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June 20, 2016

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
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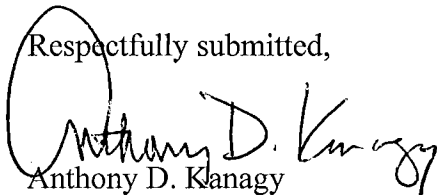
**Re: Pennsylvania Public Utility Commission, Office of Small Business Advocate &
Office of Consumer Advocate v. Peoples Natural Gas Company LLC
Docket Nos. R-2016-2528562, C-2016-2538458 & C-2016-2536106**

**Pennsylvania Public Utility Commission, Office of Small Business Advocate &
Office of Consumer Advocate v. Peoples Natural Gas Company LLC - Equitable
Division - Docket Nos. R-2016-2529260, C-2016-2538458 & C-2016-2536106**

Dear Secretary Chiavetta:

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

Respectfully submitted,



Anthony D. Kanagy

ADK/jl
Enclosures

cc: Honorable Jeffrey Watson
Certificate of Service

CERTIFICATE OF SERVICE
(Docket Nos. R-2016-2528562, et al.)

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

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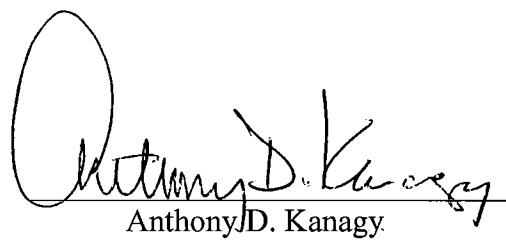
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Date: June 20, 2016



Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2528562 |
| Office of Small Business Advocate & | : | C-2016-2538456 |
| Office of Consumer Advocate | : | C-2016-2536105 |

v.

Peoples Natural Gas Company LLC

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2529260 |
| Office of Small Business Advocate & | : | C-2016-2538458 |
| Office of Consumer Advocate | : | C-2016-2536106 |

v.

Peoples Natural Gas Company LLC -
Equitable Division

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

TO ADMINISTRATIVE LAW JUDGE JEFFREY A. WATSON:

Peoples Natural Gas Company LLC (“Peoples”), acting on behalf of its Peoples Division (“Peoples Division”) 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”), the Office of Small Business Advocate (“OSBA”), and the Pennsylvania Independent Oil & Gas Association (“PIOGA”), parties to the above-captioned consolidated proceeding (hereinafter, collectively referred to as the “Joint Petitioners”), hereby file this Joint Petition for Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Settlement”). As explained below, the Joint Petitioners have agreed to a settlement of all issues that have been raised in: (1) the Peoples

Division's 2016 Purchased Gas Cost ("PGC") proceeding at Docket Nos. R-2016-2528562, C-2016-2538456, and C-2016-2536105; and (2) Peoples-Equitable Division's 2016 PGC proceeding at Docket Nos. R-2016-2529260, C-2016-2538458, and C-2016-2536106. 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 to file the forms of tariff supplements provided as Appendix A hereto, with rates to become effective October 1, 2016, subject to updates and tariff modifications¹; and (2) make all associated findings required by Section 1307(f) and Section 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307(f), 1318. In support of this Settlement, the Joint Petitioners state the following:

I. INTRODUCTION

1. Peoples is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission's regulatory jurisdiction. Peoples operates two divisions – the Peoples Division and 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. 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

¹ The rates in Appendix A reflect the proposed gas cost rates, the settlement rate changes and other rate changes that were effective March 1, 2016. The rates in Appendix A will be updated to reflect any changes as of October 1, 2016 when the final tariff supplements are filed.

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.

4. 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.

5. On February 8, 2016, Peoples, on behalf of both its Peoples Division and Peoples-Equitable Division, made its PGC 60-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code § 53.65.

6. On March 2, 2016, the Peoples and Peoples-Equitable Divisions made their 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.

7. On March 15, 2016, I&E filed a Notice of Appearance at Docket Nos. R-2016-2528562 and R-2016-2529260.

8. On March 18, 2016, OSBA filed a Notice of Appearance at Docket Nos. R-2016-2528562 and R-2016-2529260.

9. On March 23, 2016, OCA filed a Notice of Appearance and Complaint at Docket Nos. R-2016-2528562 and R-2016-2529260.

10. On April 1, 2016, Peoples Division and Peoples-Equitable Division filed with the Commission their definitive PGC filings, including supporting information required by the

Commission's regulations, Peoples' direct testimony, exhibits, and Pro Forma Tariff Supplements reflecting actual and projected changes in natural gas costs and other tariff changes.

11. In addition, on April 1, 2016, a Notice was issued scheduling a Prehearing Conference before the ALJ at 9:00 AM on Thursday, April 7, 2016, at Piatt Place, 2nd Floor Hearing Room, Suite 220, 301 Fifth Avenue, Pittsburgh, Pennsylvania and at Commonwealth Keystone Building, Hearing Room 3, 400 North Street, Harrisburg, Pennsylvania.

12. On April 4, 2016, a Prehearing Conference Order was issued by the ALJ, directing the parties to file Prehearing Memoranda on or before 12:00 PM on April 6, 2016.

13. On April 5, 2016, PIOGA filed a Petition to Intervene at Docket Nos. R-2016-2528562 and R-2016-2529260.

14. On April 6, 2016, the parties filed their Prehearing Memoranda in compliance with the Prehearing Conference Order, and OSBA filed a Complaint and Verification at Docket Nos. R-2016-2528562 and R-2016-2529260.

15. A prehearing conference was held on April 7, 2016.

16. On April 19, 2016, a prehearing order was issued that established the litigation schedule and consolidated the complaints of OCA and OSBA with the Commission's investigation. In addition, the ALJ consolidated the Peoples Division and Peoples-Equitable Division proceedings with the Peoples TWP PGC proceeding at Docket No. R-2016-2528557 for purposes of hearing.

17. On April 12, 2016, a Notice was issued scheduling the hearing in this proceeding for June 2, 2016, and June 3, 2016.

18. On April 15, 2016, a corrected Notice was issued, detailing that the hearings would be held at 10:00 AM each day in Harrisburg, Pennsylvania.

19. On May 4, 2016, OCA, I&E, and PIOGA served written direct testimony.
20. On May 5, 2016, Daniel Killmeyer filed a Formal Complaint at Docket No. C-2016-2545048 concerning the Peoples Division and Peoples-Equitable Division PGC filings.
21. On May 9, 2016, OCA served written supplemental direct testimony.
22. On May 23, 2016, Peoples served written rebuttal testimony.
23. In accordance with the Commission's Rules of Practice and Procedures, 52 Pa. Code § 5.231, the Parties engaged in 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.
24. On May 27, 2016, counsel for Peoples advised the ALJ that the Joint Petitioners had reached a Settlement in Principle that resolved all issues in the Peoples PGC proceeding, prior to the date for submission of written surrebuttal testimony. Accordingly, counsel for Peoples requested that the ALJ suspend the litigation schedule.
25. On June 1, 2016, the ALJ issued an Interim Order that suspended the litigation schedule, canceled the evidentiary hearing for June 3, 2016, and directed the Joint Petitioners to file their signed settlement agreements and statements in support of the settlements no later than June 20, 2016.
26. A hearing was held on June 2, 2016, at which time the Joint Petitioners' pre-filed testimony and exhibits were admitted into the record and the ALJ granted Peoples' Motion for Protective Order.
27. 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.

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

II. SETTLEMENT TERMS

A. CAPACITY LEVELS

29. 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, 2016 (which includes 10,000 Dth/day of Equitrans storage and related transportation capacity released to Peoples by Peoples TWP beginning April 1, 2016), 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.

B. RETAINAGE AND LOST AND UNACCOUNTED FOR GAS

30. Effective October 1, 2016, the tariffed retainage rate for all rate classes of both the Peoples and Peoples-Equitable Divisions shall be 5.25% as presented in Peoples Statement No. 1-R.

31. In the 1307(f)-2017 Filing, the Company will provide a reconciliation of the volumes used to calculate retainage in the 1307(f) filing with the volumes reported in the annual Lost and Unaccounted for Gas (“UFG”) report.

32. The newly negotiated waivers of retainage contained in Highly Confidential Peoples Exhibit No. 4 should be approved.

33. For new or renegotiated contracts entered into before September 30, 2017, retainage for customers with negotiated delivery rates above \$0.38 per Mcf will not be discounted from the full tariff retainage rate at a greater percentage than the delivery rate is discounted from the applicable full tariff delivery rate.

34. It is acknowledged that Peoples' UFG percentage for the 12-month period ending August 31, 2015 is in compliance with the Commission's regulations at 52 Pa. Code § 59.111(c)(1). The Company commits to continue its efforts to reduce UFG.

C. PRODUCTION INCENTIVE

35. Production incentives, in the form of higher gas purchase prices, may be offered in discrete areas of the Company's system that: (a) are experiencing declining receipts of local gas volumes, would improve service reliability with additional local gas volumes, and have no current economically viable alternative to receipts of local gas to serve customers; or (b) have limited sources of gas supply feeding the system, would improve service reliability with additional supply feeds, and have no current economically viable alternatives to such additional supply feeds in order to improve service reliability, all as described in Peoples Statement No. 2.

36. For settlement purposes, the cost of any production incentive incurred during the 2017 1307(f) historic review period will be separately identified in the Company's 2017 1307(f) filing. The reasonableness of the Company's production incentive calculation will be subject to review, and the allocation of production incentive costs to the various customer service classes (e.g., PGC and transportation service) will be addressed by the parties in the Company's 2017 1307(f) filing.

D. MISCELLANEOUS

37. Except as revised by this Settlement, the proposed rates and other requested approvals contained in the PGC filings of the Peoples and Peoples-Equitable Divisions of Peoples should be approved. This approval includes the results of the Requests for Proposals ("RFPs") issued in 2016 for TETCO and TGP delivered supply for the winters of 2016-2017 and 2017-2018. Comparisons of the current rates and proposed changes in gas costs for sales customers are provided below:

| Peoples Natural Gas | | | |
|--|------------------------|------------------|---------------|
| | Existing | Gas Cost | Percent |
| <u>Rate Schedule</u> | <u>Tariff Rates 1/</u> | <u>Change 2/</u> | <u>Change</u> |
| RS | \$6.6515 | \$0.5145 | 7.7% |
| SGS - Commercial | \$5.3280 | \$0.4356 | 8.2% |
| SGS - Industrial | \$4.8793 | \$0.4356 | 8.9% |
| MGS - Commercial | \$5.1561 | \$0.3907 | 7.6% |
| MGS - Industrial | \$4.4636 | \$0.3908 | 8.8% |
| LGS - Commercial | \$5.2288 | \$0.4527 | 8.7% |
| LGS - Industrial | \$4.5677 | \$0.4527 | 9.9% |
| 1/ Peoples net billing rate effective March 1, 2016 | | | |
| 2/ Reflects the proposed gas cost rate change and the settlement rate change | | | |

| Peoples Natural Gas - Equitable Division | | | |
|--|------------------------|------------------|---------------|
| | Existing | Gas Cost | Percent |
| <u>Rate Schedule</u> | <u>Tariff Rates 1/</u> | <u>Change 2/</u> | <u>Change</u> |
| RS | \$6.3246 | \$0.5137 | 8.1% |
| GSS | \$5.5073 | \$0.4354 | 7.9% |
| GSL | \$5.2475 | \$0.3906 | 7.4% |
| GSL > 25,000 Mcf/yr | \$5.1114 | \$0.4525 | 8.9% |
| 1/ Peoples-Equitable Division net billing rate effective March 1, 2016 | | | |
| 2/ Reflects the proposed gas cost rate change and the settlement rate change | | | |

38. In accordance with the provisions of 52 Pa. Code § 53.64(i)(5), the Company's compliance filing in this proceeding will reflect updated actual and projected over/undercollections through September 30, 2016.

39. The Joint Petitioners agree to the updated balancing rate calculation provided in Revised Peoples Exhibit No. 12.

III. PROPOSED FINDINGS OF FACT

40. 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. (Peoples Statement No. 2, p. 5.)

41. Peoples' interstate assets consist 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 L.P. ("Equitrans"), and National Fuel Gas Supply Corporation ("NFGS"). 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. The interstate storage assets allow Peoples to use its upstream assets more efficiently, mitigate the effects of price swings in the natural gas market, and enhance the deliverability of Peoples' interstate natural gas supplies during periods of peak demand. Peoples' interstate supplies are primarily EQT Energy and other Appalachian-produced 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.)

42. Over the 1307(f)-2016 reconciliation period, Peoples' natural gas capacity portfolio included: (1) interstate pipeline transportation and storage services from Equitrans; (2) interstate pipeline transportation and storage services from DTI; (3) interstate pipeline transportation service from TETCO; and (4) interstate pipeline transportation and storage services from NFGS. In addition, Peoples purchases winter-only firm city-gate delivered supply via Tennessee and winter-only firm city-gate delivered supply via TETCO that, although being

gas purchase arrangements, Peoples treats the same as interstate capacity since Peoples requires deliveries at the respective delivery points and, therefore, would pursue firm capacity at these points if firm city-gate delivered supply was not available. (Peoples Statement No. 2, pp. 16-17.)

43. Beginning December 17, 2013, when the acquisition of Equitable Gas Company (“Equitable”) closed, Equitrans began providing firm transportation and firm storage services from Equitrans’ AVC to the Peoples Division. The AVC services consist of transportation service under Rate Schedule FTS, no-notice transportation service under Rate Schedule FTSS, and storage service under Rate Schedule GSS. The FTSS and GSS service agreements provide Peoples and its customers with access to AVC storage capacity of 8.6 MMDth annually and maximum deliverability of 200,000 Dth/day. The FTS service agreement provides Peoples and its customers up to 251,700 Dth/day of firm transportation capacity. These service agreements provide for a total of 451,700 Dth/day of firm capacity on the AVC system. (Peoples Statement No. 2, p. 20.)

