 25.)

64. On June 15, 2013, the Company issued another RFP for firm delivered supply on Tennessee. Peoples accepted the least-cost proposal, which was submitted by Hess Corporation ("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. Like

TETCO, 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, pp. 25-26.)

65. In January of 2015, the Company issued another RFP for firm delivered supply on Tennessee that will provide for delivery of natural gas on a firm basis at the same quantities and same Tennessee delivery points as previous years' agreements for the winter periods of November 2015 through March 2016 and November 2016 through March 2017. The Company received five proposals for winter 2015-2016 but only two of which included a bid for winter 2016-2017. The Company selected the least cost option for a winter 2015-2016 delivered supply deal and plans to enter into the arrangement soon. (Peoples Statement No. 2, p. 26.)

66. NFG provides Peoples with no-notice storage service and firm transportation service under rates approved by the FERC. Peoples uses NFG's services primarily to serve the isolated Grove City area of its service territory. Like its other storage assets, Peoples uses its storage service from NFG as a no-notice balancing service to manage supply to a uncertain demand and 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 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, pp. 27-28.)

67. During the entire 1307(f)-2015 reconciliation period and for the first two months of the 1307(f)-2015 projected period, NFG provided 9,793 Dth/day of no-notice storage service to Peoples under its Rate ESS and 15,476 Dth/day of firm transportation service to Peoples under its Rate EFT. Peoples entered into both of those contracts in the mid-1990s and the primary

terms of those contracts expired on March 31, 2003; however, each of the contracts contain a one-year notice of termination provision so that if neither party give the other one year's notice of termination, the contracts automatically renewed for another year. Because of Peoples' need for the NFG capacity to meet its system balancing and load requirements, Peoples has not given NFG notice of termination, so the contracts automatically renewed on April 1 of each year since 2003, and will renew again, effective April 1, 2015. (Peoples Statement No. 2, p. 28.)

68. Peoples and Peoples TWP have a gas 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 various interconnections. (Peoples Statement No. 2, p. 29.)

69. Peoples has been purchasing spot market supplies since 1986. Along with its local gas supplies, these are the supplies that Peoples uses to meet the demands of those customers who continue to buy their supplies from Peoples. With the exception of the EQT Energy supply, these are also the supplies that Peoples uses its various interstate pipeline assets to transport and store. (Peoples Statement No. 2, pp. 42-43.)

70. 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. 14; Peoples Statement No. 4, pp. 10-12.)

71. Peoples-Equitable Division has pursued and will continue to pursue its goal of least cost, reliable service through a combination of local and interstate assets and supplies. The

local assets are a gathering system that allows Peoples-Equitable Division to directly access local supplies. The local supplies are gas produced in Pennsylvania and purchased by Peoples-Equitable Division from Pennsylvania producers. (Peoples-Equitable Division Statement No. 2, p. 5.)

72. During the historic period, Peoples Division incurred approximately \$1,005,000 in authorized overrun charges from Equitrans under its FERC approved tariff. (Peoples and Equitable Division Statement No. 1-R, pp. 6-7.) The overrun charges are not a penalty but are a cost-based rate that compensates the pipeline for the additional service provided. (Peoples and Equitable Division Statement No. 2-R, p. 3.)

73. The authorized overrun service was used by the Company to provide system flexibility and to balance the system. The Company relied on the authorized overrun service for a variety of reasons, including reduced firm contract capacity in April through October, the unavailability of Peoples' Dice Storage Field from June 2014 through October 2014 and the lack of daily measurement equipment at various demarcation points between the AVC' system into the Peoples' system. (Peoples and Equitable Division Statement No. 2-R, pp. 4-5.)

74. Peoples-Equitable Division's interstate assets are comprised of the portfolio of transportation and storage services that Peoples has contracted for with Equitrans and DTI, both of which are FERC-regulated interstate pipelines. Those assets give Peoples-Equitable Division access to a variety of locations at which it can receive gas supplies that are produced upstream of the Peoples-Equitable Division system. The interstate storage assets allow Peoples-Equitable Division to use its upstream assets more efficiently, mitigate the effects of price swings in the natural gas market and enhance the deliverability of Peoples-Equitable Division's interstate natural gas supplies during periods of peak demand. Peoples-Equitable Division's interstate

supplies are primarily EQT Energy and other Appalachian produced gas that it purchases from suppliers upstream of the Peoples-Equitable Division system for delivery into various receipt points of the Equitrans and DTI. (Peoples-Equitable Division Statement No. 2, pp. 5-6.)

75. Throughout most of the 90's and the first decade of the 21<sup>st</sup> century, EGC purchased the majority of its gas supply requirements from the Gulf and Mid-Continent production areas utilizing transmission capacity on the Texas Eastern Transmission L.P. ("TETCO") interstate pipeline system. This supply was then delivered into the Equitrans interstate pipeline system for storage injections or city-gate deliveries. EGC's firm transportation contract with TETCO expired on October 31, 2012 and was not renewed. EGC then transitioned to a gas supply strategy focused on minimizing purchased gas costs through the procurement of Pennsylvania produced Marcellus Shale and other local Appalachian production. This production is used to meet firm requirements during peak demand periods and for injection into firm storage during low demand periods. Based on the Company's recent experience, ample natural gas supply is readily available for delivery into the Equitrans system. (Peoples-Equitable Division Statement No. 2, p. 9.)

76. Historically, while EGC's transportation service agreement was in effect with TETCO, EGC purchased approximately 60% of its gas supply requirements from the Gulf and Mid-Continent production areas and the remaining 40% from local Appalachian supply sources. In 2014, Peoples-Equitable Division fulfilled most of its supply requirements with Marcellus Shale and other local Appalachian production. (Peoples-Equitable Division Statement No. 2, p. 16.)

77. Peoples-Equitable Division received firm transportation service under Equitrans' Rate Schedule FTS, no-notice firm transportation service under Equitrans' Rate Schedule NOFT,

base load storage service under Equitrans' Rate Schedule 115-SS, and peaking storage service under Equitrans' Rate Schedule 60-SS. (Peoples-Equitable Division Statement No. 2, pp. 10-12.)

78. The Peoples-Equitable Division utilizes a DTI storage service agreement to maintain reliability of cold weather deliveries into Equitrans' H-152 line in the northern part of the Peoples-Equitable Division's service territory. The storage agreement under Rate Schedule GSS provides for 2,480,000 Dth of storage capacity and up to 40,000 Dth/day of deliverability. The firm transportation agreement under Rate Schedule FT provides for transportation of up to 40,000 Dth/day. These services utilize the DTI system interconnect with the Equitrans H-152 pipeline at DTI's Mars Crider delivery point as the primary delivery point and have solved the reliability problem for service from Equitrans Line H-152 by providing Peoples-Equitable Division a firm contract path on DTI to the Mars Crider interconnect. During the 2013-2014 winter, Equitrans posted 20 operational flow orders ("OFOs") requiring the delivery of gas into pipeline H-152. During the recent winter, Equitrans did not issue a single OFO requiring delivery to H-152. This is totally attributable to Peoples-Equitable Division having the capability to deliver supply to H-152 from DTI Storage throughout this winter. If Peoples-Equitable Division had not scheduled firm gas to this point, it projects that Equitrans would have issued at least 9 OFOs during the extremely cold weather conditions we experienced this past winter. Without these services, Peoples-Equitable Division may not have been able to deliver gas to this important interconnection, and had Peoples-Equitable Division been able to acquire gas that could have been delivered here, it would have been in an extremely illiquid market. Peoples-Equitable Division also utilized these services during the 1307(f)-2015 reconciliation period in conjunction with Peoples-Equitable Division's DTI interconnect at Limestone to

provide for additional Appalachian gas flow from Peoples-Equitable Division's gathering system to DTI storage in the summer when production into the system exceeded demand. This use promoted the continued production of local gas directly into the Peoples-Equitable Division system and allowed Peoples-Equitable Division to have access to that supply for winter withdrawal and delivery to the Mars Crider interconnect. (Peoples-Equitable Division Statement No. 2, pp. 14-15.)

79. For the 1307(f)-2015 Projected Period, Peoples-Equitable Division's gas supply portfolio will consist of two categories: Appalachian Purchases and Upstream Pipeline Capacity. (Peoples-Equitable Division Statement No. 2, pp. 16-17.)

80. Appalachian Purchases refers to Appalachian supplies that are delivered directly into the Peoples-Equitable Division's gathering systems or otherwise aggregated for delivery into the distribution system. This production, which is sourced primarily from conventional wells, is received daily in volumes that are constant and, therefore, fulfills a base load function. (Peoples-Equitable Division Statement No. 2, p. 17.)

81. Upstream Pipeline Supply refers to those Appalachian gas supplies that must be transported through Equitrans to the Company's distribution system. Upstream Pipeline Supply consists primarily of Marcellus Shale production, but also includes other Appalachian production from conventional wells. The Upstream Pipeline Supply production volumes can be injected into storage when demand is low or delivered directly to Peoples-Equitable Division's city gate during periods of higher demand. (Peoples-Equitable Division Statement No. 2, p. 19.)

82. Peoples-Equitable Division does not purchase natural gas from any affiliated interest, but Peoples-Equitable Division does use and pay for transportation services provided by Peoples Gathering LLC and Peoples TWP. These arrangements are a continuation of pre-

existing arrangements providing critical supplies to isolated parts of Peoples-Equitable Division's system that could not be served otherwise. (Peoples-Equitable Division Statement No. 2, pp. 20-21.)

83. Peoples-Equitable Division monitors and participates in various proceedings before the FERC as a means of assuring the future availability of reasonably priced, reliable gas supplies for its ratepayers. (Peoples-Equitable Division Exhibit No. 14; Peoples-Equitable Division Statement No. 4, pp. 14-16.)

#### **IV. PROPOSED CONCLUSIONS OF LAW**

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

85. Peoples Division and Peoples-Equitable Division have met the requirements of Section 1318 of the Public Utility Code by pursuing a least cost fuel procurement policy, consistent with their obligations to provide safe, adequate and reliable service to their customers. 66 Pa.C.S. § 1318.

86. Peoples Division's and Peoples-Equitable 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.

87. Peoples Division and Peoples-Equitable Division have fully and vigorously represented the interests of their 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).

88. Peoples Division and Peoples-Equitable Division have taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utilities from terms in

existing contracts with their gas suppliers which are or may be adverse to the interests of the utilities' ratepayers in compliance with 66 Pa.C.S. § 1318(a)(2).

89. Peoples Division and Peoples-Equitable Division have 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).

90. Peoples Division and Peoples-Equitable Division have 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).

91. Peoples Division and Peoples-Equitable Division have 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).

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

93. The Joint Petition for Settlement is in the public interest.

## **V. PROPOSED ORDERING PARAGRAPHS**

94. That the Settlement among Peoples Natural Gas Company LLC, acting on behalf of its Peoples Division and Peoples-Equitable 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.

95. That Peoples Natural Gas Company LLC shall file tariff supplements, on behalf of both Divisions, to become effective on October 1, 2015, on not less than 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.

96. That Peoples Natural Gas Company LLC, 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.

97. That upon Peoples Natural Gas Company LLC's filing of tariff supplements 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, 2015.

98. That the complaints filed by the Office of Small Business Advocate in these proceedings at Docket Nos. C-2015-2472257 and C-2015-2472271 be marked closed.

99. That the complaints filed by the Office of Consumer Advocate in these proceedings at Docket Nos. C-2015-2472614 and C-2015-2472826 be marked closed.

100. That the investigations at Docket Nos. R-2015-2465172 and R-2015-2465181 be marked closed.

## **VI. THE PUBLIC INTEREST**

101. This Settlement was achieved by the Joint Petitioners after an extensive investigation of Peoples' filings, including extensive informal and formal discovery and the

service of written direct testimony by Peoples Division and Peoples-Equitable Division, OCA, OSBA, and I&E, written rebuttal testimony by Peoples Division and Peoples-Equitable Division, and written surrebuttal testimony by OCA.

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

103. 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.

104. As explained in various Parties' Statements in Support, the combination of Peoples Division's and Peoples-Equitable Division's PGC rates is in the public interest because it will avoid pipeline interconnection costs, avoid metering costs between the two Divisions, create a more reliable system, create pipeline efficiencies, create gas cost savings, and allow NGSs to offer a consistent gas commodity price to shopping customers.<sup>2</sup>

105. Attached as Appendices D through G are Statements in Support submitted by Peoples on behalf of both Divisions, I&E, OCA, and OSBA setting forth the bases upon which they believe the Settlement is in the public interest.

## **VII. CONDITIONS OF SETTLEMENT**

106. 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.

---

<sup>2</sup> If the Company's proposal to merge the MFCs and GPCs of both Divisions is approved as set forth in Paragraph 36, there will be a single PTC for both Divisions.

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.

107. 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.

108. 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.

109. 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.

110. 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

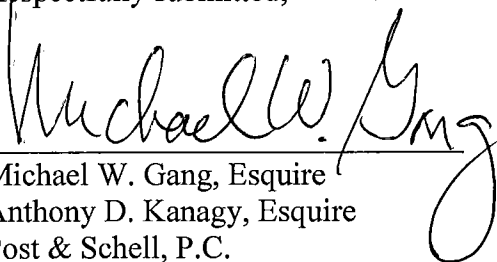
Joint Petitioners from taking other positions in proceedings of other public utilities under Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), or any other proceeding.