44. Beginning April 1, 2014, Equitrans began providing the Peoples Division with 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 and Mainline systems and delivered to Equitrans’ Ginger Hill station, which is the point of interconnection between Equitrans’ Mainline and Allegheny Valley Connector (“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, p. 20.)

45. In addition to the Equitrans services used during the reconciliation period, Peoples has proposed for the projected period to acquire additional Equitrans services for a one-year period. These services would be the Equitrans storage service that Peoples TWP currently has under contract with Equitrans, which consist of 545,455 Dth of storage capacity under Rate GSS, 10,000 Dth/day of storage deliverability, and 10,000 Dth/day of firm transportation under Rate FTS. Peoples has proposed to acquire the service by capacity release from Peoples TWP at the same rates that Peoples TWP pays for the services. (Peoples Statement No. 2, p. 21.)

46. DTI provides service to Peoples under four service agreements and three rate schedules. DTI provides year-round Rate FTNN no-notice transportation service at 40,000 Dth/day, and Rate GSS storage service under two separate service agreements, one with capacity of 4.6 MMDth annually and maximum deliverability of 40,000 Dth/day and the other with capacity of 2.48 MMDth annually and up to 40,000 Dth/day of deliverability. (Peoples Statement No. 2, p. 23.)

47. TETCO provides Peoples with firm transportation service under rates set by 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 prior years, Peoples has contracted for firm delivered-to-Peoples supply arrangements to meet its needs from the TETCO system at the Rockwood delivery point. TETCO also provides an operational balancing agreement that helps Peoples manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 2, pp. 24-25.)

48. Peoples had 15,650 Dth/day of FT-1 firm transportation service under contract from TETCO for the entire 1307(f)-2016 reconciliation period. These same contract quantities are in place for the 1307(f)-2016 projected period. Gas supplies under this transportation contract, which expires on April 30, 2019, are delivered by TETCO at Peoples' Ebensburg delivery point. (Peoples Statement No. 2, p. 25.)

49. Pursuant to the settlement approved in Peoples' 1307(f)-2015 proceeding, Peoples issued RFPs for firm delivered gas supply for up to 25,000 Dth/day at Peoples' Ebensburg delivery point on TETCO, while also requesting alternative proposals for non-recallable release of capacity from TETCO's market zone M-2 to Peoples' Ebensburg delivery point in zone M-3. Peoples received three response proposals to the RFPs. The Company accepted two of the proposals and entered into agreements, one for up to 12,000 Dth/day and the other for up to 15,000 Dth/day. Comparing the two agreements, the former has a purchase price equal to Gas Daily's M-3 index price and also has a reservation fee of \$1,800/month. The latter has no reservation fee but carries a premium to the index price when gas is actually purchased. (Peoples Statement No. 2, p. 27.)

50. The Company has issued another RFP for firm delivered supply on TETCO of up to 25,000 Dth/day that will provide for delivery of natural gas on a firm basis at the same TETCO delivery point as the previous year's agreement for the winter period November 2016 through March 2017. (Peoples Statement No. 2, p. 28.)

51. Peoples requires up to 3,000 Dth/day at its Rockwood interconnection with TETCO in TETCO's market zone M-2. Prior to 2007, Peoples satisfied this requirement with TETCO firm transportation capacity, but the M-2 firm transportation capacity was not renewed upon its March 31, 2007 expiration. Peoples then 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. Since then, Peoples has satisfied its needs at this delivery point with spot market purchases. (Peoples Statement No. 2, p. 32.)

52. Peoples has issued an RFP for firm delivered gas supply for up to 3,000 Dth/day at Peoples' Rockwood delivery point on TETCO for the winter period November 2016 through March 2017. (Peoples Statement No. 2, p. 33.)

53. Prior to the winter of 2010-2011, Peoples had contracted for firm transportation capacity on Tennessee. Beginning that winter, Peoples has continuously pursued an RFP process and contracted for firm city-gate delivered gas supply as a replacement for the firm transportation service that Peoples had been purchasing from Tennessee on a year-to-year basis. (Peoples Statement No. 2, pp. 28-29.)

54. The delivered supply agreements required the supplier to utilize 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 Peoples' system. (Peoples Statement No. 2, p. 29.)

55. During the 1307(f)-2016 reconciliation period, following the RFP process, Peoples entered into a firm delivered supply agreement with South Jersey Resources. The contract provided for up to 26,000 Dth/day of firm supply delivered to Peoples with 0 – 23,000 Dth/day delivered to Pittsburgh Terminal and Pulaski, and the remaining 0 – 3,000 Dth/day of supply delivered to CPA's system at New Castle to support the CPA exchange agreement. 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, p. 29.)

56. The Company has 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 2016 through March 2017 and November 2017 through March 2018. (Peoples Statement No. 2, pp. 29-30.)

57. NFGS provides Peoples with no-notice storage service and firm transportation service under rates approved by FERC. Peoples uses NFGS'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 NFGS as a no-notice balancing service to manage supply for 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 NFGS both to support the NFGS storage service and for deliveries from other supply sources. (Peoples Statement No. 2, pp. 30-31.)

58. During the entire 1307(f)-2016 reconciliation period and for the first two months of the 1307(f)-2016 projected period, NFGS 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 contains a one-year notice of termination provision so that if neither party gives the other one year's notice of termination, the contracts automatically renew for another year. Because of Peoples' need for

the NFGS capacity to meet its system balancing and load requirements, Peoples has not given NFGS notice of termination, so the contracts automatically renewed on April 1 of each year since 2003. (Peoples Statement No. 2, p. 31.)

59. Peoples also currently owns and operates the Dice Storage Field, which has 1,530,000 Mcf of storage capacity and 32,000 Mcf of maximum daily withdrawal capacity. (Peoples Statement No. 2, p. 35.)

60. 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 and Arnold, PA. In exchange, Peoples receives equivalent volumes of gas from Peoples TWP at various interconnections. (Peoples Statement No. 2, pp. 37-38.)

61. Peoples has traditionally used gas produced locally in Pennsylvania as the source of supply to which it turns first in fulfilling its supply requirements. To absorb local gas into its system, Peoples constructed a network of pipelines and related facilities that move the gas either to customers who happen to be located in areas in which gas is produced, or to the more populated areas of the service territory where the greatest level of consumption occurs, and, in summer months, to Peoples' on-system and off-system storage facilities. (Peoples Statement No. 2, pp. 39-40.)

62. Deliveries of local gas directly into the Peoples gathering system have significantly decreased over the last two years. The relatively very low current price for gas in Peoples' market region provides no incentive for shallow well gas producers to invest in new

wells or even in upgrades to existing wells. As a result of this lack of investment, production levels from existing shallow wells are declining more rapidly than in the past and are not being offset by new production coming on line. (Peoples Statement No. 2, pp. 44-45.)

63. Peoples has proposed an incentive payment for the purchase of local gas that would be an incremental variable price that is tied to existing monthly market prices. It would be negotiated only with producers within identified areas in order to provide a sufficient incentive for the producers to rework or stimulate their existing wells to increase production flows and/or invest in new production. Further, the incentive payment would only be applicable to volumes produced from the reworked or new production in the selected areas and would be suspended once the standard monthly local field price rises to a sufficiently high level to maintain production. (Peoples Statement No. 2, p. 43.)

64. 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, p. 50.)

65. Peoples Division and Peoples-Equitale Division purchased gas under the EQT Energy gas purchase agreements during the 1307(f)-2016 reconciliation period. The Peoples Division agreement matches gas supply with the Equitrans Sunrise/Mainline firm transportation contract of up to 251,700 Dth/day. The Peoples-Equitale Division agreement matches a firm gas supply with the Equitrans firm transportation contract of up to 164,935 Dth/day. The annual quantity is 20 MMDth, and EQT Energy will deliver up to 164,935 Dth/day at active receipt

point interconnects with the Equitrans Sunrise and Mainline systems. (Peoples Statement No. 2, p. 52.)

66. UFG is the difference between the total gas available from all sources and the total gas accounted for as sales, net interchange, and company use. This difference includes leakage or other actual losses, discrepancies due to meter inaccuracies, variations of temperatures or pressures or both, and other variants, particularly billing lag. (Peoples Statement No. 2, p. 59.)

67. The Company-wide percentage UFG was 4.4% for the 12-months ended August 31, 2015. (Peoples Statement No. 2, p. 60.)

68. Peoples actively works to reduce its system UFG levels and has in place a UFG mitigation plan with a particular focus on gathering UFG. As part of this plan, Peoples has increased leak repair on Class 2 and Class 3 leaks to reduce the duration of leaks and resulting UFG. These actions also involve more frequent monitoring of high or low volume meters to ensure they are operating within an acceptable measurement range. Peoples also reviews producer and customer meters that appear inactive to mitigate gas theft or unintended reverse flow. Finally, Peoples monitors system pressures to make sure the Company is not operating at pressures higher than what is required to serve its customers, thus reducing gas loss through pipe leakage or measurement errors. (Peoples Statement No. 2-R, pp. 2-3.)

69. 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. 10; Peoples Statement No. 4, pp. 3-4.)

IV. STANDARDS, FINDINGS, AND PROPOSED CONCLUSIONS OF LAW

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

71. With respect to Peoples Division's and Peoples-Equitable Division's gas purchases and gas purchasing practices during the 12-month historical reconciliation period ended January 31, 2016, it is requested that the ALJ and the Commission find that Peoples Division and Peoples-Equitable Division have met the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that during the 12 months ended January 31, 2016:

- a. Peoples Division and Peoples-Equitable Division met the requirements of Section 1318(a) 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; and
- b. All gas exchanges by Peoples Division and Peoples-Equitable Division with entities that are considered an affiliated interest have met the requirements of Section 1318(b) of the Public Utility Code relating to purchases from and services provided by entities that are considered affiliates.

72. Peoples Division and Peoples-Equitable Division have fully and vigorously represented the interests of their ratepayers in proceedings before FERC and other relevant non-Commission proceedings during the relevant time period in compliance with 66 Pa.C.S. § 1318(a)(1).

73. 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).

74. 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).

75. 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).

76. 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).

77. 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).

78. During the eight-month interim period beginning February 1, 2016, and the projected 12-month period beginning October 1, 2016, when rates contained in this Settlement will be in effect,² it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning Peoples Division's and Peoples-Equitable Division's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from Peoples Division's and Peoples-Equitable Division's

² The proposed tariff rates effective October 1, 2016, will be updated to reflect actual and projected over/undercollections through September 30, 2016, as stated in Paragraph 38 of this Settlement.

compliance with the provisions of Section 1318 of the Public Utility Code, including subsections (a)(1)-(4) and (b)(1)-(3). 66 Pa. C.S. § 1318(a)(1)-(4), (b)(1)-(3). It is expressly understood and agreed that this finding is made solely for the purpose of setting prospective rates that shall continue to be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, and to further review in an appropriate future proceeding. This provision is not intended to limit or prevent I&E, OCA, or OSBA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether Peoples Division's and Peoples-Equitable Division's gas purchases and gas purchasing practices complied with Section 1318. If in an appropriate future proceeding Peoples Division's and Peoples-Equitable Division's gas purchases and gas purchasing practices from February 1, 2016, through September 30, 2017, were challenged, the Commission's findings based upon this provision shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of or reductions to such costs during the eight-month interim period commencing February 1, 2016, and the 12-month application period commencing October 1, 2016, and ending September 30, 2017.

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

V. PROPOSED ORDERING PARAGRAPHS

80. 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, the Office of Small Business Advocate, and the Pennsylvania Independent Oil & Gas Association in the above-captioned case is hereby approved and adopted.

81. That Peoples Natural Gas Company LLC shall file tariff supplements, on behalf of both Divisions, to become effective on October 1, 2016, 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.

82. That Peoples Natural Gas Company LLC, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, and the Pennsylvania Independent Oil & Gas Association 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.

83. 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, 2016.

84. That the complaints filed by the Office of Small Business Advocate in these proceedings at Docket Nos. C-2016-2538456 and C-2016-2538458 be marked closed.

85. That the complaints filed by the Office of Consumer Advocate in these proceedings at Docket Nos. C-2016-2536105 and C-2016-2536106 be marked closed.

86. That the complaint filed by Daniel Killmeyer at Docket No. C-2016-2545048 be marked closed.

87. That the investigations at Docket Nos. R-2016-2528562 and R-2016-2528560 be marked closed.

VI. THE PUBLIC INTEREST

88. 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, OCA, I&E, and PIOGA and written rebuttal testimony by Peoples.

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

90. 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.

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

VII. CONDITIONS OF SETTLEMENT

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

93. 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.

94. 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.

95. 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.

96. 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.

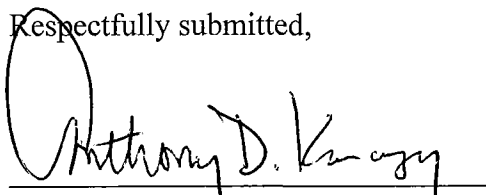
97. If the ALJ recommends that the Commission adopt the Settlement without modification, the Joint Petitioners waive their right to file Exceptions. Exceptions and replies

thereto may be filed if the ALJ recommends approval of this Settlement with reservations or modifications.

IX. 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,

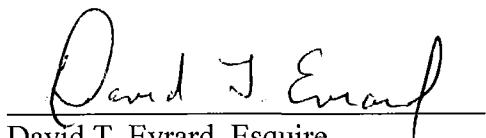


Date: 6/20/16

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



Date: 6/20/16

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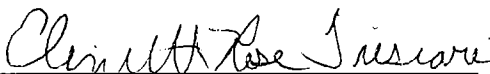
Date: 6/20/2016

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General Counsel & Vice President
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Date: _____

*For Pennsylvania Independent Oil & Gas
Association*

Appendix “A”

PEOPLES NATURAL GAS COMPANY LLC

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

Annual 1307(f) Gas Cost Filing

ISSUED: ~~March 31, 2016~~
BY: Morgan K. O'Brien
President
225 North Shore Drive
Pittsburgh, PA 15212

EFFECTIVE: April 1, 2016

NOTICE

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

LIST OF CHANGES

Pages 3, 3A, 4, 4A, and 47 updated to reflect the changes provided below.

| | <u>March 1, 2016</u> <u>Current</u> | <u>October 1, 2016</u> <u>Proposed</u> | <u>Increase/</u> <u>(Decrease)</u> |
|--|--|---|---------------------------------------|
| <u>Rider B</u> | | | |
| <u>Rate RS, SGS, MGS, LGS, NGPV</u> | | | |
| Natural Gas Supply Charge | \$1.8445 | \$1.9279 | \$0.0834 |
| Gas Cost Adjustment Charge | (\$0.4401) | (\$0.0283) | \$0.4118 |
| Capacity Charge | \$1.0882 | \$1.0271 | (\$0.0611) |
| Rate RS, GS-T (Residential) AVC Capacity Charge | \$0.3587 | \$0.4563 | \$0.0976 |
| Rate SGS, GS-T (SGS) AVC Capacity Charge | \$0.4280 | \$0.4548 | \$0.0268 |
| Rate MGS, GS-T (MGS) AVC Capacity Charge | \$0.2597 | \$0.2417 | (\$0.0180) |
| Rate LGS, GS-T (LGS) AVC Capacity Charge | \$0.1236 | \$0.1675 | \$0.0439 |
| <u>Rider E – Merchant Function Charge</u> | | | |
| Rate RS | \$0.0647 | \$0.0760 | \$0.0113 |
| Rate SGS, MGS, LGS | \$0.0165 | \$0.0193 | \$0.0028 |
| <u>Balancing Charge</u> | | | |
| Rate GS-T Small and Medium | \$0.4442 | \$0.3334 | (\$0.1108) |
| Rate GS-T Large | \$0.0864 | \$0.0768 | (\$0.0096) |
| <u>Rate GS-SB Standby</u> | | | |
| RS, SGS, MGS, LGS | \$1.0882 | \$1.0271 | (\$0.0611) |
| Retainage | 5.00% | 5.25% | 0.25% |

| | Rider B - Gas Cost Charges | | | | Base Rate Charges (5) | Rider A STAS (6) -0.03% | Rider E MFC (7) | Rider F USR (8) | Rider G GPC (9) | Rider H Rate Credit (10) | Rider K DSIC Charge (11) 3.98% | Total Rate (12=SUM 1 to 11) |
|--------------------------|----------------------------|---------------------|-------------|------------------|-----------------------------|----------------------------------|-----------------------|-----------------------|-----------------------|--------------------------------|---|--------------------------------|
| | Capacity (1) | AVC Capacity (2) | GCA (3) | Commodity (4) | | | | | | | | |
| Residential Sales | | | | | | | | | | | | |
| Customer Charge | | | | | \$ 13.9500 | | | | | \$ - | \$ 0.5552 | \$ 14.5052 |
| Capacity | \$ 1.0271 | \$ 0.4563 | | | | \$ 0.0267 | | | | | | \$ 1.5101 |
| Price to Compare - PTC | | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0493 | | \$ 0.1055 | | | | \$ 2.0544 |
| Delivery Charge | | | | | \$ 3.1330 | | \$ 0.3524 | | \$ - | \$ 0.1459 | | \$ 3.6313 |
| State Tax Surcharge | | | | | | \$ (0.0009) | | | | | | \$ (0.0009) |
| Total per MCF | | | | | | | \$ 0.0760 | | | | | \$ 7.1949 |
| Commercial SGS | | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | | |
| 0 to 499 MCF/Yr | | | | | \$ 14.8800 | | | | \$ - | \$ 0.5922 | | \$ 15.4722 |
| 500 to 999 MCF/Yr | | | | | \$ 27.0000 | | | | \$ - | \$ 1.0746 | | \$ 28.0746 |
| 1/ Capacity | \$ 0.3334 | \$ 0.4548 | | | | | | | | | | \$ 0.7882 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 2.1939 | | | | | \$ 0.0923 | | \$ 2.2862 |
| State Tax Surcharge | | | | | | \$ (0.0007) | | | | | | \$ (0.0007) |
| Total per MCF | \$ 1.0271 | | | | | | \$ 0.0193 | | | | | \$ 5.7919 |
| Industrial SGS | | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | | |
| 0 to 499 MCF/Yr | | | | | \$ 20.0000 | | | | \$ - | \$ 0.7960 | | \$ 20.7960 |
| 500 to 999 MCF/Yr | | | | | \$ 27.0000 | | | | \$ - | \$ 1.0746 | | \$ 28.0746 |
| 1/ Capacity | \$ 0.3334 | \$ 0.4548 | | | | | | | | | | \$ 0.7882 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 1.7623 | | | | | \$ 0.0751 | | \$ 1.8374 |
| State Tax Surcharge | | | | | | \$ (0.0005) | | | | | | \$ (0.0005) |
| Total per MCF | \$ 1.0271 | | | | | | \$ 0.0193 | | | | | \$ 5.3432 |
| Commercial MGS | | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | | |
| 1,000 to 2,499 MCF/Yr | | | | | \$ 50.0000 | | | | \$ - | \$ 1.9900 | | \$ 51.9900 |
| 2,500 to 24,999 MCF/Yr | | | | | \$ 77.0000 | | | | \$ - | \$ 3.0646 | | \$ 80.0646 |
| 1/ Capacity | \$ 0.3334 | \$ 0.2417 | | | | | | | | | | \$ 0.5751 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 2.1904 | | | | \$ - | \$ 0.0921 | | \$ 2.2825 |
| State Tax Surcharge | | | | | | \$ (0.0007) | | | | | | \$ (0.0007) |
| Total per MCF | \$ 1.0271 | | | | | | \$ 0.0193 | | | | | \$ 5.5751 |

ISSUED:

EFFECTIVE:

1/ The Price-to-Compare format as shown is applicable to a Non-Priority One customer; the Price-to-Compare Charge for a Priority One customer would not include the Capacity Charge. See the Residential - Sales section above as an example of Priority One.

| | 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 | Total Rate (12=SUM 1 to 11) |
|---------------------------|----------------------------|---------------------|-------------|------------------|----------------------|-----------------|----------------|----------------|----------------|------------------------|------------------------|--------------------------------|
| | Capacity (1) | AVC Capacity (2) | GCA (3) | Commodity (4) | | | | | | | | |
| Industrial MGS | | | | | | -0.03% | | | | | 3.98% | |
| Customer Charge | | | | | | | | | | | | |
| 1,000 to 2,499 MCF/Yr | | | | | \$ 50.0000 | | | | | \$ - | \$ 1.9900 | \$ 51.9900 |
| 2,500 to 24,999 MCF/Yr | | | | | \$ 77.0000 | | | | | \$ - | \$ 3.0646 | \$ 80.0646 |
| 1/ Capacity | \$ 0.3334 | \$ 0.2417 | | | | | | | | | | \$ 0.5751 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 1.5243 | | | | | \$ - | \$ 0.0656 | \$ 1.5899 |
| State Tax Surcharge | | | | | | \$ (0.0005) | | | | | | \$ (0.0005) |
| Total per MCF | \$ 1.0271 | | | | | \$ 0.0193 | | | | | | \$ 4.8827 |
| Commercial LGS | | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | | |
| 25,000 to 49,999 MCF/Yr | | | | | \$ 443.0000 | | | | | \$ - | \$ 17.6314 | \$ 460.6314 |
| 50,000 to 99,999 MCF/Yr | | | | | \$ 545.0000 | | | | | \$ - | \$ 21.6910 | \$ 566.6910 |
| 100,000 to 199,999 MCF/Yr | | | | | \$ 793.0000 | | | | | \$ - | \$ 31.5614 | \$ 824.5614 |
| Over 200,000 MCF/Yr | | | | | \$ 1,215.0000 | | | | | \$ - | \$ 48.3570 | \$ 1,263.3570 |
| 1/ Capacity | \$ 0.0768 | \$ 0.1675 | | | | | | | | | | \$ 0.2443 |
| Price to Compare - PTC | \$ 0.9503 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.9747 |
| Delivery Charge | | | | | \$ 2.3913 | | | | | \$ - | \$ 0.1001 | \$ 2.4914 |
| State Tax Surcharge | | | | | | \$ (0.0007) | | | | | | \$ (0.0007) |
| Total per MCF | \$ 1.0271 | | | | | \$ 0.0193 | | | | | | \$ 5.7098 |
| Industrial LGS | | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | | |
| 25,000 to 49,999 MCF/Yr | | | | | \$ 443.0000 | | | | | \$ - | \$ 17.6314 | \$ 460.6314 |
| 50,000 to 99,999 MCF/Yr | | | | | \$ 545.0000 | | | | | \$ - | \$ 21.6910 | \$ 566.6910 |
| 100,000 to 199,999 MCF/Yr | | | | | \$ 1,144.0000 | | | | | \$ - | \$ 45.5312 | \$ 1,189.5312 |
| Over 200,000 MCF/Yr | | | | | \$ 2,009.0000 | | | | | \$ - | \$ 79.9582 | \$ 2,088.9582 |
| 1/ Capacity | \$ 0.0768 | \$ 0.1675 | | | | | | | | | | \$ 0.2443 |
| Price to Compare - PTC | \$ 0.9503 | | \$ (0.0283) | \$ 1.9279 | | \$ 0.0193 | | \$ 0.1055 | | | | \$ 2.9747 |
| Delivery Charge | | | | | \$ 1.7553 | | | | | \$ - | \$ 0.0748 | \$ 1.8301 |
| State Tax Surcharge | | | | | | \$ (0.0005) | | | | | | \$ (0.0005) |
| Total per MCF | \$ 1.0271 | | | | | \$ 0.0193 | | | | | | \$ 5.0486 |

EFFECTIVE:

1/ The Price-to-Compare format as shown is applicable to a Non-Priority One customer; the Price-to-Compare Charge for a Priority One customer would not include the Capacity Charge. See the Residential - Sales section above as an example of Priority One.

| | Base Rate | Rider A | Rider E | Rider F | Rider B | | Rider H | Rider K | Total Rate | |
|---------------------------------|------------|-------------|-----------|-----------|-----------|--------------|---------|-------------|------------|-----------------|
| | Charges | STAS | MFC | USR | Capacity | AVC Capacity | BB&A | Rate Credit | | DSIC Charge |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10=SUM 1 to 9) |
| Rate GS-T Residential | | | | | | | | | | |
| Customer Charge | \$ 13.9500 | -0.03% | | | | | | \$ - | \$ 0.5552 | \$ 14.5052 |
| Capacity | | | \$ 0.0267 | | \$ 1.0271 | \$ 0.4563 | | | | \$ 1.5101 |
| Delivery Charge | \$ 3.1330 | | | \$ 0.3524 | | | \$ - | \$ 0.1398 | | \$ 3.6252 |
| State Tax Surcharge | | \$ (0.0009) | | | | | | | | \$ (0.0009) |
| Total per MCF | | | | | | | | | | \$ 5.1343 |
| Rate GS-T Commercial SGS | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| 0 to 499 MCF/Yr | \$ 14.8800 | | | | | | \$ - | \$ 0.5922 | | \$ 15.4722 |
| 500 to 999 MCF/Yr | \$ 27.0000 | | | | | | \$ - | \$ 1.0746 | | \$ 28.0746 |
| 1/ Capacity/BB&A | | | | | \$ 0.4548 | \$ 0.3334 | | \$ - | | \$ 0.7882 |
| Delivery Charge | \$ 2.1939 | | | | | | | \$ 0.0873 | | \$ 2.2812 |
| State Tax Surcharge | | \$ (0.0007) | | | | | | | | \$ (0.0007) |
| Total per MCF | | | | | | | | | | \$ 3.0688 |
| Rate GS-T Industrial SGS | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| 0 to 499 MCF/Yr | \$ 20.0000 | | | | | | \$ - | \$ 0.7960 | | \$ 20.7960 |
| 500 to 999 MCF/Yr | \$ 27.0000 | | | | | | \$ - | \$ 1.0746 | | \$ 28.0746 |
| 1/ Capacity/BB&A | | | | | \$ 0.4548 | \$ 0.3334 | | | | \$ 0.7882 |
| Delivery Charge | \$ 1.7623 | | | | | | | \$ 0.0701 | | \$ 1.8324 |
| State Tax Surcharge | | \$ (0.0005) | | | | | | | | \$ (0.0005) |
| Total per MCF | | | | | | | | | | \$ 2.6201 |
| Rate GS-T Commercial MGS | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| 1,000 to 2,499 MCF/Yr | \$ 50.0000 | | | | | | \$ - | \$ 1.9900 | | \$ 51.9900 |
| 2,500 to 24,999 MCF/Yr | \$ 77.0000 | | | | | | \$ - | \$ 3.0646 | | \$ 80.0646 |
| 1/ Capacity/BB&A | | | | | \$ 0.2417 | \$ 0.3334 | | | | \$ 0.5751 |
| Delivery Charge | \$ 2.1904 | | | | | | \$ - | \$ 0.0872 | | \$ 2.2776 |
| State Tax Surcharge | | \$ (0.0007) | | | | | | | | \$ (0.0007) |
| Total per MCF | | | | | | | | | | \$ 2.8520 |

ISSUED:

EFFECTIVE:

1/ The Capacity Charge applies to Priority 1 ratepayers when electing transport service. All other Ratepayers are billed the BB&A charge.