111. 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,

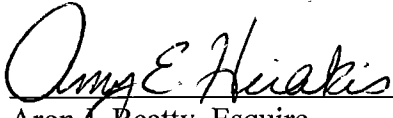


Michael W. Gang, Esquire  
Anthony D. Kanagy, Esquire  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601

Date: 6/23/15

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 and  
Peoples Natural Gas Company LLC –  
Equitable Division*



Date: 6-23-15

Aron J. Beatty, Esquire  
Amy E. Hirkakis, Esquire  
Brandon J. Pierce, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923

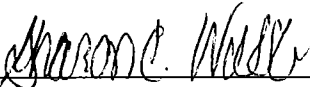
*For Office of Consumer Advocate*



Date: 6/23/15

Phillip C. Kirchner, Esquire  
Gina L. Lauffer, Esquire  
Bureau of Investigation and Enforcement  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor West  
PO Box 3265  
Harrisburg, PA 17105-3265

*For Bureau of Investigation and Enforcement*



Date: 6/23/15

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

*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)-2015 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, 3A, 4 & 4A updated to reflect the pricing changes provided below.

	<u>Present Base Rates</u>	<u>Proposed Base Rates</u>	<u>Increase (Decrease)</u>
<b>Rate GS-SB</b>	\$0.6471	\$1.0882	\$0.4411
<b>Rider B</b>			
<u>Rate RS, SGS, MGS, LGS, NGPV</u>			
Capacity Charge	\$0.6471	\$1.0882	\$0.4411
Gas Cost Adjustment	\$0.3870	(\$0.0624)	(\$0.4494)
Natural Gas Supply Charge	\$2.0691	\$2.7053	\$0.6362
 Rate RS, GS-T (Residential)			
AVC Capacity Charge	\$0.5617	\$0.3803	(\$0.1814)
 Rate SGS, GS-T (SGS)			
AVC Capacity Charge	\$0.5753	\$0.4570	(\$0.1183)
 Rate MGS, GS-T (MGS)			
AVC Capacity Charge	\$0.4075	\$0.2926	(\$0.1149)
 Rate LGS, GS-T (LGS)			
AVC Capacity Charge	\$0.2226	\$0.1542	(\$0.0684)
 <b>Rate GS-T</b>			
BB&A Charge – SGS & MGS	\$0.1491	\$0.4442	\$0.2951
BB&A Charge – Industrial	\$0.0347	\$0.0864	\$0.0517
 Retainage Percentage – RS, SGS, and MGS	5.2%	5.0%	(0.2%)
Retainage Percentage – LGS	4.6%	5.0%	0.4%

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

	Rider B - Gas Cost Charges				Base Rate Charges	Rider A STAS	Rider E MFC	Rider F USR	Rider G GPC	Rider H Rate Credit	Rider K DSIC Charge	Bill Display Total Rate
	Capacity (1)	AVC Capacity (2)	GCA (3)	Commodity (4)								
<b>Residential Sales</b>						0.11%					2.45%	
Customer Charge					\$ 13.9500					\$ -	\$ 0.3418	\$ 14.2918
Capacity	\$ 1.0882	\$ 0.3803				\$ 0.0386					\$ 0.0009	\$ 1.5081
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0938		\$ 0.0900			\$ 0.0045	\$ 2.8312
Delivery Charge					\$ 3.1497		\$ 0.3524			\$ -	\$ 0.0858	\$ 3.5879
State Tax Surcharge						\$ 0.0035						\$ 0.0035
Total per MCF						\$ 0.1324						\$ 7.9307
<b>Commercial SGS</b>												
Customer Charge												
0 to 499 MCF/Yr					\$ 14.8800					\$ -	\$ 0.3646	\$ 15.2446
500 to 999 MCF/Yr					\$ 27.0000					\$ -	\$ 0.6615	\$ 27.6615
Capacity	\$ 1.0882	\$ 0.4570				\$ 0.0084					\$ 0.0002	\$ 1.5538
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900			\$ 0.0027	\$ 2.7560
Delivery Charge					\$ 2.1939						\$ 0.0538	\$ 2.2477
State Tax Surcharge						\$ 0.0024						\$ 0.0024
Total per MCF						\$ 0.0287						\$ 6.5598
<b>Industrial SGS</b>												
Customer Charge												
0 to 499 MCF/Yr					\$ 20.0000					\$ -	\$ 0.4900	\$ 20.4900
500 to 999 MCF/Yr					\$ 27.0000					\$ -	\$ 0.6615	\$ 27.6615
Capacity	\$ 1.0882	\$ 0.4570				\$ 0.0084					\$ 0.0002	\$ 1.5538
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900			\$ 0.0027	\$ 2.7560
Delivery Charge					\$ 1.7623						\$ 0.0432	\$ 1.8055
State Tax Surcharge						\$ 0.0019						\$ 0.0019
Total per MCF						\$ 0.0287						\$ 6.1172
<b>Commercial MGS</b>												
Customer Charge												
1,000 to 2,499 MCF/Yr					\$ 50.0000					\$ -	\$ 1.2250	\$ 51.2250
2,500 to 24,999 MCF/Yr					\$ 77.0000					\$ -	\$ 1.8865	\$ 78.8865
Capacity	\$ 1.0882	\$ 0.2926				\$ 0.0084					\$ 0.0002	\$ 1.3894
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900			\$ 0.0027	\$ 2.7560
Delivery Charge					\$ 2.1904					\$ -	\$ 0.0537	\$ 2.2441
State Tax Surcharge						\$ 0.0024						\$ 0.0024
Total per MCF						\$ 0.0287						\$ 6.3918

ISSUED:

EFFECTIVE:

Rider B - Gas Cost Charges				Base Rate	Rider A	Rider E	Rider F	Rider G	Rider H	Rider K	Bill Display
Capacity	AVC Capacity	GCA	Commodity	Charges	STAS	MFC	USR	GPC	Rate Credit	DSIC Charge	Total Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12=SUM 1 to 11)
<b>Industrial MGS</b>					0.11%						
<b>Customer Charge</b>											
1,000 to 2,499 MCF/Yr				\$ 50.0000					\$ -	\$ 1.2250	\$ 51.2250
2,500 to 24,999 MCF/Yr				\$ 77.0000					\$ -	\$ 1.8865	\$ 78.8865
Capacity	\$ 1.0882	\$ 0.2926				\$ 0.0084				\$ 0.0002	\$ 1.3894
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900		\$ 0.0027	\$ 2.7560
Delivery Charge				\$ 1.5243					\$ -	\$ 0.0373	\$ 1.5616
State Tax Surcharge					\$ 0.0017						\$ 0.0017
Total per MCF						\$ 0.0287					\$ 5.7087
<b>Commercial LGS</b>											
<b>Customer Charge</b>											
25,000 to 49,999 MCF/Yr				\$ 443.0000					\$ -	\$ 10.8535	\$ 453.8535
50,000 to 99,999 MCF/Yr				\$ 545.0000					\$ -	\$ 13.3525	\$ 558.3525
100,000 to 199,999 MCF/Yr				\$ 793.0000					\$ -	\$ 19.4285	\$ 812.4285
Over 200,000 MCF/Yr				\$ 1,215.0000					\$ -	\$ 29.7675	\$ 1,244.7675
Capacity	\$ 1.0882	\$ 0.1542				\$ 0.0084				\$ 0.0002	\$ 1.2510
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900		\$ 0.0027	\$ 2.7560
Delivery Charge				\$ 2.3913					\$ -	\$ 0.0586	\$ 2.4499
State Tax Surcharge					\$ 0.0026						\$ 0.0026
Total per MCF						\$ 0.0287					\$ 6.4595
<b>Industrial LGS</b>											
<b>Customer Charge</b>											
25,000 to 49,999 MCF/Yr				\$ 443.0000					\$ -	\$ 10.8535	\$ 453.8535
50,000 to 99,999 MCF/Yr				\$ 545.0000					\$ -	\$ 13.3525	\$ 558.3525
100,000 to 199,999 MCF/Yr				\$ 1,144.0000					\$ -	\$ 28.0280	\$ 1,172.0280
Over 200,000 MCF/Yr				\$ 2,009.0000					\$ -	\$ 49.2205	\$ 2,058.2205
Capacity	\$ 1.0882	\$ 0.1542				\$ 0.0084				\$ 0.0002	\$ 1.2510
PTC- Commodity Charge			\$ (0.0624)	\$ 2.7053		\$ 0.0204		\$ 0.0900		\$ 0.0027	\$ 2.7560
Delivery Charge				\$ 1.7553					\$ -	\$ 0.0430	\$ 1.7983
State Tax Surcharge					\$ 0.0019						\$ 0.0019
Total per MCF						\$ 0.0287					\$ 5.8072

ISSUED: EFFECTIVE:

	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)
<b>Rate GS-T Residential</b>										
Customer Charge	\$ 13.9500	0.11%						\$ -	\$ 0.3418	\$ 14.2918
Capacity			\$ 0.0386		\$ 1.0882	\$ 0.3803			\$ 0.0009	\$ 1.5081
Delivery Charge	\$ 3.1497			\$ 0.3524				\$ -	\$ 0.0858	\$ 3.5879
State Tax Surcharge		\$ 0.0035								\$ 0.0035
Total per MCF										\$ 5.0994
<b>Rate GS-T Commercial SGS</b>										
Customer Charge										
0 to 499 MCF/Yr	\$ 14.8800							\$ -	\$ 0.3646	\$ 15.2446
500 to 999 MCF/Yr	\$ 27.0000							\$ -	\$ 0.6615	\$ 27.6615
1/ Capacity/BB&A			\$ 0.0084		\$ 1.0882	\$ 0.4570			\$ 0.0002	\$ 1.5538
Delivery Charge	\$ 2.1939								\$ 0.0538	\$ 2.2477
State Tax Surcharge		\$ 0.0024								\$ 0.0024
Total per MCF										\$ 3.8038
<b>Rate GS-T Industrial SGS</b>										
Customer Charge										
0 to 499 MCF/Yr	\$ 20.0000							\$ -	\$ 0.4900	\$ 20.4900
500 to 999 MCF/Yr	\$ 27.0000							\$ -	\$ 0.6615	\$ 27.6615
1/ Capacity/BB&A					\$ 0.4570	\$ 0.4442				\$ 0.9012
Delivery Charge	\$ 1.7623								\$ 0.0432	\$ 1.8055
State Tax Surcharge		\$ 0.0019								\$ 0.0019
Total per MCF										\$ 2.7086
<b>Rate GS-T Commercial MGS</b>										
Customer Charge										
1,000 to 2,499 MCF/Yr	\$ 50.0000							\$ -	\$ 1.2250	\$ 51.2250
2,500 to 24,999 MCF/Yr	\$ 77.0000							\$ -	\$ 1.8865	\$ 78.8865
1/ Capacity/BB&A					\$ 0.2926	\$ 0.4442				\$ 0.7368
Delivery Charge	\$ 2.1904							\$ -	\$ 0.0537	\$ 2.2441
State Tax Surcharge		\$ 0.0024								\$ 0.0024
Total per MCF										\$ 2.9833

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:

	Base Rate Charges	Rider A STAS	Rider E MFC	Rider F USR	Rider B		BB&A	Rider H Rate Credit	Rider K DSIC Charge	Bill Display Total Rate
	(1)	(2)	(3)	(4)	Capacity	AVC Capacity	(7)	(8)	(9)	(10=SUM 1 to 9)
<b>Rate GS-T Industrial MGS</b>										
Customer Charge										
1,000 to 2,499 MCF/Yr	\$ 50.0000							\$ -	\$ 1.2250	\$ 51.2250
2,500 to 24,999 MCF/Yr	\$ 77.0000							\$ -	\$ 1.8865	\$ 78.8865
1/ Capacity/BB&A					\$ 0.2926	\$ 0.4442				\$ 0.7368
Delivery Charge	\$ 1.5243							\$ -	\$ 0.0373	\$ 1.5616
State Tax Surcharge		\$ 0.0017								\$ 0.0017
Total per MCF										\$ 2.3001
<b>Rate GS-T Commercial LGS</b>										
Customer Charge										
25,000 to 49,999 MCF/Yr	\$ 443.0000							\$ -	\$ 10.8535	\$ 453.8535
50,000 to 99,999 MCF/Yr	\$ 545.0000							\$ -	\$ 13.3525	\$ 558.3525
100,000 to 199,999 MCF/Yr	\$ 793.0000							\$ -	\$ 19.4285	\$ 812.4285
Over 200,000 MCF/Yr	\$ 1,215.0000							\$ -	\$ 29.7675	\$ 1,244.7675
1/ Capacity/BB&A					\$ 0.1542	\$ 0.0864				\$ 0.2406
Delivery Charge	\$ 2.3913							\$ -	\$ 0.0586	\$ 2.4499
State Tax Surcharge		\$ 0.0026								\$ 0.0026
Total per MCF										\$ 2.6931
<b>Rate GS-T Industrial LGS</b>										
Customer Charge										
25,000 to 49,999 MCF/Yr	\$ 443.0000							\$ -	\$ 10.8535	\$ 453.8535
50,000 to 99,999 MCF/Yr	\$ 545.0000							\$ -	\$ 13.3525	\$ 558.3525
100,000 to 199,999 MCF/Yr	\$ 1,144.0000							\$ -	\$ 28.0280	\$ 1,172.0280
Over 200,000 MCF/Yr	\$ 2,009.0000							\$ -	\$ 49.2205	\$ 2,058.2205
1/ Capacity/BB&A					\$ 0.1542	\$ 0.0864				\$ 0.2406
Delivery Charge	\$ 1.7553							\$ -	\$ 0.0430	\$ 1.7983
State Tax Surcharge		\$ 0.0019								\$ 0.0019
Total per MCF										\$ 2.0408

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 5.0 percent of the total volume of gas received into its system on behalf of residential- (D) and ratepayers classified as small and medium general service and 4.6 percent of the total volume of gas 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 \$0.4442 per Mcf for small and medium general service ratepayers and \$0.0864 per Mcf for large general service (l) 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	\$1.0882 (l)
SGS Capacity Charge per Mcf	\$1.0882 (l)
MGS Capacity Charge per Mcf	\$1.0882 (l)
LGS Capacity Charge per Mcf	\$1.0882 (l)

**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 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	\$0.0386	(I)
Gas Cost Adjustment Charge per Mcf	(\$0.0022)	(I)
Commodity Charge per Mcf	\$0.0960	(I)
Total MFC per Mcf	\$0.1324	

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	\$0.0084	(I)
Gas Cost Adjustment Charge per Mcf	(\$0.0005)	(I)
Commodity Charge per Mcf	\$0.0208	(I)
Total MFC per Mcf	\$0.0287	

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

**PEOPLES NATURAL GAS COMPANY LLC**

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

**Annual 1307(f)-2015 Filing**

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

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

**NOTICE**

LIST OF CHANGES

RULES AND REGULATIONS:

Page 7 – Section 2. Measurement and Quality of Gas – Language added to reflect the gas quality provisions that are contained in the standard pooling and producer metering agreements.