| | 0 | Base Rate | Rider A | Rider E | Rider F | Rider B | | Rider H | Rider K | | |
|---------------------------------|---|---------------|-------------|---------|---------|-----------|--------------|---------|-------------|-------------|-----------------|
| | 0 | Charges | STAS | MFC | USR | Capacity | AVC Capacity | BB&A | Rate Credit | DSIC Charge | Total Rate |
| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10=SUM 1 to 9) |
| Rate GS-T Industrial MGS | | | -0.03% | | | | | | | 3.98% | |
| Customer Charge | | | | | | | | | | | |
| 1,000 to 2,499 MCF/Yr | | \$ 50.0000 | | | | | | | \$ - | \$ 1.9900 | \$ 51.9900 |
| 2,500 to 24,999 MCF/Yr | | \$ 77.0000 | | | | | | | \$ - | \$ 3.0646 | \$ 80.0646 |
| 1/ Capacity/BB&A | | | | | | \$ 0.2417 | \$ 0.3334 | | | | \$ 0.5751 |
| Delivery Charge | | \$ 1.5243 | | | | | | | \$ - | \$ 0.0607 | \$ 1.5850 |
| State Tax Surcharge | | | \$ (0.0005) | | | | | | | | \$ (0.0005) |
| Total per MCF | | | | | | | | | | | \$ 2.1596 |
| Rate GS-T Commercial LGS | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | |
| 25,000 to 49,999 MCF/Yr | | \$ 443.0000 | | | | | | | \$ - | \$ 17.6314 | \$ 460.6314 |
| 50,000 to 99,999 MCF/Yr | | \$ 545.0000 | | | | | | | \$ - | \$ 21.6910 | \$ 566.6910 |
| 100,000 to 199,999 MCF/Yr | | \$ 793.0000 | | | | | | | \$ - | \$ 31.5614 | \$ 824.5614 |
| Over 200,000 MCF/Yr | | \$ 1,215.0000 | | | | | | | \$ - | \$ 48.3570 | \$ 1,263.3570 |
| 1/ Capacity/BB&A | | | | | | \$ 0.1675 | \$ 0.0768 | | | | \$ 0.2443 |
| Delivery Charge | | \$ 2.3913 | | | | | | | \$ - | \$ 0.0952 | \$ 2.4865 |
| State Tax Surcharge | | | \$ (0.0007) | | | | | | | | \$ (0.0007) |
| Total per MCF | | | | | | | | | | | \$ 2.7301 |
| Rate GS-T Industrial LGS | | | | | | | | | | | |
| Customer Charge | | | | | | | | | | | |
| 25,000 to 49,999 MCF/Yr | | \$ 443.0000 | | | | | | | \$ - | \$ 17.6314 | \$ 460.6314 |
| 50,000 to 99,999 MCF/Yr | | \$ 545.0000 | | | | | | | \$ - | \$ 21.6910 | \$ 566.6910 |
| 100,000 to 199,999 MCF/Yr | | \$ 1,144.0000 | | | | | | | \$ - | \$ 45.5312 | \$ 1,189.5312 |
| Over 200,000 MCF/Yr | | \$ 2,009.0000 | | | | | | | \$ - | \$ 79.9582 | \$ 2,088.9582 |
| 1/ Capacity/BB&A | | | | | | \$ 0.1675 | \$ 0.0768 | | | | \$ 0.2443 |
| Delivery Charge | | \$ 1.7553 | | | | | | | \$ - | \$ 0.0699 | \$ 1.8252 |
| State Tax Surcharge | | | \$ (0.0005) | | | | | | | | \$ (0.0005) |
| Total per MCF | | | | | | | | | | | \$ 2.0689 |

ISSUED:

EFFECTIVE:

1/ The Capacity Charge applies to Priority 1 ratepayers when electing transport service. All other Ratepayers are billed the BB&A charge.

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

- 2) 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." A ratepayer's gas received by the Company in Btus will be converted to Mcf using the current applicable conversion factor as determined annually in the Company's 1307(f) proceeding.
- (12) | The Company shall retain 5.25 percent of the total volume of gas received into its system on behalf of all (l) ratepayers 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:

RATE GS-T
GENERAL SERVICE - TRANSPORTATION

RULES AND DELIVERY TERMS (Continued)

A balancing charge will be assessed against each Mcf of gas transported at \$~~0.4442~~ 0.3334 per Mcf for small and —
(D)
medium general service ratepayers and \$~~0.0864~~ 0.0768 per Mcf for large general service ratepayers. This rate will be
(I) recalculated in each of the Company's annual 1307(f) gas cost proceedings. _____ (D)

The balancing 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 match its supply and actual consumption on a daily basis in a manner satisfactory to the Company.

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

RATE GS-SB
GENERAL SERVICE - 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 | |
| | <u>\$1.0271</u> | (D) |
| SGS Capacity Charge per Mcf | \$1.0882 | |
| | <u>\$1.0271</u> | (D) |
| MGS Capacity Charge per Mcf | \$1.0882 | |
| | <u>\$1.0271</u> | (D) |
| LGS Capacity Charge per Mcf | \$1.0882 | |
| | <u>\$1.0271</u> | (D) |

Standby Charges for Priority One Transportation Ratepayers

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

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

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

COMPUTATION OF PURCHASED GAS COSTS

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

$$\begin{aligned} \text{Demand} &= \frac{\text{DC} - \text{B} - \text{DOU}}{\text{S} + \text{P1AC} + \text{SBC}} \\ \text{Commodity} &= \frac{\text{CC} - \text{R}}{\text{S} + \text{SBR}} \\ \text{Over/Under Collection} &= \frac{\text{E}}{\text{S} + \text{SBR} + \text{MR}} \\ \text{AVC Capacity} &= \frac{\text{AVC} - \text{AVCOU}}{\text{S} + \text{P1AC} + \text{NP1}} \end{aligned}$$

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

The purchased gas cost rates are as follows:

| SALES Rate Schedule | Capacity Charge – Demand 1/ | Gas Cost Adjustment Charge – (Over)/Under Collection | Natural Gas Supply Charge – Commodity | AVC Capacity Charge 1/ |
|---------------------|-----------------------------|--|---------------------------------------|------------------------|
| Rate RS | \$1.0882 1.0271 (D) | (\$0.4404) (0.0283) (I) | \$1.5964 1.9279 (I) | \$0.4174 0.4563 (I) |
| Rate SGS | \$1.0882 1.0271 (D) | (\$0.4404) (0.0283) (I) | \$1.5964 1.9279 (I) | \$0.4933 0.4548 (I) |
| Rate MGS | \$1.0882 1.0271 (D) | (\$0.4404) (0.0283) (I) | \$1.5964 1.9279 (I) | \$0.3074 0.2417 (D) |
| Rate LGS | \$1.0882 1.0271 (D) | (\$0.4404) (0.0283) (I) | \$1.5964 1.9279 (I) | \$0.1707 0.1675 (I) |

| TRANSPORTATION P1 Rate Schedule | Capacity Charge | AVC Capacity Charge 1/ |
|---------------------------------|---------------------|------------------------|
| GS-T Residential | \$1.0882 1.0271 (D) | \$0.4174 0.4563 (I) |
| GS-T Commercial SGS | \$1.0882 1.0271 (D) | \$0.4933 0.4548 (I) |
| GS-T Commercial MGS | \$1.0882 1.0271 (D) | \$0.3074 0.2417 (D) |
| GS-T Commercial LGS | \$1.0882 1.0271 (D) | \$0.1707 0.1675 (I) |

| TRANSPORTATION NP1 Rate Schedule | AVC Capacity Charge 1/ |
|----------------------------------|------------------------|
| GS-T Commercial SGS | \$0.4933 0.4548 (I) |
| GS-T Industrial SGS | \$0.4933 0.4548 (I) |
| GS-T Commercial MGS | \$0.3074 0.2417 (D) |
| GS-T Industrial MGS | \$0.3074 0.2417 (D) |
| GS-T Commercial LGS | \$0.1707 0.1675 (I) |
| GS-T Industrial LGS | \$0.1707 0.1675 (I) |

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

(continued)

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 2.596% times the gas cost charges as set forth in Peoples' Rider B and Rider D. The current MFC applicable to (D) Rate RS customers is:

| | |
|------------------------------------|-----------------|
| | <u>\$0.0282</u> |
| | <u>\$0.0267</u> |
| Capacity Charge per Mcf | (D) |
| | (\$0.0114) |
| | (\$0.0007) |
| Gas Cost Adjustment Charge per Mcf | (I) |
| | <u>\$0.0414</u> |
| | <u>\$0.0500</u> |
| Commodity Charge per Mcf | (I) |
| | <u>\$0.0582</u> |
| | <u>\$0.0760</u> |
| Total MFC per Mcf | (I) |

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 0.661% times the gas cost charges as set forth in Peoples' Rider (D) B and Rider D. The current MFC applicable to these ratepayers is:

| | |
|------------------------------------|-----------------|
| SGS, MGS, LGS | <u>\$0.0072</u> |
| | <u>\$0.0068</u> |
| Capacity Charge per Mcf | (D) |
| | (\$0.0029) |
| | (\$0.0002) |
| Gas Cost Adjustment Charge per Mcf | (I) |
| | <u>\$0.0106</u> |
| | (\$0.0127) |
| Commodity Charge per Mcf | (I) |
| | <u>\$0.0149</u> |
| | <u>\$0.0193</u> |
| Total MFC per Mcf | (I) |

SUPPLEMENT NO. ~~36~~ 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: ~~March 31, 2016~~

EFFECTIVE: ~~April 1, 2016~~

By: Morgan K. O'Brien
President
Peoples Natural Gas Company, LLC
225 North Shore Drive, Suite 300
Pittsburgh, PA 15212

LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

| | March 1, 2016 | October 1, 2016 | Increase |
|--|----------------|-----------------|-------------------|
| | <u>Current</u> | <u>Proposed</u> | <u>(Decrease)</u> |
| Rate RS | | | |
| Natural Gas Supply Charge | \$ 2.9327 | \$ 2.9550 | \$ 0.0223 |
| Natural Gas Delivery Charge | \$ 2.7286 | \$ 3.1404 | \$ 0.4118 |
| Rate GSS | | | |
| Natural Gas Supply Charge | \$ 2.9327 | \$ 2.9550 | \$ 0.0223 |
| Natural Gas Delivery Charge | \$ 2.1509 | \$ 2.5627 | \$ 0.4118 |
| Rate GSL | | | |
| Natural Gas Supply Charge | \$ 2.9327 | \$ 2.9550 | \$ 0.0223 |
| Natural Gas Delivery Charge | \$ 2.0549 | \$ 2.4667 | \$ 0.4118 |
| Rider A - Purchased Gas Cost | | | |
| Current PGC | \$ 2.4926 | \$ 2.9267 | \$ 0.4341 |
| C factor | \$ 2.9327 | \$ 2.9550 | \$ 0.0223 |
| E factor | \$ (0.4401) | \$ (0.0283) | \$ 0.4118 |
| AVC Capacity Charge | | | |
| Rate RS and Rate FDS | \$ 0.3587 | \$ 0.4563 | \$ 0.0976 |
| Rate GSS and Rate GDS (0 to 999 Mcf/yr) | \$ 0.4280 | \$ 0.4548 | \$ 0.0268 |
| Rate GSL and Rate GDS (1,000 to 24,999 Mcf/yr) | \$ 0.2597 | \$ 0.2417 | \$ (0.0180) |
| Rate GSL and Rate GDS (greater than 25,000 Mcf/yr) | \$ 0.1236 | \$ 0.1675 | \$ 0.0439 |
| Rider B - Transportation Migration Rider | | | |
| | \$ (0.4401) | \$ (0.0283) | \$ 0.4118 |
| Rider F - Merchant Function Charge | | | |
| Rate RS | \$ 0.0647 | \$ 0.0760 | \$ 0.0113 |
| Rate GSS and Rate GSL | \$ 0.0165 | \$ 0.0193 | \$ 0.0028 |
| Balancing | | | |
| Rate FDS | \$ 1.0882 | \$ 1.0271 | \$ (0.0611) |
| Rate GDS | | | |
| Annual Throughput < 25,000 | \$ 0.4442 | \$ 0.3334 | \$ (0.1108) |
| Annual Throughput > 25,000 | \$ 0.0864 | \$ 0.0768 | \$ (0.0096) |
| Rate DDS | | | |
| Annual Throughput < 25,000 | \$ 0.4442 | \$ 0.3334 | \$ (0.1108) |
| Annual Throughput > 25,000 | \$ 0.0864 | \$ 0.0768 | \$ (0.0096) |
| Shrinkage | | | |
| | 5.00% | 5.25% | 0.25% |

| | Rider A - Gas Cost Charges | | | | Base Rate | Rider F | Rider D | Rider G | Rider E | Total Rate |
|--------------------------------------|----------------------------|--------------|-------------|-----------|--------------|-------------|-----------|-----------|-------------|------------------|
| | Capacity | AVC Capacity | GCA | Commodity | Charges | Rider STAS | USR | GPC | DSIC Charge | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (8) | (9) | (10) | (11=SUM 1 to 10) |
| Residential Sales | | | | | | -0.82% | | | -3.87% | |
| Customer Charge | | | | | \$ 13.2500 | | | | \$ (0.5128) | \$ 12.7372 |
| Capacity | \$ 1.0271 | \$ 0.4563 | | | | | \$ 0.0267 | | | \$ 1.5101 |
| Price to Compare - PTC | | | \$ (0.0283) | \$ 1.9279 | | | \$ 0.0493 | \$ 0.1055 | | \$ 2.0544 |
| Delivery Charge | | | | | \$ 3.1687 | | \$ 0.3012 | | \$ (0.1413) | \$ 3.3286 |
| State Tax Surcharge | | | | | | \$ (0.0260) | | | | \$ (0.0260) |
| Total per MCF | | | | | | \$ 0.0760 | | | | \$ 6.8671 |
| General Service Small - Sales | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| < 500 MCF/Yr | | | | | \$ 17.0000 | | | | \$ (0.6579) | \$ 16.3421 |
| 500 to 1,000 MCF/Yr | | | | | \$ 28.0000 | | | | \$ (1.0836) | \$ 26.9164 |
| 1/ Capacity | \$ 0.3334 | \$ 0.4548 | | | | | | | | \$ 0.7882 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | | \$ 0.0193 | \$ 0.1055 | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 2.5910 | | | | \$ (0.1051) | \$ 2.4859 |
| State Tax Surcharge | | | | | | \$ (0.0212) | | | | \$ (0.0212) |
| Total per MCF | \$ 1.0271 | | | | | | | | | \$ 5.9710 |
| General Service Large - Sales | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| 1,001 to 4,999 MCF/Yr | | | | | \$ 150.0000 | | | | \$ (5.805) | \$ 144.1950 |
| 5,000 to 25,000 MCF/Yr | | | | | \$ 300.0000 | | | | \$ (11.610) | \$ 288.3900 |
| 1/ Capacity | \$ 0.3334 | \$ 0.2417 | | | | | | | | \$ 0.5751 |
| Price to Compare - PTC | \$ 0.6937 | | \$ (0.0283) | \$ 1.9279 | | | \$ 0.0193 | \$ 0.1055 | | \$ 2.7181 |
| Delivery Charge | | | | | \$ 2.4950 | | | | \$ (0.1014) | \$ 2.3936 |
| State Tax Surcharge | | | | | | \$ (0.0205) | | | | \$ (0.0205) |
| Total per MCF | \$ 1.0271 | | | | | | | | | \$ 5.6664 |
| General Service Large - Sales | | | | | | | | | | |
| > 25,000 MCF/Yr | | | | | \$ 1,600.000 | | | | \$ (61.920) | \$ 1,538.0800 |
| 1/ Capacity | \$ 0.0768 | \$ 0.1675 | | | | | | | | \$ 0.2443 |
| Price to Compare - PTC | \$ 0.9503 | | \$ (0.0283) | \$ 1.9279 | | | \$ 0.0193 | \$ 0.1055 | | \$ 2.9747 |
| Delivery Charge | | | | | \$ 2.4950 | | | | \$ (0.1014) | \$ 2.3936 |
| State Tax Surcharge | | | | | | \$ (0.0205) | | | | \$ (0.0205) |
| Total per MCF | \$ 1.0271 | | | | | | | | | \$ 5.5922 |

ISSUED:

EFFECTIVE:

1/ The Price-to-Compare format as shown is applicable to a Non-Priority One customer; the Price-to-Compare Charge for a Priority One customer would not include the Capacity Charge. See the Residential - Sales section above as an example of Priority One.

| | Base Rate Charges (1) | Capacity Charge (2) | AVC Charge (3) | Balancing Charge (4) | Rider F MFC (5) | Rider D USR (6) | Rider A Capacity (7) | Rider STAS (8) | Rider E DSIC Charge (9) | Total Rate (10=SUM 1 to 9) |
|--|-----------------------------|---------------------------|----------------------|----------------------------|-----------------------|-----------------------|----------------------------|-------------------|-------------------------------|-------------------------------|
| Residential - Transport | | | | | | | | | | |
| Customer Charge | \$ 13.2500 | | | | | | | -0.82% | -3.87% | \$ 12.7372 |
| Capacity | | \$ 1.0271 | \$ 0.4563 | | \$ 0.0267 | | | | | \$ 1.5101 |
| Delivery Charge | \$ 3.1687 | | | | | \$ 0.3012 | | | \$ (0.1343) | \$ 3.3356 |
| State Tax Surcharge | | | | | | | | \$ (0.0260) | | \$ (0.0260) |
| Total per MCF | | | | | | | | | | \$ 4.8197 |
| General Service Small - Transport | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| < 500 MCF/Yr | \$ 17.0000 | | | | | | | | \$ (0.6579) | \$ 16.3421 |
| 500 to 1,000 MCF/Yr | \$ 28.0000 | | | | | | | | \$ (1.0836) | \$ 26.9164 |
| 1/ Capacity/BB&A | | | \$ 0.4548 | \$ 0.3334 | | | | | | \$ 0.7882 |
| Delivery Charge | \$ 2.5910 | | | | | | | | \$ (0.1003) | \$ 2.4907 |
| State Tax Surcharge | | | | | | | | \$ (0.0212) | | \$ (0.0212) |
| Total per MCF | | | | | | | | | | \$ 3.2577 |
| General Service Large - Sales | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| 1,001 to 4,999 MCF/Yr | \$ 150.0000 | | | | | | | | \$ (5.8050) | \$ 144.1950 |
| 5,000 to 25,000 MCF/Yr | \$ 300.0000 | | | | | | | | \$ (11.6100) | \$ 288.3900 |
| 1/ Capacity/BB&A | | | \$ 0.2417 | \$ 0.3334 | | | | | | \$ 0.5751 |
| Delivery Charge | \$ 2.4950 | | | | | | | | \$ (0.0966) | \$ 2.3984 |
| State Tax Surcharge | | | | | | | | \$ (0.0205) | | \$ (0.0205) |
| Total per MCF | | | | | | | | | | \$ 2.9531 |
| General Service Large - Sales | | | | | | | | | | |
| Customer Charge | | | | | | | | | | |
| > 25,000 MCF/Yr | \$ 1,600.0000 | | | | | | | | \$ (61.9200) | \$ 1,538.0800 |
| 1/ Capacity/BB&A | | | \$ 0.1675 | \$ 0.0768 | | | | | | \$ 0.2443 |
| Delivery Charge | \$ 2.4950 | | | | | | | | \$ (0.0966) | \$ 2.3984 |
| State Tax Surcharge | | | | | | | | \$ (0.0205) | | \$ (0.0205) |
| Total per MCF | | | | | | | | | | \$ 2.6223 |

ISSUED:

EFFECTIVE:

1/ The Capacity Charge applies to Priority 1 ratepayers when electing transport service. All other Ratepayers are billed the BB&A charge.

RULES AND REGULATIONS - (Continued)11.4 Shrinkage

The Company's retention allowance for delivery service shrinkage is 5.25 (I) percent of the total volume delivered into its system. The Company reserves the right to discount shrinkage at the Company's discretion.

In addition to the shrinkage rate listed above the Company reserves the right to retain a portion of all Apollo District transportation volumes as compressor fuel. The portion will be established in each customer contract based upon the character of the actual service to be provided by the Company, but will not be greater than 3.0%

11.5 Quality of Gas

Gas of suitable quality, consistent with the Company's operating standards, must be provided by the customer at receipt point(s) designated in the Service Agreement.

11.6 Obligation To Serve

Delivery service customers who hold assigned capacity pursuant to Rate FPS sufficient to meet their firm requirements may return to sales service and the Company will accept back the underlying capacity. The Company shall treat delivery service customers who do not hold assigned capacity sufficient to meet their firm requirements and who wish to return to retail service in the same manner in which it would treat similarly situated customers who apply for retail service for the first time, except that, if the customers are permitted to return to firm service, then the Company shall accept back any capacity previously assigned to the customers.

For Pool Administrators not electing the Company's Purchase of Receivables (POR) billing option, failure of a customer to pay a Pool Administrator's bill is not a basis for termination of a customer by the Company or for denying the customer's return to retail sales service. Where the Company provides a consolidated bill, partial payment will be credited in accordance with the Commission's currently effective Guidelines for Maintaining Customer Service. Customer accounts, whose Pool Administrator has elected to participate in the Company's POR billing option, who fail to pay for basic services may be terminated pursuant to Rule 6.1.

11.7 Company Agency

The Company will offer this service as an agent for securing storage services, transportation capacity on transmission pipelines to transport customer's gas to the pipeline delivery points on the Company's system and gas supply services only under the following limited circumstances: (1) The customer requests such service of the Company; (2) the customer is an existing customer of the Company; (3) the customer represents that it has received a bona fide offer from another company to bypass or otherwise leave the Equitable distribution system; (4) Equitable must attempt to obtain offers for supply services from at least three different natural gas suppliers; and (5) Equitable shall provide documentation to the Commission, upon request, that the four conditions above have been met.

(I) Indicates Increase.

RATE RS - RESIDENTIAL SERVICE

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company.

AVAILABILITY

Available at one location for the total gas requirements of any residential customer account.

RATE

The monthly charge for each customer served at each location under this rate schedule and in accordance with Rider A Purchased Gas Costs, shall be the following:

| | | |
|------------------------------|---|-----|
| Monthly Service Charge: | \$13.25 per meter | |
| Natural Gas Supply Charge: | \$2.6846 <u>2.9550</u> per Mcf | (I) |
| Natural Gas Delivery Charge: | \$2.7286 <u>3.1404</u> per Mcf | (I) |

Customers returning from delivery service in accordance with Rider B

| | |
|------------------------------|------------------|
| Natural Gas Delivery Charge: | \$3.1687 per Mcf |
|------------------------------|------------------|

LATE PAYMENT CHARGE

If payment of bill has not been received within twenty days from date of mailing, a Late Payment Charge of 1.5% per month, will be added to the unpaid balance each month until the entire bill is paid.

MINIMUM CHARGES

The minimum monthly payment shall be the Monthly Service Charge.

SURCHARGES AND RIDERS

Rider D Universal Service and Energy Conservation (except for customers enrolled in CAP and Pilot E-CAP), Rider E Distribution System Improvement Charge, Rider F Merchant Function Charge, Rider G Gas Procurement Charge and state tax adjustment surcharge also apply to this rate.

(I) Indicates Increase.

 RATE GSS - GENERAL SERVICE SMALL

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company.

AVAILABILITY

Available for the total gas requirements at each service location of a commercial or industrial customer who the Company estimates will use 1,000 MCF or less in a twelve month period at that service location. The Company, at its sole discretion, may allow for the aggregation of volumes to qualify for a defined Delivery rate. In these cases, the monthly charge applicable will be based on the volume delivered via each meter.

RATE

The monthly charge for each customer served at each location under this rate schedule and in accordance with Rider A Purchased Gas Costs, shall be the following:

Monthly Service Charge:

| | |
|-------------------------------|-------------------|
| Annual Throughput < 500 | \$17.00 per meter |
| Annual Throughput 500 - 1,000 | \$28.00 per meter |

| | | |
|------------------------------|---|-----|
| Natural Gas Supply Charge: | \$2.6846 <u>2.9550</u> per Mcf | (I) |
| Natural Gas Delivery Charge: | \$2.1509 <u>2.5627</u> per Mcf | (I) |

Customers returning from delivery service in accordance with Rider B

| | |
|------------------------------|-----------------|
| Natural Gas Delivery Charge: | \$2.591 per Mcf |
|------------------------------|-----------------|

LATE PAYMENT CHARGE

If payment of bill has not been received within fifteen days from date of mailing, a Late Payment Charge of 1.5% per month will be added to the unpaid balance each month until the entire bill is paid.

MINIMUM CHARGES

The minimum monthly payment shall be the Monthly Service Charge.

SURCHARGES AND RIDERS

Rider E Distribution System Improvement Charge, Rider F Merchant Function Charge, Rider G Gas Procurement Charge, and state tax adjustment surcharge also apply to this rate.

RULES AND REGULATIONS

The Company's Rules and Regulations in effect from time to time where not inconsistent with any specific provision herein are a part of this rate schedule.

SPECIAL PROVISION

Temporary service for new construction transferred from a builder or developer to an owner is not subject to the Migration Rider B or Standby Service requirements.

(I) Indicates Increase.

RATE GSL - GENERAL SERVICE LARGE

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company.

AVAILABILITY

Available for the total gas requirements at each service location of an industrial or commercial customer who the Company estimates will use more than 1,000 Mcf in a twelve month period at that service location. The Company, at its sole discretion, may allow for the aggregation of volumes to qualify for a defined Delivery rate. In these cases, the monthly charge applicable will be based on the volume delivered via each meter.

RATE

The monthly charge for each customer served at each location under this rate schedule and in accordance with Rider A Purchased Gas Cost shall be the following:

Monthly Service Charge:

| | |
|----------------------------------|----------------------|
| 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 |

| | | |
|------------------------------|---|-----|
| Natural Gas Supply Charge: | \$2.6846 <u>2.9550</u> per Mcf | (I) |
| Natural Gas Delivery Charge: | \$2.0549 <u>2.4667</u> per Mcf | (I) |

Customers returning from delivery service in accordance with Rider B

| | |
|------------------------------|-----------------|
| Natural Gas Delivery Charge: | \$2.495 per Mcf |
|------------------------------|-----------------|

LATE PAYMENT CHARGE

If payment of bill has not been received within fifteen days from date of mailing, a Late Payment Charge of 1.5% will be added to the unpaid balance each month until the entire bill is paid.

MINIMUM CHARGE

The minimum monthly payment shall be the Monthly Service Charge.

SURCHARGES AND RIDERS

Rider E Distribution System Improvement Charge, Rider F Merchant Function Charge, Rider G Gas Procurement Charge and state tax adjustment surcharge also apply to this rate.

RULES AND REGULATIONS

The Company's Rules and Regulations in effect from time to time where not inconsistent with any specific provision herein are a part of this rate schedule.

(I) Indicates Increase.

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 Priority-one customer as defined in Rule 7.1 of the Rules and Regulations of this tariff 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 | \$ 3.1687 per Mcf |
| Small Commercial, Industrial and Resale | \$ 2.5910 per Mcf |
| Large Commercial and Industrial | \$ 2.4950 per Mcf |

Capacity and Balancing Charge: _____ (C)

| | |
|------------------------------------|------------------------------|
| Pursuant to Special Provision (a): | \$ 1.0882 per Mcf |
| | <u>1.0271 (D)</u> |

MINIMUM CHARGE

The minimum monthly payment shall be the Monthly Service charge.

(D) Indicates Decrease. (C) Indicates Change.

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 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) or directly by the supplier as a stand-alone customer. 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 may 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) | | |
| Annual Throughput < 25,000 | \$0.4442 <u>0.3334</u> per Mcf | (D) |
| Annual Throughput > 25,000 | \$0.0864 <u>0.0768</u> per Mcf | (D) |

MINIMUM CHARGE

The minimum monthly payment shall be the Monthly Service charge.

(D) Indicates Decrease.

 RATE DDS- DAILY DELIVERY SERVICE (CONTINUED)

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)

| | | |
|----------------------------|--|-----|
| Annual Throughput < 25,000 | \$ 0.4442 <u>0.3334</u> per Mcf | (D) |
| Annual Throughput > 25,000 | \$ 0.0864 <u>0.0768</u> per Mcf | (D) |

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 PROVISIONS

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) A Daily Supply Tolerance equal to 3.5% of the customer's contracted Maximum Daily Quantity will be permitted without penalty.
- (2) A daily supply excess greater than the Daily Supply Tolerance 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.