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

**RULES AND REGULATIONS****1. Sources of Supply**

The Company agrees to receive, for the NGS's account, upstream pipeline transportation volumes, local gas volumes, storage volumes, Pool-to-Pool Volumes and Imbalance Trading Volumes.

In determining the volumes available for delivery to customers in the applicable month, the Company may retain an appropriate percentage, as set forth in the Company's Retail Tariff, as gas used in Company operations and unaccounted for gas from upstream pipeline transportation volumes and local gas volumes as they are received by the Company. For purposes of determining storage inventory volumes, the retainage percentage shall be applied to volumes at the time the volumes are nominated for injection into storage. Pool-to-Pool Volumes and Imbalance Trading Volumes shall be added to the adjusted volumes.

Suppliers will pay for any investment costs and any other agreed-upon fees relating to the delivery of gas into the Company's system. The Company will own and maintain each natural gas connection's tapping tee or pipe and valve.

**2. Measurement and Quality of Gas**

(C)

All gas delivered shall be measured by meter. The term "mcf" as used in the Company's schedule of rates, shall mean 1,000 cubic feet of gas at no more than 8 ounces above an assumed atmospheric pressure of 14.4 pounds at whatever temperature the gas may be during the period of measurement. If gas is supplied from a low-pressure distribution system in which the pressure of the gas is regulated not to exceed 8 ounces, the measurement will be at whatever pressure the gas may be during the period of measurement. If gas is delivered from a high-pressure system, measurement will be corrected to a pressure base of 14.73 psia. If measurement is corrected for temperature, measurement will be corrected to 60°F.

Gas delivered into the Company's system should be free from oil, water, salt, gum, dust, and other foreign substances that might interfere with the marketability of the gas. Unless otherwise agreed to by the Company, the gas delivered shall contain not less than 967 Btu per cubic foot and shall not exceed 1,100 Btu per cubic foot (as determined by calorimeter test @ 60 degrees Fahrenheit and saturated with water vapor). Gas accepted by the Company that contains less than 967 Btu per cubic foot will be enhanced to ensure that gas delivered by the Company to customers shall meet Commission heating value requirements, and the Company may charge for this.

(C)

Unless otherwise agreed to by the Company through separate agreement, gas delivered by a supplier shall not contain more than:

- (a) Seven (7) pounds of water per million cubic feet on an approved dew point apparatus.
- (b) Three (3) percent by volume of carbon dioxide.
- (c) Twenty-five hundredths (0.25) grains of hydrogen sulfide per 100 cubic feet.
- (d) Ten (10) grains of total sulfur per 100 cubic feet.

The Company may enter into agreements with suppliers whereby the Company will agree to treat gas on behalf of a supplier in order to meet such gas quality requirements outlined above. Should the supplier not enter into such an agreement and fail to meet these gas quality requirements, the Company may refuse to accept gas delivered by the supplier and should a supplier cause damage to any metering, regulating and/or other equipment or interruption of service, the supplier shall reimburse the Company for the costs to repair such damage and for any related costs which the Company may incur to restore service to ratepayers and/or repair facilities, including payments made by the Company to customers in settlement of claims arising out of interruption of gas service. The supplier agrees to allow the Company to make necessary gas samples to permit testing of the delivered gas to determine quality of gas delivered by the supplier.

ISSUED: \_\_\_\_\_

EFFECTIVE: \_\_\_\_\_

# APPENDIX "B"

~~SUPPLEMENT NO. 30~~ PROFORMA  
TO

GAS - PA. P.U.C. NO. 46

Peoples Natural Gas Company LLC  
EQUITABLE Division

RATES and RULES

FOR

GAS SERVICE IN

CITY OF PITTSBURGH

AND TERRITORY ADJACENT THERETO

(For Lists of Communities Served, see Page No. 4)

Annual 1307(f) Gas Cost Filing

| ISSUED: ~~January 9, 2015~~

EFFECTIVE: ~~March 10, 2015~~

By: Morgan K. O'Brien  
President  
Peoples Natural Gas Company, LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212

LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

Page	Page Description	Revision Description
Cover	Tariff Cover Page	
2	List of Changes	List of Changes.
2A and B	Summary of Rates	Summary of proposed pricing changes.
3	Table of Contents	Updated to reflect addition of pages 73 A and B under Rider A
51	Rate FDS Firm Delivery Service	Updated to reflect change in capacity charge.
53	Rate GDS General Delivery Service	Modified to reflect balancing charges based on annual usage in lieu of prior singular balancing charge.
54	Rate GDS General Delivery Service	Language modified to reflect balancing charge revenues are collected from transportation customers.
57	Rate DDS Daily Delivery Service	Modified to reflect balancing charges based on annual usage in lieu of prior singular balancing charge.
71	Rider A	Language added regarding AVC Capacity Charge.
72	Rider A	Updated language regarding interest computation to reflect Section 1307(f)(5) as recommended by the Commission's Bureau of Audits in the pending PGC audit. Denoted that the current PGC includes AVC Capacity Charges as shown on page 73B.
73	Rider A	Removal of Price to Compare section. Price to Compare information is now provided on page 2A (Summary of Rates).
73A	Rider A	Added AVC Capacity Charge
73B	Rider A	AVC Capacity Charge rates, annual reconciliation, and treatment of discounted rate customers.

	Rider A - Gas Cost Charges				Base Rate	Rider F	Rider D	Rider G	Rider E	Bill Display	
	Capacity	AVC Capacity	GCA	Commodity	Charges	Rider STAS	MFC	USR	GPC	DSIC Charge	Total Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11=SUM 1 to 10)
<b>Residential Sales</b>						-0.82%				0.00%	
Customer Charge					\$ 13.2500					\$ -	\$ 13.2500
Capacity	\$ 1.0882	\$ 0.3803								\$ -	\$ 1.4685
Price to Compare - PTC			\$ (0.0624)	\$ 2.7053			\$ 0.0564		\$ 0.1230	\$ -	\$ 2.8223
Delivery Charge					\$ 3.1830			\$ 0.2200		\$ -	\$ 3.4030
State Tax Surcharge						\$ (0.0279)					\$ (0.0279)
Total per MCF											\$ 7.6659
<b>General Service Small - Sales</b>											
Customer Charge											
< 500 MCF/Yr					\$ 17.0000					\$ -	\$ 17.0000
500 to 1,000 MCF/Yr					\$ 28.0000					\$ -	\$ 28.0000
Capacity	\$ 0.4442	\$ 0.4570								\$ -	\$ 0.9012
Price to Compare - PTC	\$ 0.6440		\$ (0.0624)	\$ 2.7053			\$ 0.0186		\$ 0.1230	\$ -	\$ 3.4285
Delivery Charge					\$ 2.5910					\$ -	\$ 2.5910
State Tax Surcharge						\$ (0.0212)					\$ (0.0212)
Total per MCF	\$ 1.0882										\$ 6.8995
<b>General Service Large - Sales &lt; 25,000</b>											
Customer Charge											
1,001 to 4,999 MCF/Yr					\$ 150.0000					\$ -	\$ 150.0000
5,000 to 25,000 MCF/Yr					\$ 300.0000					\$ -	\$ 300.0000
Capacity	\$ 0.4442	\$ 0.2926								\$ -	\$ 0.7368
Price to Compare - PTC	\$ 0.6440		\$ (0.0624)	\$ 2.7053			\$ 0.0186		\$ 0.1230	\$ -	\$ 3.4285
Delivery Charge					\$ 2.4950					\$ -	\$ 2.4950
State Tax Surcharge						\$ (0.0205)					\$ (0.0205)
Total per MCF	\$ 1.0882										\$ 6.6399
<b>General Service Large - Sales &gt; 25,000</b>											
Customer Charge											
> 25,000 MCF/Yr					\$ 1,600.0000					\$ -	\$ 1,600.0000
Capacity	\$ 0.0864	\$ 0.1542								\$ -	\$ 0.2406
Price to Compare - PTC	\$ 1.0018		\$ (0.0624)	\$ 2.7053			\$ 0.0186		\$ 0.1230	\$ -	\$ 3.7863
Delivery Charge					\$ 2.4950					\$ -	\$ 2.4950
State Tax Surcharge						\$ (0.0205)					\$ (0.0205)
Total per MCF	\$ 1.0882										\$ 6.5015

ISSUED:

EFFECTIVE:

	Base Rate Charges (1)	Capacity Charge (2)	AVC Capacity (3)	Rider F MFC (4)	Rider D USR (5)	Rider A Capacity (6)	Rider E Rider STAS (7)	Rider E DSIC Charge (8)	Bill Display Total Rate (9=SUM 1 to 8)
<b>Residential - Transport</b>							-0.82%	0.00%	
Customer Charge	\$ 13.2500							\$ -	\$ 13.2500
Capacity		\$ 1.0882	\$ 0.3803					\$ -	\$ 1.4685
Delivery Charge	\$ 3.1830				\$ 0.2200			\$ -	\$ 3.4030
State Tax Surcharge							\$ (0.0279)		\$ (0.0279)
Total per MCF									\$ 4.8436
<b>General Service Small - Transport</b>									
Customer Charge									
< 500 MCF/Yr	\$ 17.0000							\$ -	\$ 17.0000
500 to 1,000 MCF/Yr	\$ 28.0000							\$ -	\$ 28.0000
Capacity/Balancing		\$ 0.4442	\$ 0.4570					\$ -	\$ 0.9012
Delivery Charge	\$ 2.5910							\$ -	\$ 2.5910
State Tax Surcharge							\$ (0.0212)		\$ (0.0212)
Total per MCF									\$ 3.4710
<b>General Service Large - Sales &lt; 25,000</b>									
Customer Charge									
1,001 to 4,999 MCF/Yr	\$ 150.0000							\$ -	\$ 150.0000
5,000 to 25,000 MCF/Yr	\$ 300.0000							\$ -	\$ 300.0000
Capacity/Balancing		\$ 0.4442	\$ 0.2926				\$ -		\$ 0.7368
Delivery Charge	\$ 2.4950							\$ -	\$ 2.4950
State Tax Surcharge							\$ (0.0205)		\$ (0.0205)
Total per MCF									\$ 3.2113
<b>General Service Large - Sales &gt; 25,000</b>									
Customer Charge									
> 25,000 MCF/Yr	\$ 1,600.0000							\$ -	\$ 1,600.0000
Capacity/Balancing		\$ 0.0864	\$ 0.1542				\$ -		\$ 0.2406
Delivery Charge	\$ 2.4950							\$ -	\$ 2.4950
State Tax Surcharge							\$ (0.0205)		\$ (0.0205)
Total per MCF									\$ 2.7151

ISSUED:

EFFECTIVE:

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(C) Indicates Change.

## RATE FDS - FIRM DELIVERY SERVICE

## APPLICABILITY

These rates shall be applicable throughout the territory served by the Company, i.e., Equitable and Apollo Districts

## AVAILABILITY

Service under this rate schedule is available for resale service and to any essential human needs customer and any customer who consumes 300 Mcf annually or less, and to any other customer who consumes no more than 5,000 Mcf annually where the customer's full commodity requirements are supplied through a single aggregation pool pursuant to the Company's Firm Pooling Service (FPS).

## RATE

The applicable rate for each district shall be determined by negotiation between the Company and the customer and shall not exceed the rates set forth below plus riders applicable to this service:

## Monthly Service Charge:

Residential \$ 13.25 per meter

## Commercial and Industrial:

Annual Throughput < 500 \$ 17.00 per meter  
 Annual Throughput 500 - 1,000 \$ 28.00 per meter  
 Annual Throughput 1,001 - 4,999 \$150.00 per meter

## Delivery Charge:

Residential Service \$ 3.183 per Mcf  
 Small Commercial, Industrial and Resale \$ 2.591 per Mcf  
 Large Commercial and Industrial \$ 2.495 per Mcf

## Capacity and Balancing Charge:

Pursuant to Special Provision (a): \$ 1.0280 per Mcf.  
~~Effective October 1, 2014 \$ 0.42 per Mcf (I)~~  
~~Effective April 1, 2015 \$ 1.73 per Mcf (I)~~

## MINIMUM CHARGE

The minimum monthly payment shall be the Monthly Service charge.