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 1307(f)(5) [Legal Rate + 2% for overcollections, Legal Rate for undercollections]. from the month the over or under collection occurs to the effective month such over collection is refunded or such under collection is recouped.

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.

| | |
|--|--------|
| 2.9267 | 2.9550 |
| "The Current PGC" -- is \$2.2445 per Mcf, comprised of a C factor of \$2.6846 (I), (I) | |
| and an E factor of (\$0.4401) and AVC Capacity Charges as shown on page | |
| 73B. <u>(\$0.0283)</u> | (I) |

"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.

(I) Indicates Increase.

Rider A (Continued)

AVC Capacity Charge

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

| Rate and Customer Class | Allocation | Rate |
|--|------------|------------------------|
| Rate RS and Rate FDS | 66.25% | \$0.4174 0.4563 (I) |
| Rate GSS and Rate GDS (0 to 999 Mcf/yr) | 11.94% | \$0.4933 0.4548 (I) |
| Rate GSL and Rate GDS (1,000 to 24,999 Mcf/yr) | 12.99% | \$0.3074 0.2417 (D) |
| Rate GSL and Rate GDS (greater than 25,000 Mcf/yr) | 8.82% | \$0.1707 0.1675 (I) |

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.

(I) Indicates Increase.

RIDER B

TRANSPORTATION MIGRATION RIDER

I. This rider provides a method under 1307(f) of the Public Utility Code for recovery of the experienced net over/under collection of purchased gas costs as adjusted quarterly from ratepayers who shifted from the retail service to delivery service on or after the effective date of this rider. The Company may waive this rider, in whole or in part, for customers with competitive options.

II. The migration rider rate shall equal the current 1307(f) rate less the C-Factor (projected cost of gas) as approved in the Company's most recent annual Section 1307(f) natural gas cost proceeding, including all E-Factor adjustments to the rate resulting from the Company's quarterly recalculation of natural gas costs.

Revenue under this rider will be credited in the Company's 1307(f) mechanism.

III. This rider shall be applicable to Rate FDS, GDS and DDS customers for a period of one year from the date upon which the customer last shifted from the Company's retail service.

IV. Applicable Surcharges

| | | |
|------------------------------|---|-----|
| | <u>\$ Mcf</u> | |
| Rate Schedules FDS, GDS, DDS | (\$0.4401) <u>(\$0.0283)</u> | (I) |

This rate will be recalculated as part of the 1307(f) proceedings and will be tracked monthly.

Reverse Migration Charge:

Customers returning to retail sales service, who have been receiving delivery service for a minimum of twelve consecutive months, are not subject to the E-Factor portion of the Company's purchase gas cost rate so long as they remain a retail sales service customer for a period of one year.

(I) Indicates Increase.

RIDER F

MERCHANT FUNCTION CHARGE (MFC)

The Merchant Function Charge (MFC) shall be added to the gas cost charges applicable under rate schedules Rate RS, Rate FDS, Rate GSS and GSL. 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 FDS, the MFC shall equal the write-off factor of 2.596% times the gas cost charges as set forth in Peoples' Equitable Division Rider A and Rider B. The current MFC applicable to Rate RS customers is:

| | | |
|------------------------------------|-------------------------------------|-----|
| Capacity Charge per Mcf | \$0.0282 <u>0.0267</u> | (D) |
| | (\$0.0114) | (I) |
| Gas Cost Adjustment Charge per Mcf | (\$0.0007) | (I) |
| Commodity Charge per Mcf | \$0.0414 <u>\$0.0500</u> | (I) |
| Total MFC per Mcf | \$0.0582 <u>\$0.0760</u> | (I) |

For Small, Medium, and Large General Service customers receiving service under Rate GSS and GSL, the MFC shall equal the write-off factor of 0.661% times the gas cost charges as set forth in Peoples' Equitable Division Rider A and Rider B. The current MFC applicable to these ratepayers is:

| | | |
|------------------------------------|---|-----|
| Capacity Charge per Mcf | \$0.0072 <u>\$0.0068</u> | (D) |
| Gas Cost Adjustment Charge per Mcf | (\$0.0029) <u>(\$0.0002)</u> | (I) |
| Commodity Charge per Mcf | \$0.0106 <u>\$0.0127</u> | (I) |
| Total MFC per Mcf | \$0.0149 <u>\$0.0193</u> | (I) |

(D) Indicates Decrease. (I) Indicates Increase.

Appendix “B”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2528562 |
| Office of Small Business Advocate & | : | C-2016-2538456 |
| Office of Consumer Advocate | : | C-2016-2536105 |

v.

Peoples Natural Gas Company LLC

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2529260 |
| Office of Small Business Advocate & | : | C-2016-2538458 |
| Office of Consumer Advocate | : | C-2016-2536106 |

v.

Peoples Natural Gas Company LLC -
Equitable Division

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

TO ADMINISTRATIVE LAW JUDGE JEFFREY A. WATSON:

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples” or the “Company”), acting on behalf of its Peoples Division (“Peoples Division”) and its Equitable Division (“Peoples-Equitable Division”), hereby files this Statement in Support of the Joint Petition for Settlement (“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”), the Office of Small Business Advocate (“OSBA”), and the Pennsylvania Independent Oil & Gas Association (“PIOGA”)

(hereinafter, collectively “Joint Petitioners”) in the above-captioned Purchased Gas Cost (“PGC”) 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 whether Peoples’ historic natural gas costs were incurred and projected natural gas costs will be incurred under a least cost fuel procurement policy. The Settlement provides benefits to customers and is in the public interest. Thus, it should 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 PIOGA served testimony and accompanying exhibits, which were subsequently admitted into the record at the evidentiary hearing held on June 2, 2016. The Joint Petitioners participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

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

For these reasons and the reasons set forth below, the Settlement is just and reasonable and Peoples’ 2016 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(a). Settlements reduce the time and expense that the parties must expend litigating a case and, at the same time, conserve administrative resources. The Commission has stated that settlement results are often preferable to those achieved at the conclusion of a fully-litigated proceeding. *See* 52 Pa. Code § 69.401. 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. CAPACITY LEVELS

In this proceeding, the Company proposed for the projected period to acquire additional Equitrans, LP (“Equitrans”) services for a one-year period. (Peoples Statement No. 2, p. 21.) These services would be a portion of the Equitrans storage service that Peoples’ affiliate, Peoples TWP LLC (“Peoples TWP”), currently has under contract with Equitrans, which portion consists of 545,455 Dth of storage capacity under Rate GSS, 10,000 Dth/day of storage deliverability, and 10,000 Dth/day of firm transportation under Rate FTS. (Peoples Statement No. 2, p. 21.) Peoples has proposed to acquire the service by capacity release from Peoples TWP at the same rates that Peoples TWP pays for the services. (Peoples Statement No. 2, p. 21.)

Peoples' design day requirements exceed its design day supplies, whereas Peoples TWP's design day requirements are less than its available design day supply. (Peoples Statement No. 2, p. 22.) The capacity release process between Peoples and Peoples TWP provides a very cost-effective means to adjust available supplies between the companies over a short-term without having to make new off-system, contractual commitments. (Peoples Statement No. 2, p. 22.)

Both Peoples' total proposed capacity levels and the Company's acquisition of the Equitrans services by capacity release from Peoples TWP were unopposed. Under the Settlement, the Joint Petitioners agree that the total level of capacity proposed for both Divisions for the projected period is reasonable. (Settlement ¶ 29.) The Settlement clarifies that it is not intended to approve any methodology for determining capacity requirements or design day criteria in any future proceeding. (Settlement ¶ 29.)

Given the lack of opposition on this issue, Peoples believes that this settlement provision is just and reasonable and in the public interest. Therefore, it should be approved without modification.

B. RETAINAGE AND LOST AND UNACCOUNTED FOR GAS

1. Retainage

Retainage represents the extra gas needed to account for unaccounted for gas ("UFG") and company use ("CU") gas for customers to receive the amount of gas needed. (I&E Statement No. 1, p. 6.) Transportation customers are charged for retainage because they are required to supply extra gas to meet this requirement. (I&E Statement No. 1, p. 6.) PGC customers are not charged for retainage directly because they pay for UFG and CU in their PGC rate, but any retainage that is not recovered from transportation customers is assessed to PGC customers. (I&E Statement No. 1, p. 6.)

Peoples initially proposed a retainage rate of 5.2%. (Peoples Statement No. 1, p. 13.) The Company developed this rate by using the two-year average of UFG/CU and applying it to the projected usage for the Peoples system to create a projection of total system retainage needs for the forecast period. (Peoples Statement No. 1, pp. 13-14.) Peoples then made adjustments that reduce those needs to account for: (1) the Allegheny Valley Connector (“AVC”) adjustment associated with the transfer of Peoples’ assets to EQT Corporation; and (2) the negotiated retainage rate customers of both Divisions. (Peoples Statement No. 1, pp. 13-14.) Further, the Company explained it discounts a customer’s retainage rate when certain competitive circumstances exist and when the discount passes the established net benefit test. (Peoples Statement No. 1, pp. 15-20; *see* Highly Confidential Peoples Exhibit No. 4.)

In testimony, I&E supported the Company’s proposed retainage rate of 5.2% because it equaled UFG and CU. (I&E Statement No. 1, p. 9.) However, OCA expressed a concern with the calculation of the proposed retainage charge on page one of Peoples Exhibit No. 3. (OCA Statement No. 1, p. 3.) Further, OCA argued that Peoples should not be able to discount retainage charges to a transportation customer by a greater percentage than it discounts the applicable delivery rates to a customer, noting that a similar provision is in Peoples TWP’s tariff. (OCA Statement No. 1, p. 6.)

In rebuttal, Peoples presented a Revised Peoples Exhibit No. 3, which corrected the retainage rate calculation on Peoples Exhibit No. 3 and addressed OCA’s concern with the calculation. (Peoples Statement No. 1-R, pp. 2-3; *see* Revised Peoples Exhibit No. 3.) With these corrections made, Peoples proposed a retainage rate for non-discounted customers of 5.25% instead of 5.2%. (Peoples Statement No. 1-R, p. 3.)

Moreover, Peoples disagreed with OCA's recommendation that the Company not be able to discount retainage rates by a greater percentage than the discount to base rate charges that Peoples grants a customer. (Peoples Statement No. 1-R, p. 3.) The Company explained that imposing this restriction on Peoples would not place the Company and Peoples TWP on equal footing, because Peoples TWP's tariff also enables it to negotiate balancing charges to address competitive conditions whereas Peoples' tariff provides no such authority. (Peoples Statement No. 1-R, pp. 3-4.)

Under the Settlement, the tariffed retainage rate for all classes shall be 5.25%, as presented in Peoples Statement No. 1-R. (Settlement ¶ 30.) Regarding discounted retainage rates, the Settlement provides that the newly negotiated waivers of retainage in Highly Confidential Peoples Exhibit No. 4 should be approved. (Settlement ¶ 32.) However, for new or renegotiated contracts entered into before September 30, 2017, retainage for customers with negotiated delivery rates above \$0.38 per Mcf will not be discounted from the full tariff retainage rate at a greater percentage than the delivery rate is discounted from the applicable full tariff delivery rate. (Settlement ¶ 33.) This provision will grant the Company continued flexibility in trying to retain the most highly competitive customers, which benefits all customers on the system.

Based on the foregoing, these settlement provisions reflect a reasonable compromise of the parties' litigation positions and, therefore, should be approved without modification.

2. Unaccounted for Gas

I&E recognized that Peoples' distribution function UFG is within the target levels contained in the applicable Commission regulations. (I&E Statement No. 1, p. 5.) In fact, Peoples' total system UFG for the 12-months ended August 2015 was 4.40%, below the distribution system only target of 4.50% under the Commission's regulations. See 52 Pa. Code §

59.111(c)(1); (Peoples Statement No. 2-R, p. 2.) However, I&E stated that Peoples should reduce its UFG on a total system basis, noting a high level of UFG on Peoples' gathering system and an increase in UFG on a total system basis. (I&E Statement No. 1, p. 6.)

In rebuttal, Peoples noted that it is normal to see upward and downward fluctuations in UFG percentages from year to year. (Peoples Statement No. 2-R, p. 2.) Moreover, the Company explained it had effective measures in place to continue reducing UFG over the long-term. (Peoples Statement No. 2-R, p. 3.) Under Peoples' UFG mitigation plan, the Company has increased leak repair on Class 2 and Class 3 leaks to reduce the duration of leaks and resulting UFG. (Peoples Statement No. 2-R, p. 2.) These actions also involve more frequent monitoring of high or low volume meters to ensure they are operating within an acceptable measurement range. (Peoples Statement No. 2-R, pp. 2-3.) Peoples also reviews producer and customer meters that appear inactive to mitigate gas theft or unintended reverse flow. (Peoples Statement No. 2-R, p. 3.) Finally, Peoples monitors system pressures to make sure the Company is not operating at pressures higher than what is required to serve its customers, thus reducing gas loss through pipe leakage or measurement errors. (Peoples Statement No. 2-R, p. 3.)

Under the Settlement, the Joint Petitioners acknowledge that Peoples' UFG percentage for the 12-month period ending August 31, 2015, is in compliance with the Commission's regulations. (Settlement ¶ 34.) Furthermore, Peoples has committed to continue its efforts to reduce UFG. (Settlement ¶ 34.) The Company also will provide a reconciliation of the volumes used to calculate retainage in the 1307(f)-2017 filing with the volumes reported in the annual UFG report. (Settlement ¶ 31.)

The settlement provisions recognize that Peoples' UFG efforts continue to meet and exceed UFG goals set by the Commission, while committing to continue the Company's UFG

mitigation efforts. These provisions respond to I&E's concern about UFG and, therefore, should be approved without modification.