(I) Indicates Increase.

RATE GDS - GENERAL DELIVERY SERVICE

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company, i.e., Equitable and Apollo Districts

AVAILABILITY

Delivery service under this rate schedule is available for resale service and to commercial and industrial customers using in excess of 300 Mcf annually who do not qualify for or elect service under Rate FDS and whose full commodity requirements are supplied through a single aggregation pool pursuant to the Company General Pooling Service (GPS). A customer who uses more than 5,000 Mcf annually is not required to receive supply through the Company's General Pooling Service

RATE

The applicable rate for each district shall be determined by negotiation between the Company and the customer and shall not exceed the rates set forth below plus riders applicable to this service:

Monthly Service Charge:

Commercial and Industrial:

Annual Throughput < 500	\$ 17.00 per meter
Annual Throughput 500 - 1,000	\$ 28.00 per meter
Annual Throughput 1,001 - 4,999	\$150.00 per meter
Annual Throughput 5,000 - 25,000	\$300.00 per meter
Annual Throughput > 25,000	\$1,600.00 per meter

Delivery Charge:

Small Commercial, Industrial and Resale	\$ 2.591 per Mcf
Large Commercial and Industrial	\$ 2.495 per Mcf

Balancing Charge:

Pursuant to Special Provision (b)	<del>\$ 0.23 per Mcf</del>
Annual Throughput < 25,000	<del>\$0.44425339 per Mcf</del>
Annual Throughput > 25,000	<del>\$0.0864939 per Mcf</del>

(BC)

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies for the customer's account.

MINIMUM CHARGE

The minimum monthly payment shall be the Monthly Service charge.

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RATE GDS - GENERAL DELIVERY SERVICE (CONTINUED)

## SPECIAL PROVISIONS

(a) Customers will be allowed to transfer to or from this rate schedule only if: (1) the Company can obtain any increase or decrease in its gas supplies, transportation capacity and storage capacity or any combination thereof required to accommodate such transfer; or (2) the Company, in its sole judgment concludes that no increase or decrease is required.

(b) The Balancing Charge includes the cost of the resources needed by the Company to balance its system. The Company retains the right to waive this charge, in whole or in part, for customers with competitive options. The Company will provide a credit to Rider A gas costs associated with the balancing charge revenues collected from capacity utilized to provide balancing services to transportation customers. The balancing charge rate will be adjusted each year in conjunction with the Company's 1307(f) filing. (c)

(c) This service is interruptible, however, customers may elect to take an assignment of capacity or purchase Standby Service from the Company.

## Monthly Balancing

All delivery service customers served under this rate schedule not included in a Pool Administrator's Aggregation pool under Rate GPS, shall be subject to the following monthly balancing provisions.

(1) A monthly imbalance will exist when (a) a customer's consumption in a month falls short of the gas supply available for the customer's use in a month (monthly supply excess) or (b) a customer consumes more gas than the gas supply available for the customer's use in a month (monthly supply shortfall).

(2) A monthly supply excess equal to, or less than, three and one-half percent (3.5%) of the customer's consumption for a month shall be carried forward to the following month and added to the gas delivered to the Company for the customer's use for that month to arrive at the total gas supply available to the customer for that month.

(3) A monthly supply shortfall equal to, or less than, three and one-half percent (3.5%) of the customer's consumption for a month shall be carried forward to the following month and subtracted from the gas delivered to the Company for the customer's use for that month to arrive at the total gas supply available to the customer for that month.

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 RATE DDS- DAILY DELIVERY SERVICE (CONTINUED)
 

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## RATE

The applicable rate shall be determined by negotiation between the Company and the customer and shall not exceed the rates set forth below plus riders applicable to this service:

## Monthly Service Charge:

Commercial and Industrial:

Annual Throughput 5,000 - 25,000 \$300.00 per meter  
 Annual Throughput > 25,000 \$1,600.00 per meter

## Delivery Charge:

Resale Service \$ 2.711 per Mcf  
 Large Commercial and Industrial \$ 2.600 per Mcf

## Balancing Charge:

Pursuant to Special Provision (a)	<del>\$ 0.23</del> per Mcf	(D)
Annual Throughput < 25,000	\$0.44425339 per Mcf	
Annual Throughput > 25,000	<del>\$0.0864939</del> per Mcf	(C)

Customers served under this rate schedule are subject to all applicable surcharges and riders including:

Transportation Migration Rider B  
 Distribution System Improvement Charge Rider E

## SPECIAL PROVISIONS

(a) The Balancing Charge includes the cost of the resources needed by the Company to balance its system. The Company retains the right to waive this charge, in whole or in part, for customers with competitive options. The Company will provide a credit to Rider A gas costs associated with the capacity utilized to provide balancing services to transportation customers. The balancing charge rate will be adjusted each year in conjunction with the Company's 1307(f) filing.

BALANCING CHARGES PROVISIONS

(C)

Daily Balancing

A daily imbalance will exist when (a) a customer's consumption in a day falls short of the daily gas supply nominated (daily supply excess), or (b) a customer's consumption in a day exceeds the daily supply nominated (daily supply shortfall).

- (1) All daily supply excess or shortfall greater than 3.5% of the customer's consumption for a day shall be charged a \$0.25 per Mcf penalty.
- (2) A daily supply excess greater than 3.5% will be Cashed-In at 85% of the Midpoint price published in Platts, Gas Daily publication, under the heading Appalachia, Dominion, South Point on the day the excess occurs.

(D) Indicates Decrease.

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 RIDER A
 

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PURCHASED GAS COST

 I. Provision for Purchased Gas Cost

The Purchased Gas Cost (PGC) is the rate determined pursuant to Section 1307(f) of the Public Utility Code for recovery of natural gas costs and shall be included in Rate Schedules RS, GSS, and GSL of this Tariff (PGC Rate Schedules) as explained here and after.

 II. Computation and Application of Purchased Gas Cost (PGC)

The PGC shall be computed to the nearest one cent (\$0.01) in accordance with the formula set forth below:

$$\text{PGC} = \frac{\text{C} - \text{E}}{\text{S}}$$

The PGC rate shall be redetermined annually and will go into effect Oct 1 of each year. Thereafter, the Company may make quarterly filings on January 1, April 1 and July 1, effective on one day's notice, and upon determination that the effective rate will result in more than a +/- 2% change in the PGC rate.

The quarterly revisions may reflect adjustments to the "C" factor for more current projected commodity costs of purchased gas for the periods remaining until Oct 1 of each year and a reconciliation and adjustment for the over or under collection of natural gas supply costs from the three month period ending one month prior to the quarterly filing date applied to the projected annual Mcf sales of gas in the computation year of the Company's most recent annual proceeding.

The "E" factor may be adjusted for variations in actual volumes of gas compared to the projected volumes of gas based on the Company's most recent annual proceeding.

In addition to the applicable PGC rates as calculated above, an AVC Capacity Charge shall be separately calculated as shown on page 73B.

(C)

 III. Definitions

"PGC" -- purchased gas cost determined to the nearest one cent (\$0.01) comprised of a "C" factor and an "E" factor. The C factor is the natural gas supply charge included in the PGC Rate Schedules. The E factor is included in the natural gas delivery charge in the PGC Rate Schedules except for those customers returning from Delivery Service Rate Schedules in accordance with Rider B.

"C-Factor" -- a number of dollars, determined as follows: (a) for all types of "Purchased Gas," project the cost for each purchase (adjusted for net current gas stored) for the computation year plus (b) the arithmetical sum of (1) the projected book value of noncurrent gas at the beginning of the computation year minus (2) the projected book value of noncurrent gas at the end of the computation year. The C factor is C divided by S.

## RIDER A - (Continued)

"E-Factor" -- Net over collection or under collection of the cost of purchased gas including interest, for the period beginning with the month following the last month of the historic reconciliation included in the previous PGC and ending with the month preceding the effective date of the new PGC. The E factor is E divided by S.

The "E" factor shall also provide for refund or recovery of amounts necessary to adjust for differences between actual over and under collections and estimated over and under collections included in the "E" factor of the previous PGC.

Interest shall be computed monthly at the appropriate rate as provided for in Section ~~1308(d)~~ 1307(f)(5) of the Public Utility Code from the month the over or under collection occurs to the effective month such over collection is refunded or such under collection is recouped. (C)

Supplier refunds received applicable to PGC Rate Schedules will be included in the calculation of "E" with interest added at the annual rate of six percentum (6 percent) calculated in accordance with the foregoing procedure beginning with the months such refund is received by the Company.

For the purpose of computing monthly over and undercollections to be reflected in "E" a Standby Service credit, as well as a Balancing credit will be deducted from Purchased Gas Cost.

"S" -- projected Mcf of gas to be billed under PGC Rate Schedules during the computation year.

"Purchased Gas" -- the volume of gas projected to be purchased by the Company and delivered to customers under PGC Rate Schedules, plus such portion of the company-used and unaccounted-for-gas as the Commission permits, including, but not limited to, natural gas, liquefied natural gas, synthetic gas, liquefied propane and naphtha.

"The Current PGC" -- is ~~\$3.734.48~~ per Mcf, comprised of a C factor of ~~\$3.7982~~ and an E factor of ~~<\$0.066>~~ and AVC Capacity Charges as shown on page 73E. (C)

"Computation Year" -- the projected year during which the PGC will be in effect.

The application of the purchased gas cost shall be subject to continuous review and to audit by the Commission at such intervals as the Commission shall determine. The Commission shall continuously review the reasonableness and lawfulness of the amounts of the charges produced by the purchased gas cost and the charges included herein.

(BC) Indicates Decrease Change.

RIDER A - (Continued)

If from such audit it shall be determined, by final order entered after notice and hearing, that this clause has been erroneously or improperly utilized, the Company will rectify such error or impropriety, and in accordance with the terms of the order apply credits against future purchased gas adjustments for such revenues as shall have been erroneously or improperly collected. The Commission's order shall be subject to the right of appeal.

Price-to-Compare

The Price-to-Compare ("PTC") is a way to provide sales service customers with information to make appropriate choices as to their natural gas service. The PTC is comprised of the Purchased Gas Cost ("PGC") defined in Rider A less the Capacity and Balancing Charge, the Merchant Function Charge defined in Rider F, and the Gas Procurement Charge defined in Rider G.

The PTC rate will change whenever any components of the PTC change. The current PTC per Mcf is detailed below:

<u>Price-to-Compare</u>	<u>Rate-RE</u>	<u>Rate-GSS</u>		<u>Rate-GSL</u>
		<u>Transporting under-FDS 1/</u>	<u>Transporting under-GDS 2/</u>	
<del>PGC (Rider A)</del>				
<del>o-factor</del>	<del>\$2.090 (D)</del>	<del>-\$2.090 (D)</del>	<del>-\$3.590 (D)</del>	<del>\$3.590 (D)</del>
<del>o-factor</del>	<del>\$0.660 (D)</del>	<del>-\$0.660 (D)</del>	<del>-\$0.660 (D)</del>	<del>\$0.660 (D)</del>
<del>Merchant Function Charge (Rider F)</del>	<del>\$0.068 (D)</del>	<del>-\$0.022 (D)</del>	<del>-\$0.022 (D)</del>	<del>\$0.022 (D)</del>
<del>Gas Procurement Charge (Rider G)</del>	<del>\$0.122</del>	<del>-\$0.122</del>	<del>-\$0.122</del>	<del>\$0.122</del>
	<del>\$2.941 (D)</del>	<del>-\$2.895 (D)</del>	<del>-\$4.395 (D)</del>	<del>\$4.395 (D)</del>

1/ Rate GSS customers that are essential human needs customer or any customer who consumes 300 Mcf annually or less and elects firm delivery service would transport under Rate Schedule Firm Delivery Service (FDS).

2/ Rate GSS customers using in excess of 300 Mcf annually who do not qualify for or elect service under Rate FDS would transport under Rate Schedule General Delivery Service (GDS).

3/ Includes avoidable capacity costs.

(D) Indicates Decrease.

Rider A (Continued)AVC Capacity Charge

The AVC Capacity Charge is applicable to all ratepayers with the exceptions defined below under Discounted Rate Customers and relates to the recovery of capacity costs incurred by Peoples Natural Gas Company ("Peoples") for firm transportation and storage service provided on the Equitrans Allegheny Valley Connector ("AVC") system.

The AVC Capacity Charge shall recover fixed demand charges and applicable surcharges assessed to Peoples under the FERC Gas Tariff for firm transportation and storage services on the AVC System. The AVC Capacity Charge shall be adjusted to reflect ongoing changes in charges assessed to Peoples. The AVC Capacity Charge shall not recover fixed demand charges related to storage capacity on the AVC system that is released to and paid for by Rate GDS - General Delivery Service ratepayers or suppliers. Applicable volumetric and fuel charges for service on the AVC System shall not be recovered through the AVC charge and such charges shall be paid for by the shipper utilizing the AVC capacity.

Rates

Refer to page 73B for the currently effective AVC Capacity Charge rates.

These rates will be recalculated on a quarterly basis in conjunction with the other Rider B costs and reported on as applicable in the quarterly and annual filings as required in the regulations implementing Section 1307(f) of the Public Utility Code. The rates shall be calculated by customer class based on the results of the allocation factors set forth below and applicable billing determinants for each class.

Allocation of AVC Capacity Costs

The fixed demand and applicable surcharges assessed to the Company for services on the AVC system shall be allocated to customer classes based on the following factors.

Rider A (Continued)AVC Capacity Charge

The AVC Capacity Charges allocation factors and rates are as follows:

<u>Rate and Customer Class</u>	<u>Allocation</u>	<u>Rate</u>
<u>Rate RS and Rate FDS</u>	<u>66.25%</u>	<u>\$0.3803</u>
<u>Rate GSS and Rate GDS (0 to 999 Mcf/yr)</u>	<u>11.94%</u>	<u>\$0.4570</u>
<u>Rate GSL and Rate GDS (1,000 to 24,999 Mcf/yr)</u>	<u>12.99%</u>	<u>\$0.2926</u>
<u>Rate GSL and Rate GDS (greater than 25,000 Mcf/yr)</u>	<u>8.92%</u>	<u>\$0.1542</u>

The Company will review the appropriateness of the AVC Capacity Charge allocation factors on an annual basis and such factors will be subject to review in the Company's 1307(f) gas cost proceeding.

Annual Reconciliation

The AVC Capacity Charge costs will be subject to over/under collection tracking and reconciled annually.

Discounted Rate Customers

To the extent permitted under the customer's discounted rate contract, the Company will recover AVC charges from such customers.

# APPENDIX “C”

## 1307(f) Gas Cost Rate Blending Proposal - Sales Customers - Settlement

	Peoples				Equitable Division			
	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf	<u>RS</u>	<u>GSS</u> 0-999 Mcf	<u>GSL</u> 1000-24999 Mcf	<u>GSL</u> > 25000 Mcf
<u>1307(f) Sales Rates</u> (Effective 10/1/15)								
Capacity	\$ 0.7012	\$ 0.7012	\$ 0.7012	\$ 0.7012	\$ 1.6600	\$ 1.6600	\$ 1.6600	\$ 1.6600
AVC	\$ 0.6706	\$ 0.7021	\$ 0.4701	\$ 0.2157	\$ -	\$ -	\$ -	\$ -
Commodity	\$ 2.8045	\$ 2.8045	\$ 2.8045	\$ 2.8045	\$ 2.5900	\$ 2.5900	\$ 2.5900	\$ 2.5900
(Over)/Under	\$ (0.2061)	\$ (0.2061)	\$ (0.2061)	\$ (0.2061)	\$ 0.1400	\$ 0.1400	\$ 0.1400	\$ 0.1400
Total Rate	\$ 3.9702	\$ 4.0017	\$ 3.7697	\$ 3.5153	\$ 4.3900	\$ 4.3900	\$ 4.3900	\$ 4.3900
Average Monthly Bill 1/	\$ 72.60	\$ 127.99	\$ 1,019.49	\$ 13,237.73	\$ 72.91	\$ 128.90	\$ 1,224.77	\$ 16,202.92
<u>Blended Sales Rates - Settlement</u> (Effective 10/1/15)								
Capacity	\$ 1.0882	\$ 1.0882	\$ 1.0882	\$ 1.0882	\$ 1.0882	\$ 1.0882	\$ 1.0882	\$ 1.0882
AVC	\$ 0.3803	\$ 0.4570	\$ 0.2926	\$ 0.1542	\$ 0.3803	\$ 0.4570	\$ 0.2926	\$ 0.1542
Commodity	\$ 2.7053	\$ 2.7053	\$ 2.7053	\$ 2.7053	\$ 2.7053	\$ 2.7053	\$ 2.7053	\$ 2.7053
(Over)/Under	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)	\$ (0.0624)
Total Rate	\$ 4.1114	\$ 4.1881	\$ 4.0237	\$ 3.8853	\$ 4.1114	\$ 4.1881	\$ 4.0237	\$ 3.8853
Proposed - Monthly Bill 1/	\$ 73.77	\$ 130.98	\$ 1,058.96	\$ 14,015.64	\$ 70.74	\$ 125.67	\$ 1,168.12	\$ 15,144.79
<u>Impact of Blending</u> <u>Change - Sales Rates</u>								
Capacity	\$ 0.3870	\$ 0.3870	\$ 0.3870	\$ 0.3870	\$ (0.5718)	\$ (0.5718)	\$ (0.5718)	\$ (0.5718)
AVC	\$ (0.2903)	\$ (0.2451)	\$ (0.1775)	\$ (0.0615)	\$ 0.3803	\$ 0.4570	\$ 0.2926	\$ 0.1542
Commodity	\$ (0.0992)	\$ (0.0992)	\$ (0.0992)	\$ (0.0992)	\$ 0.1153	\$ 0.1153	\$ 0.1153	\$ 0.1153
(Over)/Under	\$ 0.1437	\$ 0.1437	\$ 0.1437	\$ 0.1437	\$ (0.2024)	\$ (0.2024)	\$ (0.2024)	\$ (0.2024)
Total Rate	\$ 0.1412	\$ 0.1864	\$ 0.2540	\$ 0.3700	\$ (0.2786)	\$ (0.2019)	\$ (0.3663)	\$ (0.5047)
Average Monthly Bill 1/	\$ 1.17	\$ 2.99	\$ 39.47	\$ 777.91	\$ (2.17)	\$ (3.23)	\$ (56.65)	\$ (1,058.13)
Percentage Change	1.6%	2.3%	3.9%	5.9%	-3.0%	-2.5%	-4.6%	-6.5%

1/ Average monthly bill based on Projected October 1, 2015 Settlement Gas Costs and Base Rate Components as of April 10, 2015: (RS @ 90 Mc/yr); (SGS-Commercial @189/yr); (MGS-Commercial @ 1,840 Mcf/yr); (LGS-Commercial @ 25,000 Mcf/yr).

# APPENDIX “D”

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2015-2465172
Office of Small Business Advocate &	:	C-2015-2472257
Office of Consumer Advocate	:	C-2015-2472614

v.

Peoples Natural Gas Company LLC

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2015-2465181
Office of Small Business Advocate &	:	C-2015-2472271
Office of Consumer Advocate	:	C-2015-2472826

v.

Peoples Natural Gas Company LLC -  
Equitable Division

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**STATEMENT IN SUPPORT OF THE  
JOINT PETITION FOR SETTLEMENT  
OF THE SECTION 1307(f) RATE INVESTIGATION**

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**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”) and its Equitable Division (“Peoples-Equitable Division”) hereby files this Statement in Support of the Joint Petition for Settlement of the Section 1307(f) Rate Investigation (“Settlement”) entered into by Peoples, acting on behalf of both of its Divisions, 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”)<sup>1</sup> 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.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including: (1) a determination whether Peoples Division’s and Peoples-Equitable Division’s historic natural gas costs were incurred and projected natural gas costs will be incurred under a least cost fuel procurement policy; and (2) approval of Peoples’ proposal to merge the purchased gas costs (“PGC”) rates of its Peoples and Equitable Divisions effective October 1, 2015. The Settlement provides benefits to customers and is in the public interest. It should accordingly be approved without modification.

The Settlement was achieved only after a comprehensive investigation of Peoples natural gas procurement policies and operations. In addition to a comprehensive filing and 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 June 8, 2015. The Joint Petitioners, DES and PIOGA participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

Finally, the Joint Petitioners, DES and PIOGA, as well as their experts and counsel, have considerable experience PGC proceedings. Their knowledge, experience, and ability to evaluate

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<sup>1</sup> The Pennsylvania Independent Oil & Gas Association (“PIOGA”) and Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) have indicated that they do not oppose the Settlement.

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' 2015 1307(f) Filings for its Peoples Division and Peoples-Equitable Division, 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, conserves 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, 2015**

The PGC and balancing rates that Peoples proposes to place into effect on October 1, 2015, for both its Peoples Division and Peoples-Equitable 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 and Equitable Division St. No. 1; Peoples St. No. 4; Peoples-Equitable Division St. No. 4.)

Accordingly, under the terms of the Settlement, the Joint Petitioners agree that, on October 1, 2015, Peoples Division shall place into effect, for service rendered on and after October 1, 2015, the form of tariff supplement attached to the Settlement as Appendix A. (Settlement ¶ 35.) Likewise, Peoples-Equitable shall place into effect, for service rendered on and after October 1, 2015, the form of tariff supplement attached to the Settlement as Appendix B. (Settlement ¶ 35.) The form of tariff supplements shall be subject to updates and tariff modifications traditionally performed on October 1. (Settlement ¶ 35.)

**B. COMBINATION OF PEOPLES AND EQUITABLE DIVISION'S PGC RATES**

In this proceeding, Peoples proposed to merge the PGC rates of its two Divisions so that, effective October 1, 2015, both Divisions would charge the same PGC rates to their customers. Peoples also proposed that both Divisions would make a single 1307(f) filing in 2016. Commencing October 1, 2015, gas supplies will be purchased for the joint use of customers of both Divisions, as will pipeline services under interstate pipeline and storage service agreements. (Peoples and Equitable Division St. No. 1, p. 9.)

In testimony, the Company explained that the merging of gas cost rates will have many benefits, including:

- Constructing more physical interconnections between Divisions which will enhance the operational reliability and efficiency of the systems;
- Streamline the pipeline facility planning and design process;
- Free up capital for additional pipeline replacement projects by eliminating the need for meter connections between the Divisions;

- Provide natural gas suppliers (“NGS”) with more interstate pipeline delivery points and increased access to local gas supplies;
- Allow the Divisions to merge suppliers pools;
- Increase interstate pipeline replacement options, resulting in gas cost savings for customers; and
- Reducing unaccounted for gas (“UFG”).

(Peoples and Equitable Division St. No. 1, pp. 20-21; Peoples-Equitable Division St. No. 2, pp. 24-33.)

In addition, the current gas cost rates for the separate divisions are very comparable. For example, the projected October 1, 2015 total 1307(f) rate for Peoples’ residential customers is \$3.97 per Mcf. The projected October 1, 2015 total 1307(f) rate for the Equitable Division residential customers is \$4.39 per Mcf. Most of the difference in the rates is attributable to the over and under-recovery portion of the rate. The rates, excluding the projected over/under recovery component, are \$4.18 per Mcf for the Peoples Division and \$4.25 per Mcf for the Peoples-Equitable Division; a difference in the total gas cost rate of only \$0.07 per Mcf, or 1.7%.

No party opposed the consolidation of gas cost rates. However, OCA proposed that the Company maintain separate gas cost adjustment rates for both Divisions through September 30, 2016. (OCA St. No. 1, p. 3.) The Company disagreed with the OCA proposal to maintain separate gas cost rates. The Company also explained that all customers would receive a gas cost adjustment credit based on its proposal to combine the over/undercollection provisions. The Company further explained that under its proposal, NGSs would be able to offer prices in competition with a single gas commodity price for both Divisions to shopping customers commencing October 1, 2015. (Peoples and Equitable Division St. No. 1-R, p. 4.)

The Settlement adopts the Company's proposal to combine the PGC rates of both Divisions, including the gas cost adjustment rate effective October 1, 2015. While two other base-rate components of the Divisional prices to compare will not match, the Company also agrees to file a 60-day tariff filing to be effective October 1, 2015, that proposes to merge the separate Merchant Function Charge ("MFC") and Gas Procurement Charge ("GPC") of the Divisions so that a single price-to-compare can become effective October 1, 2015, on Commission approval. All parties reserve their rights to comment on and oppose this tariff filing.

The Company believes that these Settlement provisions are in the public interest for the reasons explained above and in the Company's testimony. In addition, if the Company's filing to merge the MFC and GPC rates are approved, there will be one Price to Compare ("PTC") for both Divisions, which will make it easier for NGSs to make consistent offers to customers on both Divisions and reduce confusion about the PGC rates.

### **C. CAPACITY LEVELS**

In this proceeding, the Company proposed to make the design day criteria consistent for both Divisions and adopt the Peoples-Equitable Division design day temperature of 75 heating degree days ("HDD"). The current design day temperature for the Peoples Division is 74 HDD. The Company explained that many companies use a design day temperature that is based on the coldest temperature in the past 30 years. The adoption of a 75 HDD design day would adopt a HDD temperature for the Company that has occurred on average every 13 years. (Peoples and Equitable Division St. No. 3-R, p. 4.)

The OCA proposed that the Company adopt a 74 HDD design day temperature. The OCA argued that changing the design day temperature would increase capacity costs for customers and would be inconsistent with least-cost gas procurement. (OCA St. No. 1, p. 9.)

The OCA noted, however, that the Company's proposal would not have any cost impacts in this proceeding. The Company disagreed with OCA's argument that it was appropriate to use a 74 HDD for its design day criteria. The Company explained that it was reasonable to use 75 HDD, which has historically occurred every 13 years, especially when many natural gas companies are using a 30 year period. (Peoples and Equitable Division St. No. 3-R, p. 4.)

The Settlement does not adopt a specific HDD number. Rather, the Joint Petitioners agree that the total level of capacity proposed for both Divisions for the projected period is reasonable. The Settlement clarifies that it is not intended to approve any methodology for determining capacity requirements or design day criteria in any future proceeding.

In addition, under the Settlement, Peoples agrees to prepare and file a study of the combined capacity requirements and design day criteria of its two Divisions with its PGC filing in 2016.