C. PRODUCTION INCENTIVE

Peoples proposed a local production incentive to encourage the production of local gas in specific areas where the Company needs to receive local gas for the efficient operation of its system. (Peoples Statement No. 2, p. 43.) As explained by Peoples witness Nehr, this incentive payment would only be applicable to producers in certain limited distribution areas where local production is the only realistic supply option. (Peoples Statement No. 2, p. 43.) Further, the incentive payment would be an incremental variable price that is tied to existing monthly market prices. (Peoples Statement No. 2, p. 43.) The production incentive responds to the significant decrease of local gas delivered directly into Peoples' gathering system over the last two years. (Peoples Statement No. 2, pp. 44-46.)

No party opposed the production incentive program. In fact, PIOGA stated that it supports Peoples' local production incentive proposal and confirmed that there has been a reduction in natural gas drilling and development activity. (PIOGA Statement No. 1, pp. 3-5.) OCA, however, argued that if Peoples pursues local production incentives, the above-market payments should be recovered from all customers by recovering a share of the above-market costs through Peoples' existing charges for transportation balancing service. (OCA Statement No. 1-SD, p. 2.)

In rebuttal, Peoples responded to OCA's cost allocation proposal and recommended that any above-market costs be isolated and then recovered through the capacity rate, which is charged to both sales and P-1 customers. (Peoples Statement No. 1-R, p. 5.) Moreover, Peoples proposed that a portion of the above-market costs be recovered from NP-1 customers and

recovered through balancing charges based on the benefit these customers receive from the incentive. (Peoples Statement No. 1-R, pp. 5-6.)

Under the Settlement, Peoples may offer production incentives, in the form of higher gas purchase prices, in discrete areas of the Company's system that: (a) are experiencing declining receipts of local gas volumes, would improve service reliability with additional local gas volumes, and have no current economically viable alternative to receipts of local gas to serve customers; or (b) have limited sources of gas supply feeding the system, would improve service reliability with additional supply feeds, and have no current economically viable alternatives to such additional supply feeds in order to improve service reliability, all as described in Peoples Statement No. 2. (Settlement ¶ 35.) Moreover, the Settlement provides that the cost of any production incentive incurred during the 2017 1307(f) historic review period will be separately identified in next year's PGC filing. (Settlement ¶ 36.) The reasonableness of Peoples' production incentive calculation will be subject to review, and the parties will address the allocation of production incentive costs to the customer classes in next year's proceeding. (Settlement ¶ 36.)

These settlement provisions enable Peoples to offer a production incentive to encourage new local gas production in areas where local deliveries are declining, while allowing the parties to review the Company's production incentives in next year's PGC proceeding, including the cost allocation issue raised by OCA. Therefore, these provisions represent a reasonable compromise of the parties' litigation positions and should be approved without modification.

D. 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 ¶ 37.)

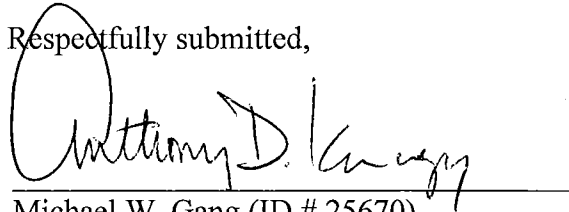
This approval includes the results of Requests for Proposals (“RFPs”) issued in 2016 for TETCO and TGP delivered supply for the winters of 2016-2017 and 2017-2018, as well as the updated balancing rate calculation provided in Revised Peoples Exhibit No. 12. (Settlement ¶¶ 37, 39.) Further, the proposed rates will be updated in the Company’s compliance filing to reflect actual and projected over/undercollections through September 30, 2016. (Settlement ¶ 38.)

The PGC and balancing rates that Peoples proposes to place into effect on October 1, 2016, are supported by record evidence. Peoples explained in detail the development of the natural gas supply rates utilizing cost projections, sales projections, and the reconciliation process. Peoples’ testimony provides full support for the rates and their underlying calculations. (Peoples Statement No. 1; Peoples Statement No. 3; Peoples Statement No. 1-R.) Accordingly, these settlement provisions concerning Peoples’ proposed PGC and balancing rates are just and reasonable and should be approved without modification.

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 all active parties 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 20, 2016

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

Appendix “C”

foregoing Settlement. This request is based upon I&E's conclusion that the Settlement is in the public interest as supported by the following factors:

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission. Consequently, in negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to quantify to what extent amicable resolution of any such proceeding will benefit the public interest. Based upon I&E analysis of the Company's 1307(f) filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judge Jeffrey A. Watson ("ALJ") and the Commission approve the Settlement in its entirety.

2. On March 2, 2016, Peoples submitted pre-filed supporting information concerning the annual Purchased Gas Cost rate filing as required by 52 Pa. Code §§ 53.64 and 53.65. Thereafter, on April 1, 2016, the Company made its definitive filing with accompanying Direct Testimony.

3. I&E entered its Notice of Appearance in this proceeding on March 15, 2016. Formal Complaints were filed by the Office of Consumer Advocate on March 23, 2016 and by the Office of Small Business Advocate on March 18, 2016. The Pennsylvania Independent Oil & Gas Association intervened in this proceeding on April 5, 2016.

4. A telephonic Prehearing Conference was held on April 9, 2014, which resulted in the establishment of a procedural schedule.

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

6. I&E entered I&E Statement No. 1 and I&E Exhibit No. 1 into the evidentiary record on June 2, 2016.

7. In accordance with the Commission's policy favoring settlements over costly and time consuming litigation, 52 Pa. Code § 5.231, the Joint Petitioners were successful in achieving a full and complete settlement of all issues 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:

Retainage and Lost and Unaccounted for Gas (Joint Petition ¶¶ 30-34)

a. Retainage

The parties agree that, effective October 1, 2016, the tariffed retainage rate for all rate classes of the Peoples Division and Equitable Division shall be 5.25%.

Retainage represents the extra gas needed to account for unaccounted for gas ("UFG") and company use gas. Transportation customers are charged retainage while PGC customers pay for UFG and company use gas in their PGC rate. Any retainage not recovered from transportation customers is assessed to PGC customers; therefore, it is important to determine the appropriate retainage rate to ensure that transportation and PGC customers contribute to UFG and company use gas. I&E St. No. 1, p. 8. If the retainage rate is too high, transportation customers pay more than their share of the losses. Conversely, a retainage rate that is too low requires PGC customers to pay for the UFG and company use gas that should be paid by transportation customers.

The Company's current retainage rate is 5% and the filing proposed to increase the retainage rate to 5.2%. Peoples Exhibit No. 3, p. 1. I&E did not object as it found that the Company's UFG and Company use gas were equal to the proposed 5.2% retainage rate. I&E St. No. 1, p. 9. During the course of informal discovery, the Company found an error in the retainage calculation presented in its direct testimony and exhibits, which increased the retainage rate to 5.25%. Peoples St. No. 1-R, pp. 2-3. I&E did not object to this correction and maintains that the 5.25% proposed retainage rate is in the public interest as it appropriately distributes the share of losses caused by UFG and company use gas to transportation customers.

b. Unaccounted for Gas

The Settlement provides that Peoples will continue its efforts to reduce UFG. Although Peoples has satisfied the Commission's UFG metric as discussed below, this continued commitment to address UFG is in the public interest because its UFG has increased on a total system basis.

The Commission has established a uniform definition and metrics for UFG at 52 Pa. Code § 59.111:

Each NGDC and city natural gas distribution operation shall, at a minimum, reduce distribution system loss performance in accordance with the metrics in the following table, beginning with its first subsequent Purchased Gas Cost (PGC) or Gas Cost Rate (GCR) filing after August 11, 2014. The metric starts with 5% in the first year and decreases by 0.5% every year in the subsequent years until it reaches 3% as shown in the following table:

| Year | Percent UFG |
|------|-------------|
| 1 | 5.00% |
| 2 | 4.50% |

| | |
|---|-------|
| 3 | 4.00% |
| 4 | 3.50% |
| 5 | 3.00% |

The Company's two year average of UFG is 4.1%, which is comprised of 3.8% for the year ended August 31, 2014 and 4.4% for the year ended August 31, 2015. Peoples Exhibit No. 3, p. 1. Although the Commission's metric is satisfied, the UFG on a total system (distribution and gathering) basis has increased by 826,406 Mcf from August 31, 2014 to August 31, 2015. I&E Statement No. 1, p. 5. The Commission's UFG metrics apply only to distribution system losses; however, I&E is concerned about the high levels of UFG on the gathering system and the recent UFG increase on a total system basis. I&E Statement No. 1, pp. 5-6.

Accordingly, the Settlement requires the Company to continue its efforts to reduce UFG, which is in the public interest as it will help the Company continue to meet the Commission's UFG metrics and reduce the cost and potential safety hazards caused by higher levels of UFG. I&E Statement No. 1, p. 6.

Miscellaneous (Joint Petition ¶ 37)

The parties agree that, except as revised by the Settlement, the proposed rates and other approvals contained in the filing should be approved.

I&E represents that the purchased gas costs that Peoples incurred during the historic period adhered to a least cost fuel procurement policy. Adhering to a least cost procurement policy benefits ratepayers because least cost gas directly impacts customer gas bills and obligates the Company to provide safe, adequate and reliable service to its customers. After review of the filing and extensive discovery and settlement discussions,

I&E maintains that the Company's gas purchasing practices have satisfied its least cost procurement obligation.

I&E analyzed the Company's E-factor and found that it was calculated in accordance with established Commission practices. This review is critical because the proper calculation of the E-factor ensures that rates are adjusted appropriately. I&E is satisfied that the Company's E-factor calculation is appropriate and accurate.

Additionally, I&E reviewed the Company's projected gas costs and determined that it appears those costs are consistent with a least cost fuel procurement policy. The Settlement projects a \$0.5145/Mcf increase to residential PGC rates in the Peoples Division and a \$0.5137/Mcf increase to residential PGC rates in the Peoples-Equitable Division. While those costs are subject to review in a future PGC proceeding, I&E maintains that ratepayers are protected in that Peoples gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

9. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense.

10. I&E further submits that the acceptance of the foregoing settlement will negate the need for any direct and cross-examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the filing of possible appeals.

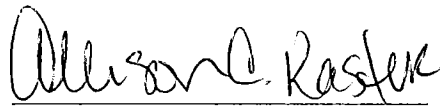
11. The Settlement is conditioned upon the Commission's approval of all terms and conditions contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or I&E as provided therein.

12. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

13. If the ALJ recommends that the Commission adopt the Settlement as proposed, I&E has agreed to waive the filing of Exceptions. However, I&E has not waived its rights to file Reply Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJ in the Recommended Decision. I&E has also reserved the right to file Reply Exceptions to any Exceptions that may be filed by the Company.

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

Respectfully submitted,



Allison C. Kaster
Allison C. Kaster
Prosecutor

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
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Dated: June 20, 2016

Appendix “D”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2528562 |
| Office of Small Business Advocate & | : | C-2016-2538456 |
| Office of Consumer Advocate | : | C-2016-2536105 |

v.

Peoples Natural Gas Company LLC

| | | |
|---|---|----------------------------|
| Pennsylvania Public Utility Commission, | : | Docket Nos. R-2016-2529260 |
| Office of Small Business Advocate & | : | C-2016-2538458 |
| Office of Consumer Advocate | : | C-2016-2536106 |

v.

Peoples Natural Gas Company LLC -
Equitable Division

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

I. BACKGROUND

On March 2, 2016, Peoples Natural Gas Company LLC and Peoples Natural Gas Company LLC – Equitable Division (Peoples and Peoples-Equitable or Companies) submitted the pre-filing information and data required in connection with their annual purchased gas cost (PGC) filing under § 1307(f) of the Public Utility Code (66 Pa.C.S. § 1307(f)) and the Public Utility Commission’s (Commission) regulations at 52 Pa. Code §§ 53.64(c) and 53.65. On April 1, 2016, the Companies submitted their formal 2016 PGC filing, pursuant to which , the Companies anticipate an increase in the average monthly bill (due to an increase in gas costs)

of residential customers of Peoples of 6.2% on October 1, 2016 and an increase in the average monthly bill of Peoples-Equitable residential customers of 6.4% on the same date.

On March 23, 2016, the OCA filed a Formal Complaint against the Company's proposed rates, seeking to ensure that the rates were not excessive, discriminatory, or otherwise contrary to Commission regulation or policy. On April 6, 2016, the Office of Small Business Advocate (OSBA) also filed a Formal Complaint against the proposed rates. On March 15, 2016, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in the case. On April 5, 2016, the Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Petition to Intervene in the proceedings. The OCA, OSBA, I&E and PIOGA all engaged in discovery regarding the proposed rates. The parties also exchanged information through informal discovery.

A prehearing conference was held on April 7, 2016, at which a procedural schedule was established. Pursuant to that schedule, on May 4, 2016, the OCA submitted the Direct Testimony of its expert witness, Jerome D. Mierzwa. Mr. Mierzwa's testimony addressed the Companies' retainage rates, specifically, the discount from those rates that are granted to certain customers with competitive alternatives. On May 9, 2016, the OCA submitted the Supplemental Direct Testimony of Mr. Mierzwa in which he addressed the proposed production incentives to be paid to producers in certain local areas that are dependent on the producers' supply.

Following the submission of the non-company parties' direct (and OCA's Supplemental Direct) testimony, settlement discussions were initiated, and those discussions have produced the instant proposed Settlement, which addresses the various issues in the case. For the reasons set forth below, the OCA submits that the Settlement is in the public interest and should be adopted by the Commission.

II. PROPOSED SETTLEMENT

The Settlement addresses the following issues:

A. Capacity Levels (Settlement ¶ 29)

This provision of the Settlement establishes that the parties agree that the proposed total level of capacity (*i.e.*, design day requirement of 1,238.5 MMcf) for Peoples and Peoples-Equitables for the projected period beginning October 1, 2016, (including the 10,000 Dth/day of Equitrans storage and related transportation capacity released to Peoples by Peoples TWP) is appropriate and should be approved. The OCA did not take a position with respect to capacity levels in this proceeding but has no objection to the levels proposed by the Companies.