Peoples believes that this is a reasonable compromise of this issue. The disagreement between Peoples and OCA did not have any impact in this proceeding. Peoples expects to have a better understanding of its combined design day requirements in next year's PGC proceeding because it will have some experience in operating the two Divisions as a combined system.

#### **D. AVC AUTHORIZED OVERRUN CHARGE**

During the historic period, the Peoples Division incurred approximately \$1 million in authorized overrun charges from Equitrans L.P. The authorized overrun charges are not a penalty and are not a violation of a tariff rule or agreement. Under the Equitrans tariff, Peoples can transport more than its maximum firm daily amount, and pay additional charges. (Peoples and Equitable Division St. No. 2-R, p. 2.) The authorized overrun charge is a cost-based rate that compensates the pipeline for the additional service that is provided.

As explained by the Company's witness, Mr. Nehr, the authorized overrun service was required as a result of a number of events, including:

- Operating new gas supply service agreements as a result of the Equitable Gas acquisition;
- A lower level of capacity during the base period of April through October;
- The unavailability of the Dice Storage Field from June 2014 through October 2014;
- The lack of daily measurement equipment at various points between the Allegheny Valley Connector ("AVC") system and the Peoples' system.

(Peoples and Equitable Division St. No. 2-R, pp. 4-5.)

As also explained by the Company, using the authorized overrun service was the most cost-effective option for providing reliable service to customers. The authorized overrun service is an interruptible service that has a much lower cost than if the Company had acquired additional firm transportation service. In addition, the Company could have entered into an interruptible service agreement to transport gas into AVC city gate or storage, but this would have been more expensive than the authorized overrun service. (Peoples and Equitable Division St. No. 2-R, pp. 6-7.)

In testimony, OCA argued that the overrun charges were transition costs associated with the Peoples and Equitable Gas Company merger and that the Company should not be able to recover the overrun charges of PGC rates. (OCA St. No. 1, p. 17.)

The Company disagreed with OCA's position that the authorized overrun charges were merger transition costs. Peoples explained that merger transition costs are limited to up-front, non-recurring or immediate costs to consummate or effectuate the merger. (Peoples and

Equitable Division St. No. 1-R, p. 7.) The authorized overrun charges were clearly reasonable and prudent gas supply related costs to ensure sufficient gas supplies were nominated and delivered into Peoples' system to meet sales and transportation customer usage requirements. (Peoples and Equitable Division St. No. 1-R, p. 7.)

Under the Settlement, the Joint Petitioners agreed that Peoples would remove the authorized overrun charges from the historic period purchased gas costs charged to sales customers and recover them from all customers over the one year period commencing October 1, 2015. (Settlement ¶ 40.) The effect of this Settlement provision is to allow Peoples to recover the authorized overrun costs from all customers as opposed to recovering the costs from just sales customers. Peoples believes that this Settlement provision is in the public interest because the authorized overrun service benefited all customers. The authorized overrun service was necessary to ensure that sufficient gas supplies were nominated and delivered to Peoples' system to cover all customer usage requirements. The authorized overrun service was also required to balance the overall system for all customers. (Peoples and Equitable Division St. No. 1-R.) In addition, Peoples experienced authorized overrun charges, in part, due to natural gas suppliers deliveries to the system. For these reasons, it is reasonable to charge all customers the authorized overrun charges.

#### **E. BANKING, BALANCING AND ADVANCING (“BB&A”) CHARGES**

The Settlement provides that balancing charges for non-priority 1 transportation customers of both Divisions will be combined and reflect the adjustments made in Peoples' Supplemental and Rebuttal Testimony and Paragraph 40 of this Settlement. This provides for uniform balancing charges for the Divisions and provides clarity regarding what costs are to be included in the BB&A charge.

The Settlement also provides that if there are subsequent changes to interstate pipeline capacity contracts not identified in this proceeding, and such changes would affect the stand-by and/or balancing charges during the PGC period commencing October 1, 2015, the effects of such changes shall be reflected in future standby and/or balancing charges commencing October 1, 2016. This provision includes any contracts entered into to maintain system reliability. This Settlement provision addresses OCA's concern that balancing charges reflect costs for new capacity, if any, that is not identified in this proceeding. Peoples was willing to agree to this provision to achieve a settlement of this proceeding and believes that this provision is reasonable.

#### **F. STORAGE ACCOUNTING**

In this proceeding, the Company explained that its two Divisions currently use different accounting methodologies for gas in storage. The Peoples Division currently uses an annual last-in/first-out ("LIFO") methodology which relies on the average annual cost of gas purchases to price injections and withdrawal activity. Under the Peoples Division's current LIFO methodology, pipeline demand costs are included in the LIFO calculation.

The Peoples-Equitable Division currently uses a weighted average cost of gas ("WACOG") methodology for valuing its gas storage inventory. Under the WACOG methodology, the actual monthly commodity cost and volume of each month's injections are added to the existing inventory value calculated at the end of the previous month and a new overall weighted average cost of gas in storage is calculated each month. Unlike Peoples' LIFO method, the monthly cost of injections and the value of gas in storage do not include pipeline demand costs. As gas is subsequently withdrawn, the cost for the current month's withdrawals is based on the existing weighted average cost of gas in storage and is deducted from the inventory balance. (Peoples and Equitable Division St. No. 1, p. 30.)

The Company further explained that it intends to revise the Peoples Division's storage accounting method from LIFO to WACOG, but that it must wait until in its next base rate case filing due to the impacts on base rates. (Peoples and Equitable Division St. No. 1, pp. 31-32.) However, the Company proposed two revisions to its LIFO methodology. First, Peoples proposes to use an average annual LIFO inventory rate to price injections and withdrawal activity that is calculated based on the cost of all gas purchases acquired under the jointly used gas purchase contracts for the combined Divisions. Today it is calculated based on the cost of all gas purchases acquired under the gas purchase contracts for the Peoples Division. Second, Peoples proposes to modify the LIFO rate so that it will exclude pipeline demand costs that are reflected in the current LIFO rate.

Peoples proposed these changes to more closely align the Peoples' LIFO rate with the average rate used under the Peoples-Equitable Division WACOG method which does not include any pipeline demand costs. In addition, the inclusion of demand costs in the LIFO rate greatly exaggerates monthly over and under recoveries and quarterly 1307(f) rate calculations.

Under its proposal, the Company would combine the LIFO rate, as modified, for the Peoples Division with the WACOG rate for the Peoples-Equitable Division into a single average PGC charge.

In testimony, OCA argued that Peoples' proposal to exclude pipeline demand charges from the LIFO rate should not be adopted and that any such changes should be addressed in a base rate proceeding. (OCA St. No. 1, p. 16.)

The Company disagreed with OCA's proposal. In rebuttal testimony, the Company demonstrated that the impact to base rates of excluding demand charges from the LIFO rate was

minimal. In addition, excluding demand charges for the LIFO rate would significantly reduce over/under recoveries. (Peoples and Equitable Division St. No. 1-R, pp. 5-6.)

The Settlement adopts the Company's proposal. (See Settlement Paragraphs 43 – 45.) Peoples supports this Settlement provision. Historically, both NGSs and the Commission have expressed concerns regarding the impact of over/undercollections on sales customers and the PTC. *See Investigation into the Natural Gas Supply Market: Report on Stakeholders' Working Group (SEARCH); Action Plan for Increasing Effective Competition in Pennsylvania's Retail Natural Gas Supply Services Market*, Docket No. I-00040103F0002, 2008 Pa. PUC LEXIS 31, \*20-26, Order entered September 11, 2008. This Settlement provision will reduce variability in the Company's PTC.

#### **G. RETAINAGE**

Peoples requires transportation customers to deliver to its 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 accurately 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.

No party in this proceeding challenged the Company's retainage rate, and the Settlement adopts the Company's proposed combined retainage rate of 5%. (Settlement ¶ 46.)

In testimony, I&E requested that Peoples provide in future 1307(f) proceedings, a reconciliation of the volumes used to calculate retainage in the 1307(f) filing with the volumes

reported in the annual UFG report to the Commission. (I&E St. No. 1, p. 6.) Peoples believes that this is reasonable, and the Settlement adopts I&E's request.

The Settlement further clarifies that the newly negotiated waivers of retainage in the Peoples Division and Peoples-Equitable Division Exhibit Nos. 12 be approved. No Party challenged this issue in this proceeding.

#### **H. SHARING MECHANISM**

In testimony, the Company proposed to indefinitely extend its current capacity release/off-system sale/parties/loans revenue sharing mechanism. The revenue sharing mechanism credits 75% of margin revenues to customers and 25% to the Company. The OSBA proposed that the revenue sharing mechanism not be approved indefinitely, but, be extended through September 30, 2017. (OSBA St. No. 1, p. 10.) The Settlement adopts the OSBA position. (Settlement ¶ 49.) Peoples believes that this Settlement provision is reasonable and is willing to adopt the OSBA position.

#### **I. MISCELLANEOUS**

Under the Settlement, the parties have agreed that the proposed rates and other requested approvals contained in the Peoples Division and Peoples-Equitable Division PGC Filings should be approved except to the extent that they are modified by the Settlement. (Settlement ¶ 50.) The parties have thoroughly investigated Peoples' PGC filings 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' PGC Filings as to the uncontested issues.

#### **J. 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

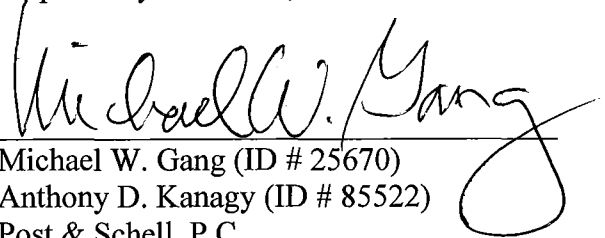
to Section 1318 of the Public Utility Code. (Settlement ¶¶ 51-53.) Section 1318 contains seven specific sub-findings that the Commission must make in support of a conclusion that Peoples is pursuing a least cost fuel procurement policy. Peoples submits that the record amply supports the required findings on each of the seven issues for both Divisions.

It should be noted that this is Peoples' 30<sup>th</sup> 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 and its Peoples-Equitable 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.

Respectfully submitted,



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Of Counsel:

Post & Schell, P.C.

Dated: June 23, 2015

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

# APPENDIX “E”

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2465172
	:	
Peoples Natural Gas Company, LLC	:	
	:	
Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2465181
	:	
Peoples Natural Gas Company, LLC –	:	
Equitable Division	:	

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT OF  
THE SECTION 1307(f) RATE INVESTIGATION**

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**TO ADMINISTRATIVE LAW JUDGE JEFFREY A WATSON:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutors, Gina L. Lauffer and Phillip C. Kirchner, hereby respectfully submits that the terms and conditions of the foregoing *Joint Petition for Settlement of the Section 1307(f) Rate Investigation* (“Joint Petition” or “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 Division”) and Peoples Natural Gas Company, LLC – Equitable Division (“Equitable

Division”), and their customers. In support of this position, I&E offers the following enumerated Comments:

## I. INTRODUCTION

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 all contested proceedings, including those resolved through negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to comment on how the amicable resolution of any such proceeding will benefit the public interest. The request for approval of this Joint Petition is based on the I&E conclusion that the Settlement meets all the legal and regulatory standards necessary for approval. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”<sup>1</sup> I&E concludes that the instant Settlement meets this standard.

2. On April 1, 2015, both the Peoples Division and the Equitable Division (collectively the “Companies”) filed their Annual Purchased Gas Cost Filing pursuant to Section 1307(f) of the Public Utility Code.

3. I&E filed a Notice of Appearance in each of the above-referenced matters on March 12, 2015.

4. A consolidated telephonic Prehearing Conference was held for both of the above-referenced matters on April 17, 2015. During the Prehearing Conference, a procedural schedule was established and Administrative Law Judge (“ALJ”) Jeffrey A.

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<sup>1</sup> *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

Watson granted the request of counsel for the Equitable Division and the Peoples Division to consolidate the 1307(f) filings of each Division for the purposes of hearings, briefing, and any resulting orders.

5. Discovery was undertaken by the parties during the proceeding.

6. I&E entered the following testimony and exhibits into the record on June 8, 2015: I&E Statement No. 1-Direct Testimony and I&E Exhibit No. 1.

7. In accordance with the Commission's policy favoring settlements over costly and time consuming litigation,<sup>2</sup> the Joint Petitioners were successful in achieving a full and complete settlement of all issues by utilizing the discovery and settlement negotiation process.

8. I&E submits that the proposed Settlement is in the public interest and should be approved by the ALJ and the Commission for the following reasons:

## II. ANALYSIS

9. Prior to agreeing to the terms presented in the Joint Petition, I&E conducted a thorough review of the Companies' filings and supporting information, as well as discovery responses and additional submitted filing data. Based on its analysis of the Companies' filings and supplemental data, I&E is satisfied that the Settlement reflects adherence to the proper regulatory standards and contains adequate protections for ratepayers.

10. The Settlement includes the acknowledgement that the natural gas costs incurred by the Companies during the historic period were done so under adherence to a

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<sup>2</sup> 52 Pa. Code §5.231;

least cost fuel procurement policy. As provided for in the Public Utility Code, “[n]o rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy....”<sup>3</sup> The I&E review of all available information in this proceeding confirms this representation. A least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its Purchased Gas Cost (“PGC”) customers.

11. The Settlement also provides that the natural gas costs that the Companies expect to incur in the upcoming period will be based on the Companies’ adherence to their established least cost fuel procurement policy.<sup>4</sup> The Companies’ diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills. The Companies’ procurement strategy, despite the quarterly fluctuations, benefits ratepayers on an annual basis because it ensures that the Companies are diligently obtaining gas on a reliable basis for their customers, at the most advantageous prices possible. This statutory policy must be adhered to and I&E is of the opinion that the Companies’ practices reflect this requirement and are based on sound regulatory principles. The Companies’ average costs reported to the Commission in their quarterly filings demonstrate the prudence of its purchasing practices.

12. The I&E review of the Companies’ annual PGC filing includes an analysis of their claimed E-Factor to ensure that they were done in accordance with established

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<sup>3</sup> 66 Pa. C.S.A. §1318.

<sup>4</sup> Settlement, ¶¶57 & 71

Commission practices. The E-Factor represents the mechanism for addressing the experienced over/under collections, reconciling variations between the projected gas costs and actual gas costs, as well as variances between projected and actual sales. The E-Factor also serves as the vehicle to pass through miscellaneous revenues, including penalties and supplier refunds, and to calculate interest due to ratepayers or the Companies.

The proper calculation of the E-Factor protects ratepayers by ensuring that rates are adjusted appropriately to reflect the impact that these factors have on purchased gas costs. I&E is satisfied that the Companies' E-Factor calculations are appropriate and accurate and conform to proper regulatory practices.

13. In addition, the Companies' projected gas costs ("C-Factor") are also planned in accordance with established Commission practices, as determined by the I&E review. The C-Factor represents the commodity cost of gas component based on the projected cost of gas for the rate effective period, which ends September 30, 2016 in this proceeding. This adherence to accepted regulatory principles aids ratepayers in that the Companies' purchased gas practices are being accomplished with the balanced interests of both the Companies and their ratepayers being considered. The actual implementation of the Companies' plan will be reviewed in next year's PGC proceeding. I&E opines that ratepayers are protected in that the Companies do not gain any unwarranted financial advantage through its gas purchasing practices.

14. I&E has thoroughly reviewed the filings for both the Peoples Division and the Equitable Division, and, while I&E believes that each entity's reported Unaccounted for

Gas (“UFG”) is reasonable based on the standards presented in this proceeding, I&E addressed its determination individually for the Peoples’ Division.<sup>5</sup> A reasonable amount of UFG is expected in a natural gas distribution system. As the costs associated with this gas are recovered from ratepayers through the PGC, it is necessary to take appropriate measures to control this expense. If acceptable levels of UFG are not achieved, ratepayers will be protected from unjust and unreasonable rates by the regulatory provision that allows for the denial of the recovery of costs associated with imprudent Company practices. I&E opines that Companies’ UFG levels are reasonable and that no action or recommendation is necessary in this proceeding.

15. The establishment of the proper Retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system wide UFG. This practice of establishing proper Retainage percentages eliminates the unwarranted shifting of responsibility for UFG between retail and transportation customers. Proper Retainage levels equalize the responsibilities of the rate classifications and protect all ratepayers by ensuring equitable contributions to account for UFG. In this case, the Peoples Division and the Equitable Division proposed to merge their retainage rates into a single rate of 5.0%. After conducting a thorough investigation, I&E determined that the Companies’ combined 5.0% retainage rate is appropriate for this proceeding.<sup>6</sup> The Retainage percentage applied to the Companies’ transportation customers in this proceeding represents the appropriate level of

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<sup>5</sup>I&E St. No. 1, p. 5-6

<sup>6</sup> I&E St. No. 1, p.11

their responsibility for UFG. As discussed above, establishment of the proper Retainage percentages protects PGC customers and transportation customers from unwarranted subsidies.

16. Under the terms of the Settlement, the Companies will retain 25% of all off-system sales margins, capacity release credits, with the remaining 75% applied as an offset to purchased gas costs.<sup>7</sup> The parameters of the previously approved Sharing Mechanism have been extended through September 30, 2017.

17. I&E maintains that continuing the Companies' Sharing Mechanism serves the public interest because it continues to provide the Companies an incentive to maximize its efforts to increase capacity release and off-system sales activity and thereby reduce gas costs for PGC customers.

18. As indicated in the Equitable Division's 2014 PGC filing,<sup>8</sup> the Peoples Division proposes to combine the PGC rates of the Peoples Division and the Equitable Division, including over/under collection factors, effective October 1, 2015.<sup>9</sup> The proposal would result in the Peoples Division making a single PGC (1307(f)) filing combining data and over/under collections for the Companies in 2016. I&E avers that the merger is in the public interest for multiple reasons.<sup>10</sup> First, as described by Peoples witness Gregorini,<sup>11</sup> the merger will lead to the construction of more physical interconnections between the Divisions, enhancing the overall reliability and efficiency of the systems. Other resulting

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<sup>7</sup> Settlement, ¶49

<sup>8</sup> R-2014-2403935, Joint Petition, ¶39

<sup>9</sup> Settlement, ¶36.

<sup>10</sup> I&E St. No. 1, p. 10-11

<sup>11</sup> Peoples St. No. 1, p. 20

benefits of the merger are that it will provide the Companies with more pipeline replacement options, free up capital for additional replacement projects, and streamline the Companies' pipeline facility planning and design process, all to the benefit of ratepayers. Another notable benefit of merging the two divisions would be to eliminate the costs of preparing and submitting to the Commission the annual 1307(f) filing of the Peoples-Equitable Division, ultimately saving all parties time and money.

19. The Settlement provides that Peoples may place into effect the natural gas supply rates as proposed and identified in the appendices attached to the Joint Petition. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The I&E analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. As such, I&E opines that these rates are in the public interest and should be approved.

20. I&E and, apparently, the active parties to this proceeding, are in agreement that the Companies will adhere to the purchasing plan as established by the data and calculations provided in the Companies' testimony and associated exhibits, as no party has submitted evidence challenging any provision. The purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements in acquiring supplies for its customers. The Companies' projections and plans are reasonable and are in the public interest. Therefore, they should be adopted as presented.

21. Although I&E did serve Direct Testimony in this proceeding, I&E fully supports the Settlement and believes that all issues have been satisfactorily resolved

through discovery and discussions with the Companies and are incorporated in the settlement. Line by line identification of the ultimate resolution of every averment is not necessary, as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this filing complete.

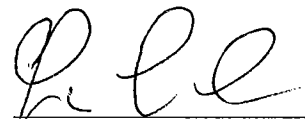
### **III. CONCLUSION**

22. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because the provisions adequately protect the interests of all affected parties, including the signatories to this Settlement Agreement.

23. The Bureau of Investigation and Enforcement is satisfied that the provisions and data contained in the Companies' annual PGC filings, as confirmed by this Joint Petition, accurately support the finding that the Companies' purchased gas costs and their practices adequately protect the public interest.

**WHEREFORE**, the Commission's Bureau of Investigation and Enforcement represents that it supports the *Joint Petition for Settlement of the Section 1307(f) Rate Investigation* as being in the public interest and respectfully requests that Administrative Law Judge Jeffrey A. Watson recommend, and the Commission subsequently approve, the foregoing Settlement, including all terms and conditions contained therein.

Respectfully Submitted,



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Gina L. Lauffer

Prosecutor

PA Attorney I.D. #313863

Phillip C. Kirchner

Prosecutor

PA Attorney I.D. #313870

Bureau of Investigation and Enforcement  
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P.O. Box 3265  
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(717) 787-1976

Dated June 22, 2015

# APPENDIX “F”

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2015-2465172
Peoples Natural Gas Company, LLC	:	
	:	
	:	
Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2015-2465181
Peoples Natural Gas Company, LLC	:	
Equitable Division	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

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The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Settlement Agreement (Settlement), respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge and the Pennsylvania Public Utility Commission (Commission). This request is based upon the OCA’s conclusion that the proposed Settlement is in the public interest and is in the interest of the customers of the Peoples Natural Gas Company, LLC (Peoples) and the Peoples Natural Gas Company, LLC - Equitable Division (Equitable Division), (collectively “the Company”).

**I. BACKGROUND**

The Joint Petition, at pages 2-6, sets forth the procedural history and background of these proceedings. The OCA would add the following information regarding its participation. The OCA reviewed each of the Company’s purchasing policies and practices for their natural gas supplies for the twelve-month period ending September 30, 2015 to determine if they were in accord with the statutory mandate of Sections 1307(f), 1317, and 1318 of the Public Utility Code

and the Public Utility Commission's Regulations at 52 Pa. Code Section 53.64. This review included an evaluation of numerous issues associated with both divisions' historic and projected purchasing practices and policies. The OCA also engaged in discovery to investigate matters related to the proposed PGC rates. In addition to discovery, the OCA timely served the direct and surrebuttal testimony of its expert witness Jerome D. Mierzwa, detailing the OCA's recommendations. The OCA participated in settlement discussions with the Company and other parties, which eventually culminated in the terms and conditions set forth in the Settlement.

## **II. TERMS AND CONDITIONS OF SETTLEMENT**

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

The OCA submits that settlement is a product of compromise. Accordingly, the Commission should recognize the balance of compromises struck by the settling parties. The OCA does not address all of the terms and conditions set out in the Settlement in this Statement in Support. The OCA does not, however, oppose such terms and conditions not expressly addressed herein. The OCA 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 reviewing the Company's filing and discovery responses, OCA witness Mierzwa identified several concerns and provided recommendations in his Direct Testimony on how these

concerns should be addressed. The following represents the terms of the Settlement that directly addresses the OCA's concerns and recommendations in this case.

**A. Merging Peoples and Equitable Division's PGC Rates (Settlement II.B.)**

The Company proposed combining the PGC rates of Peoples and Equitable Division effective October 1, 2015. OCA witness Mierzwa testified in his Direct Testimony that the Company's proposal to combine Peoples and Equitable Division's PGC rates is reasonable. OCA Statement No. 1 at 7. Mr. Mierzwa testified that there are a number of benefits associated with combining the PGC rates and that the consolidation of the PGC rates may reduce the need to address a projected capacity deficiency for the Equitable Division. *Id.* at 8. Mr. Mierzwa also acknowledged that the difference in PGC rates resulting from the consolidation would be *de minimis* (i.e., 2 cents per Mcf). *Id.* at 8. Mr. Mierzwa, however, recommended that separate Gas Cost Adjustment (GCA) rate components be maintained for the one-year period from October 1, 2015 through September 30, 2016 in order to "provide for a better match between over- and under-recovery cost responsibility with over- and under-recovery cost collection." OCA Statement No. 1 at 8. In rebuttal, the Company argued that moving to a unified GCA would allow the Companies' to offer a single price to compare, thus facilitating unified shopping throughout the combined service territories. OCA witness Mierzwa explained in Surrebuttal, however, that each Companies' Merchant Function Charge would not be merged under the Companies' filings, and as a result there would not be a unified Price to Compare. OCA St. 1S at 2.

Under the Settlement, the Company has agreed to combine the MFC to get a truly identical price to compare across both companies' service territories. Settlement at ¶ 36. While the Settlement does not adopt Mr. Mierzwa's recommendation to maintain separate GCA rate

components for a one-year period, the OCA submits that merging the PGC rates to provide identical PTCs as of October 1, 2015 is reasonable and in the interests of the ratepayers and the public interest. Although Mr. Mierzwa's recommendation to maintain separate GCA rates until September 30, 2016 is technically precise, as the Company acknowledged (*See Peoples and Equitable Division Statement No. 1-R at 4*), the difference in rates that the customers would pay if Mr. Mierzwa's recommendation were to be adopted is relatively minor, and this benefit is outweighed by the benefits that stem from consolidating the PGC rates now. The OCA submits that the Company's proposal to consolidate the PGC rates effective October 1, 2015 should be approved, as this proposal is in the best interest of the Company, its customers and the public interest.

**B. Capacity Levels (Settlement II.C.)**

In its filing, Peoples proposed to adopt the same design day temperature criteria currently utilized by the Equitable Division (i.e., to change its design day temperature criteria from a day with 74 HDD to a day with 75 HDD). OCA witness Mierzwa objected to this proposal, testifying that Peoples had made no showing that its current design day temperature criteria has or will adversely affect service reliability. OCA Statement No. 1 at 9. Mr. Mierzwa testified that changing the design day temperature criteria would result in increased future capacity costs for PGC customers and, therefore, is inconsistent with least-cost gas procurement. *Id.* at 9. Accordingly, Mr. Mierzwa recommended that if the PGC rates are consolidated, that Peoples' current design day temperature criteria be adopted for the Equitable Division. *Id.* at 10. Mr. Mierzwa did not oppose the Company's proposed level of capacity, however.

The Settlement adopts the Company's proposed level of capacity for the projected period commencing October 1, 2015, but does not approve the Company's proposal regarding

modifying Peoples' design day criteria. The Settlement also provides that Peoples will prepare and file a study of the combined capacity requirements and design day criteria for the proposed capacity requirements for the combined requirements of its two Divisions with its PGC filing in 2016. The OCA submits that this portion of the Settlement addresses the OCA's concern regarding Peoples' proposal to adopt Equitable Division's design day criteria. As Mr. Mierzwa testified, in this proceeding, Peoples' proposed level of capacity was not affected by its proposal to adopt a design day criteria of 75 HDD. OCA Statement No. 1 at 11. Mr. Mierzwa did not oppose Peoples' proposed level of capacity, only its proposal to modify its design day criteria. Since the Settlement approves the capacity level without modifying Peoples' design day criteria, the OCA submits that the Company's proposed level of capacity should be approved.