B. Retainage and Lost and Unaccounted For Gas (Settlement ¶¶ 30-34)

The Settlement provides that effective October 1, 2016, the tariffed retainage rate for all rate classes of both Peoples and Peoples-Equitables will be 5.25%. In its 2017 PGC filing the Companies will provide a reconciliation of the volumes used to calculate retainage in the PGC filing with the volumes reported in the annual Lost and Unaccounted for Gas (“UFG”) report.

The Settlement also provides for the approval of all newly negotiated waivers of retainage for customers eligible for such waiver.

With respect to new or renegotiated contracts entered into before September 30, 2017, the Settlement provides that retainage for customers with negotiated delivery rates above \$0.38 per Mcf will not be discounted from the full tariff retainage rate at a greater percentage than the delivery rate is discounted from the applicable full tariff delivery rate.

The Settlement also confirms that the Companies’ UFG percentage for the 12-month period ending August 31, 2015 is in compliance with the Commission’s regulations at 52 Pa. Code § 59.111(c)(1), and that the Company commits to continue its efforts to reduce UFG.

Regarding discounted retainage rates for eligible customers, the OCA testified that because the discounts can be substantial, it is unreasonable to leave to the Companies' discretion the extent of these discounts considering that the foregone revenue is recovered from other customers. OCA St. No. 1 at 6. Instead, the OCA recommended that Peoples and Peoples-Equitable be permitted to discount retainage rates by a percentage that is no greater than the percentage by which it discounts base rate charges to a particular customer. *Id.* As noted above, the Settlement provides that the OCA's proposal will apply to new or renegotiated contracts entered into before September 30, 2017, where the negotiated delivery rates are above \$0.38 per Mcf. The OCA understands that there may be situations in which customers with negotiated delivery rates below \$0.38 per Mcf have retainage rates discounted by a greater percentage than their delivery rate. To achieve the discount equality that OCA seeks would require increasing the discount for delivery rates thereby causing the Companies to lose base rate revenue. To avoid that result, the OCA agrees that establishing the \$0.38 threshold is appropriate.

C. Production Incentive (§§ 35-36)

In their filing in this case (specifically, Peoples St. No. 2 at 43-46), Peoples and Peoples-Equitable propose implementing an incentive payment to local gas producers in pockets of its distribution system where customers are served from gathering lines (as opposed to traditional distribution lines) and the existing local production is the only economically viable supply option. The Companies maintains that deliveries of local gas directly into its gathering system have declined significantly over the last two years. Peoples St. No. 2 at 44. The production incentive is proposed for these particular distribution pockets as a means of reversing this trend and increasing production to serve these localized areas. The Companies state that the incentive payment would be an incremental variable price that is tied to existing monthly market prices.

The incentive would be negotiated with individual producers in the localized areas in order to provide sufficient incentive for the producers to stimulate their existing wells to increase production and/or invest in new production. Id. at 43.

The Settlement provides that these production incentives, in the form of higher gas purchase prices, may be offered in discrete areas of the Company's system that: (a) are experiencing declining receipts of local gas volumes, would enjoy improved service reliability with additional local gas volumes, and have no current economically viable alternative to receipts of local gas to serve customers; or (b) have limited sources of gas supply feeding the system, would experience improved service reliability with additional supply feeds, and have no current economically viable alternatives to such additional supply feeds in order to improve service reliability. Settlement ¶ 35.

The Settlement further provides that the cost of any production incentive incurred during the 2017 1307(f) historic review period will be separately identified in the Companies' 2017 1307(f) filing. In addition, the reasonableness of the Companies' production incentive calculation will be subject to review, and the allocation of production incentive costs to the various customer service classes (e.g., PGC and transportation service) will be addressed by the parties in the Companies' 2017 1307(f) filing. Settlement ¶ 36.

In testimony, the OCA expressed the view that because the incentive payments would induce additional supply in localized areas and thereby obviate construction of additional distribution facilities to bring supply from other sources, the payments would benefit all customers on the Companies' system. OCA St. No. 1-SD at 2. Accordingly, the OCA recommended that any above-market portion of the incentive payments should be recovered from all of the Companies' customers, both sales and transportation customers. Id.

By providing that the reasonableness of the production incentives and the proper allocation of their cost among customer groups will be addressed in the 2017 PGC case, the Settlement in effect acknowledges that the incentives are not yet in place and that the level and overall cost of the incentives are not yet known, but that more information will be available by the time the 2017 case is filed. The OCA therefore submits that it is appropriate to defer consideration of the reasonableness of the incentives and the allocation of their cost among customer classes until next year's PGC case.

D. Miscellaneous (¶¶37-39)

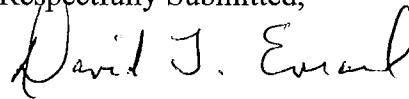
Paragraph 37 of the Settlement provides, among other things, that the results of the Requests for Proposals ("RFPs") issued in 2016 for TETCO and TGP delivered supply for the winters of 2016-2017 and 2017-2018 are to be approved. It also includes comparisons of the current and proposed rates for PGC customers. Paragraph 38 provides that the Companies' compliance filing in this proceeding will reflect updated actual and projected over/undercollections through September 30, 2016. Paragraph 39 provides that the parties agree to the updated balancing rate calculation provided in Revised Peoples Exhibit No. 12.

The OCA provided no testimony and takes no position on these matters, but does not object to their substance or oppose their inclusion in the Settlement.

III. CONCLUSION

In consideration of the various elements of the Settlement that have been described above, the OCA finds the Settlement as a whole to be in the public interest, and for that reason, submits that the terms and conditions of the Settlement should be approved by the Commission.

Respectfully Submitted,



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June 20, 2016

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Appendix “E”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|----------------------------------|
| PENNSYLVANIA PUBLIC UTILITY COMMISSION | : | |
| | : | |
| | : | DOCKET NO. R-2016-2528562 |
| v. | : | |
| | : | |
| PEOPLES NATURAL GAS COMPANY LLC | : | |
| and | | |
| PENNSYLVANIA PUBLIC UTILITY COMMISSION | : | |
| | : | |
| | : | |
| v. | : | DOCKET NO. R-2016-2529260 |
| | : | |
| PEOPLES NATURAL GAS COMPANY LLC – EQUITABLE DIVISION | : | |

**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 March 2, 2016, 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, 2016, the Companies submitted their annual PGC filings to the Commission.

On March 15, 2016, the Commission’s Bureau of Investigation and Enforcement (“I&E”) entered a notice of appearance.

The OSBA filed a Complaint in each of the above-captioned proceedings on March 18, 2016. The OSBA subsequently learned that its filings were rejected and filed another formal Complaint on April 6, 2016.

A Complaint was filed by the Office of Consumer Advocate (“OCA”) on March 23, 2016, in both proceedings.

On April 5, 2016, Pennsylvania Independent Oil & Gas Association (“PIOGA”) filed a Petition to Intervene in both proceedings.

A Prehearing Conference was held on April 7, 2016, before Administrative Law Judge (“ALJ”) Jeffrey A. Watson, who subsequently entered a prehearing order on April 19, 2016, *inter alia*, consolidating the two proceedings, establishing a procedural schedule, approving discovery modifications, and granting PIOGA’s Petition to Intervene.

On May 4, 2016, OCA, I&E, and PIOGA submitted direct testimony. OCA submitted supplemental direct testimony on May 9, 2016.

The Companies submitted rebuttal testimony on May 23, 2016.

The parties successfully negotiated a settlement of all issues prior to submission of surrebuttal testimony. By agreement of the parties, and with the consent of ALJ Watson, the procedural schedule was suspended by interim order dated June 1, 2016.

A hearing was held on June 2, 2016, for the limited purpose of admitting testimony and accompanying exhibits and verifications into the record.

On June 7, 2016, ALJ Watson issued a protective order and a further interim order establishing procedures for filing proposed settlement documents and any objections thereto.

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

Retainage and Lost and Unaccounted For Gas (Joint Petition at ¶ II.B, p. 6)

Upon review of the Companies' PGC filings and subsequent discovery, the OSBA was primarily concerned with whether Peoples' management of unaccounted-for gas is reasonable and whether Peoples' proposed retainage rate is appropriate. The OSBA determines that its concerns have been addressed satisfactorily in Section II.B of the Joint Petition, and that the settlement is therefore reasonable and in the interest of the Companies' Small C&I customers.

The Companies currently retains a uniform 5.0% of the natural gas delivered on behalf of all transportation rate classes, based upon the Companies' two-year average lost and unaccounted for gas ("LUFG") and company use ("CU") levels. Peoples proposed to adjust its existing retainage rate to 5.2% to reflect a slight increase in overall LUFG/CU levels. In rebuttal, Peoples revised its proposed retainage rate to 5.25% to correct a small error in its filed retainage rate analysis that was uncovered by OCA.

The settlement proposes a uniform retainage rate of 5.25% for all rate classes.

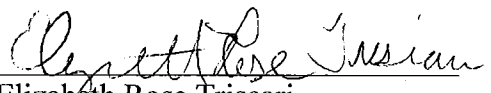
Because (i) the Companies' overall LUFG/CU rate has been relatively stable since Peoples' last Section 1307(f) proceedings, and (ii) the uniform settlement retainage rate of 5.25% properly reflects the Companies' most recent overall LUFG/CU experience, the OSBA determines that the settlement is in the best interest of the Companies' Small C&I customers.

IV. CONCLUSION

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.

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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Deputy Small Business Advocate
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For:

John R. Evans
Small Business Advocate

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Dated: June 20, 2016

Appendix “F”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission : R-2016-2528557
: :
v. : :
: :
Peoples TWP LLC 1307(f) :

Pennsylvania Public Utility Commission : R-2016-2528562
: :
v. : :
: :
Peoples Natural Gas Company LLC 1307(f) :

Pennsylvania Public Utility Commission : R-2016-2529260
: :
v. : :
: :
Peoples Natural Gas Company LLC – :
Equitable Division 1307(f) :

**STATEMENT OF
PENNSYLVANIA INDEPENDENT OIL & GAS ASSOCIATION
IN SUPPORT OF APPROVAL OF PROPOSED UNANIMOUS SETTLEMENT**

The Pennsylvania Independent Oil & Gas Association (PIOGA) respectfully requests Commission approval of the two joint petitions for settlement (Settlements) in these Section 1307(f) proceedings. PIOGA submits this Statement in Support of approval of the Settlements to explain how the Settlement resolves PIOGA’s primary issue of concern in these proceedings.

PIOGA is the comprehensive trade association representing oil and natural gas interests throughout Pennsylvania. PIOGA’s members include natural gas producers and Commission licensed natural gas suppliers (NGSs) and marketers that produce, transport and market natural gas, including Pennsylvania Appalachian production, to Peoples TWP LLC (PTWP), Peoples

Natural Gas Company LLC (Peoples) and Peoples Natural Gas Company LLC –Equitable Division (Peoples–Equitable) (collectively, “Companies”) for system supply and to transportation customers on the Companies’ pipeline systems.

In its petition to intervene in these proceedings, PIOGA noted its interest in the Companies’ least cost fuel procurement policies and methodologies because PIOGA members’ Pennsylvania Appalachian production continues to be a baseload source of supply for the Companies’ systems, as acknowledged in the Companies’ testimony.¹ In their direct testimony, the Companies also explained that there are certain areas of their systems that are dependent on conventional local production for reliable service, and certain single feed supply areas in which more unconventional production could be accepted to help ensure the continuation of reliable service.² Because deliveries of local gas directly into the Peoples’ systems have decreased significantly over the last two years due to recent market conditions and the current low natural gas price environment, production levels from existing conventional wells are declining faster than in the past and also are not being offset by new production coming onto the systems.³

PIOGA’s direct testimony provided additional information corroborating the reduction in natural gas drilling and development activity generally in Pennsylvania and on the Companies’ systems, including: (i) reductions in well permit applications and the number of wells spud since 2013; (ii) the significant costs of compliance with pending Department of Environmental Protection (DEP) regulations; and (iii) increased costs of compliance with other environmental regulations of various federal agencies, such as the Environmental Protection Agency, Pipeline

¹ Peoples Statement No. 2, pp. 39-40; Peoples TWP Statement No. 2, p. 30.

² Peoples Statement No. 2, pp. 44:8-14, 46:2-5, 49:3-9; Peoples TWP Statement No. 2, pp. 34:13-21, 36:3-13.

³ Peoples Statement No. 2, pp. 44-45; Peoples TWP Statement No. 2, p. 35.

and Hazardous Materials Safety Administration and the Occupational Safety and Health Administration.⁴

To address the effect of the reduction in natural gas drilling, development activity and new production on the Companies' systems and the resulting reliability concerns, the Companies proposed a selective and limited incentive pricing program to try to reverse this trend by providing a sufficient incentive for producers to rework or stimulate their existing wells to increase production flows and to invest in new production.⁵ PIOGA believes the Companies' incentive pricing proposal is a welcomed effort in these current low price and increased environmental regulation cost circumstances that could provide some financial assistance to some producers while helping to ensure the reliability of service in the identified parts of the companies' systems.⁶

PIOGA supports the Companies' incentive pricing proposals and submits that they are reasonable and measured responses to the current situation and are consistent with the Companies' least cost fuel procurement obligations. Accordingly, PIOGA requests that the Commission approve the Companies' proposals as set forth in the Settlements.⁷

⁴ PIOGA Statement No. 1, pp. 4-5.

⁵ Peoples & Peoples–Equitable Joint Petition for Settlement, ¶63; PTWP Joint Petition for Settlement, ¶53.

⁶ PIOGA Statement No. 1, p. 5.

⁷ Peoples & Peoples–Equitable Joint Petition for Settlement, ¶s 35, 36; PTWP Joint Petition for Settlement, ¶s 34, 35.

WHEREFORE, for the reasons set forth above, the Pennsylvania Independent Oil & Gas Association believes the public interest will be served by Commission approval of the Settlements and respectfully requests that the Settlements in these proceedings be approved.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin J. Moody", written over a horizontal line.

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Dated: June 20, 2016