**C. AVC Authorized Overrun Charges (Settlement II.D)**

OCA witness Mierzwa recommended in his Direct Testimony that the overrun charges associated with Peoples' transfer of the Allegheny Valley Connector (AVC) system (transmission and storage assets) to EQT Corporation not be recovered through PGC rates. OCA St. No. 1 at 17. OCA witness Mierzwa testified that "these costs are associated with the transition under the Peoples and Equitable Gas Company merger." OCA St. No. 1-SR at 4.

The authorized overrun charges were the result of a series of events that occurred during the initial transition of AVC system operation from Peoples to Equitrans. Peoples claims to have undertaken corrective actions to significantly reduce future authorized overrun charges. The most significant of these is the installation of daily measurement. Had the Peoples/Equitable merger not occurred, Peoples would not have incurred the authorized overrun charges. Since these temporary costs would not have occurred without the merger, they should be considered merger transition costs.

*Id.* OCA witness Mierzwa recommended disallowance of the costs if Peoples could not show that the costs were attributable to factors other than real-time measurement. *Id.* at 6.

The Settlement provides that Peoples will remove the \$1,005,000 of AVC authorized overrun charges from the historic period (12 months ended January 2015) costs, and recover the costs from 1307(f) retail sales customers and choice customers through capacity charges and non-choice transportation customers through the BB&A charge, for a one-year period beginning October 1, 2015. Settlement II.D. The OCA submits that this settlement term is in the best interest of the PGC customers and in the public interest because, while not completely removing AVC costs from PGC rates, it provides for sharing of these costs with all customers.

**D. Banking, Balancing and Advancing (“BB&A”) Charges (Settlement II.E.)**

OCA witness Mierzwa recommended in his Direct Testimony that “the BB&A rates approved in this proceeding be subject to reconciliation for the costs associated with any new arrangement entered into by Peoples or the Equitable Division that has not been identified in this proceeding but is necessary for the provision of balancing service,” and that this recommendation “should also be extended to new arrangements required to maintain system reliability, such as the DTI arrangements which I discuss later in my testimony.” OCA Statement No. 1 at 12-13. Mr. Mierzwa explained in testimony that historically, projected BB&A charges have not been reconciled with actual BB&A costs. *Id.* at 12.

The Settlement, at Paragraph 42, adopts Mr. Mierzwa’s recommendation to reconcile subsequent changes to interstate pipeline capacity contracts that affect the stand-by and/or balancing charges during this PGC period with future stand-by and/or balancing charges commencing October 1, 2016. The OCA submits that this settlement term is in the best interest of the Company’s customers and in the public interest because it provides for reasonable apportionment of the costs associated with new contracts entered into during the 2015 PGC period not presently included in the balancing charges established in this proceeding.

**E. Storage Accounting (Settlement II.F)**

OCA witness Mierzwa recommended in his Direct Testimony that:

Peoples' proposal to calculate storage inventory rates based on the combined cost of all gas purchased by Peoples and the Equitable Division appears reasonable and should be adopted. However, Peoples' proposal to exclude pipeline demand charges from the LIFO rate should not be adopted. This proposal will reduce its storage inventory carrying charges because demand charges will no longer be included in the LIFO rate calculation and Peoples' storage inventory balances will be reduced. Changes to storage inventory accounting procedures which affect base rate costs should be addressed in a base rate proceeding and not in a 1307(f) proceeding. A base rate proceeding is the appropriate forum to evaluate the impacts of a change in storage accounting methods and determine whether such a change is reasonable.


OCA St. No. 1 at 16.

The Settlement provides that Peoples' proposal to use the combined average purchased gas cost of both Divisions that excludes demand costs will be approved effective October 1, 2015. Settlement II.F. The Settlement also addresses Mr. Mierzwa's concerns by agreeing that the annual LIFO storage accounting rate for 2015 for Peoples will include nine months of Peoples Division costs (including demand costs) for the period of January 1, 2015 through September 30, 2015) and three months of combined Division costs (excluding demand costs for the period of October 1, 2015 through December 31, 2015). The OCA submits that this settlement term is in the best interest of the Company's customers and in the public interest because it represents a reasonable compromise between the parties and the impact on storage inventory carrying charges is not significant.

### III. CONCLUSION

For the foregoing reasons, the OCA submits that the terms and conditions of the Joint Petition for Settlement are in the public interest should be approved.

Respectfully Submitted,



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Dated: June 23, 2015

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# APPENDIX “G”

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
	:	<b>DOCKET NO. R-2015-2465172</b>
<b>v.</b>	:	
	:	
<b>PEOPLES NATURAL GAS COMPANY LLC</b>	:	
<b>AND</b>		
<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
	:	
<b>v.</b>	:	<b>DOCKET NO. R-2015-2465181</b>
	:	
<b>PEOPLES NATURAL GAS COMPANY LLC – EQUITABLE DIVISION</b>	:	

**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 LLC (“Peoples”) and Peoples Natural Gas Company LLC – Equitable Division (“Peoples-Equitable Division”) and together with Peoples, the “Companies”) are adequately represented and protected.

## **II. PROCEDURAL BACKGROUND**

On January 30, 2015, and March 2, 2015, pursuant to Section 1307(f) of the Public Utility Code, the Companies submitted pre-filed supporting information concerning their annual Purchased Gas Cost (“PGC”) Rate filings. On April 1, 2015, the Companies submitted their annual PGC filings to the Commission.

The OSBA filed a Complaint in each of the above-captioned proceedings on March 12, 2015.

On March 12, 2014, the Commission’s Bureau of Investigation and Enforcement (“I&E”) entered a notice of appearance in both proceedings.

A Complaint was filed by the Office of Consumer Advocate (“OCA”) on March 18, 2015 in both proceedings.

On April 6, 2015, Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“Dominion”), filed a Petition to Intervene in both proceedings.

On April 16, Pennsylvania Independent Oil & Gas Association (“PIOGA”) filed a Petition to Intervene in both proceedings.

A Prehearing Conference was held on April 17, 2015, before Administrative Law Judge (“ALJ”) Jeffrey A. Watson, who subsequently entered a prehearing order on April 27, 2015, consolidating the Peoples and Peoples-Equitale proceedings, establishing a procedural schedule, and granting the Petitions to Intervene of Dominion and PIOGA.

On May 8, 2015, the OSBA, OCA, and I&E submitted direct testimony.

On May 14, 2015, the Companies provided notice to the parties that they would be submitting supplemental direct testimony in order to correct an error that had been discovered in

the manner in which they calculated the balancing requirements and charges to Peoples-Equitable Division transportation customers, which testimony was served on May 18, 2015.

The Companies and OCA submitted rebuttal testimony on May 27, 2015. The OCA submitted surrebuttal testimony on June 3, 2015.

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 by interim order dated June 5, 2015.

A hearing was held on June 8, 2015, 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**

Upon review of the Companies PGC filings and subsequent discovery, the OSBA identified three issues of concern: (1) the Companies’ proposal to consolidate their purchases gas cost rates, balancing charges, and retainage rates in this proceeding; (2) the Companies’ proposed uniform retainage rate; and (3) the Companies’ proposal to extend their existing capacity release and off-system sales sharing mechanism.

The OSBA determined that its concerns have generally been addressed, and that the settlement is therefore reasonable and in the interest of the Companies’ small business (collectively “Small C&I”) customers.

#### **A. Rate Consolidation (Joint Petition at Para. 36)**

Pursuant to the settlement, the parties agree that the Companies' proposal to consolidate or blend their purchased gas cost rates, balancing charges, and retainage rates should be approved. As of October 1, 2015, Peoples and Peoples-Equitable Division would charge the same PGC rates to their sales customers. In addition, they would make a single Section 1307(f) filing in 2016, reflective of the joint use of all interstate pipeline services and gas purchase agreements needed to acquire natural gas supplies for sales customers.

The PGC rate impacts on sales customers (with typical usage levels) due to consolidation are shown in Appendix C to the Joint Petition. As shown in Appendix C, Peoples' sales customers would see an increase in PGC costs, while Peoples-Equitable Division's sales customers would experience a decrease in costs, compared to the case where the Companies maintained separate PGC rates.

The typical bill impact on Peoples' Rate SGS (Small General Service) and Rate MGS (Medium General Service) sales customers would be an increase of 2.3% and 3.9%, respectively. For the Peoples-Equitable Division, the typical bill impact on SGS and MGS sales customers would be a decrease of 2.5% and 4.6%, respectively.

The Companies have identified the following benefits to the joint use of their combined gas supply assets: a) providing increased flexibility, efficiency and reliability when procuring gas supplies; b) providing greater opportunity to use local gas supplies; and c) facilitating a more robust retail shopping market.<sup>1</sup> In addition, the Companies claim that merging their gas supply operations would allow them to pursue "many more pipeline replacement options, free up capital

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<sup>1</sup> OSBA Statement No. 1 at 2.

for additional pipeline replacement options, and streamline the pipeline facility planning and design process.”<sup>2</sup>

Given the benefits identified by the Companies, the OSBA has determined that the relative magnitude of the rate impacts from consolidation is acceptable and therefore the settlement approving such rate consolidation is reasonable and in the interest of the Companies’ Small C&I customers.<sup>3</sup>

#### **B. Retainage Rates (Joint Petition at Para. 46)**

Peoples currently retains 5.2% of the natural gas delivered on behalf of Rates RS (residential), SGS (small general service) and MGS (medium general service) transportation customers, and 4.6% of the natural gas delivered on behalf of Rate LGS (large general service) industrial transportation customers. Peoples proposed to adjust its existing retainage rates to reflect changes in overall LUFG/CU levels. In addition, Peoples proposed to establish a uniform retainage rate for residential, commercial and industrial transportation customers. As shown in Peoples Exhibit No. 11, Peoples proposed to implement a retainage rate of 5.0% for all transportation customers, based upon its two-year average LUFG/CU rate for the period ending August 31, 2014.

Peoples-Equitable Division discounts the retainage rate applicable to certain competitive customers. However, Peoples-Equitable Division currently retains a weighted average of 5.85% of the natural gas delivered on behalf of all (i.e., competitive and non-competitive) transportation customers. Peoples-Equitable Division proposed to adjust its existing retainage rate to reflect overall LUFG/CU levels over a two-year period. As shown in Peoples-Equitable Division

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<sup>2</sup> Peoples and Peoples-Equitable Division Statement No. 1 at 20.

<sup>3</sup> The Companies have also agreed to file a 60-day tariff filing to be effective October 1, 2015, that proposed to merge the separate MFC and GPC of Peoples and Peoples-Equitable Division so that a single price-to-compare rate is effective October 1, 2015. All parties have reserved their rights to comment on and opposed this tariff filing.

Exhibit No. 11, Peoples-Equitable Division proposed to implement a retainage rate of 5.0% for all non-competitive transportation customers, based upon its two-year average LUFG/CU rate for the period ending August 31, 2014.

In Direct Testimony, OSBA witness Mr. Kalcic determined that a uniform 5% retainage rate for all rate classes of both Peoples and Peoples-Equitable Division was reasonable because it is consistent with the two-year average LUFG/CU rate for the period ending August 31, 2014.<sup>4</sup>

The settlement proposes a uniform retainage rate of 5.0% for all rate classes of both Companies.

Because the OSBA determines that the uniform settlement retainage rate of 5.0 % is just and reasonable, and since the settlement does not adopt any specific retainage rate calculation methodology, the settlement is in the best interest of the Companies' Small C&I customers.

### **C. Sharing Mechanism (Joint Petition at Para. 49)**

Under Peoples' current revenue sharing mechanism, the margins generated from eligible capacity release transactions, off-system sales and parks/loans are shared between 1307(f) customers and Peoples, with customers receiving 75% and shareholders retaining 25%.<sup>5</sup> Similarly, under Peoples-Equitable Division's current revenue sharing mechanism, the margins generated from eligible capacity release transactions, off-system sales and parks/loans are shared between 1307(f) customers and Peoples-Equitable Division, with customers receiving 75% and shareholders retaining 25%.<sup>6</sup>

The Companies proposed to extend the current sharing mechanisms "indefinitely," with the understanding that the extension would not prohibit any party from challenging the sharing

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<sup>4</sup> OSBA Statement No. 1 at 5-6, 8.

<sup>5</sup> See Peoples Statement No. 3 at 20-21.

<sup>6</sup> See Peoples-Equitable Division Statement No. 3 at 21.

mechanism in future Section 1307(f) proceedings. OSBA witness, Mr. Kalcic agreed that the sharing mechanisms should be extended, but not indefinitely, because extending the sharing mechanisms *indefinitely* would shift the existing burden of proof from the Companies to any party wishing to modify the mechanism in a future proceeding. In order to ensure that the burden of proof remains with the Companies, Mr. Kalcic recommended that the Commission approve an extension of the Companies' existing sharing mechanisms for a finite time period through September 30, 2017.<sup>7</sup>

The settlement adopts Mr. Kalcic's recommendation and therefore the OSBA determines that it is reasonable and in the interest of the Companies' Small C&I customers.

#### **D. 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 Companies' 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.

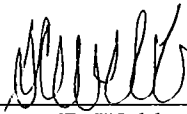
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<sup>7</sup> OSBA Statement No. 1 at 7 and 9.

**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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