**BEFORE THE**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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| Pennsylvania Public Utility Commission, *et al.*  v.  Peoples Natural Gas Company LLC  and  Pennsylvania Public Utility Commission, *et al.*  v.  Peoples Natural Gas Company LLC – Equitable Division | **: : : : :**  **:**  **:**  **:**  **:**  **:**  **:**  **:**  **:**  **:** | R-2016-2542918  R-2016-2542923 |

**RECOMMENDED DECISION**

Before

Jeffrey A. Watson

Administrative Law Judge

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# INTRODUCTION

This Recommended Decision approves a settlement of all Parties to approve a five-year pilot Rate MLX for customers who wish to convert to natural gas. The Rate MLX program provides for a higher delivery rate for customers in a particular project area. It replaces the existing Rider SET program which provided for a fixed monthly fee to extend gas service.

# i. HISTORY OF THE PROCEEDINGS

Peoples Natural Gas Company LLC (Peoples Division) and Peoples Natural Gas Company LLC – Equitable Division (Peoples-Equitable Division) (collectively the Company) are natural gas distribution companies (NGDCs) subject to the Pennsylvania Public Utility Commission’s (Commission) regulatory jurisdiction. Peoples Division and Peoples-Equitable Division are divisions of Peoples Natural Gas Company LLC. Peoples Division and Peoples-Equitable Division provide natural gas distribution, supply and transportation service to approximately 627,000 customers in western Pennsylvania. Joint Petition, p. 2.

On April 29, 2016, Peoples Division filed Supplement No. 69 to Tariff Gas – Pa. P.U.C. No. 45 and Peoples-Equitable Division filed Supplement No. 38 to Tariff Gas – Pa. P.U.C. No. 46. In these Supplements, the Company, on behalf of both Divisions, proposed to replace its Service Expansion Program (Rider SET) with Rate MLX. Rider SET was designed to reduce barriers to customers for receiving gas service in areas where gas service is currently unavailable. Rider SET allowed customers to make a fixed monthly payment of $55 as an alternative to lump sum Contributions in Aid of Construction (CIAC). The term of the $55 payment could vary for each SET Project based upon the Project’s costs. The Company averred that its customers were not receptive to paying the fixed $55 monthly fee and would prefer to pay for their share of pipeline expansion costs through higher delivery charges. Rate MLX allows for customers to pay for system expansion costs through higher delivery charges.

On May 16, 2016, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance, Complaint and Public Statement. The Complaint in the Peoples Division proceeding was docketed at No. C-2016-2545824. The Complaint in the Peoples-Equitable Division proceeding was docketed at No. C-2016-2545706.

On May 18, 2016, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance.

On May 26, 2016, the Office of Consumer Advocate (OCA) filed a Notice of Appearance, Complaint and Public Statement. The Complaint in the Peoples Division proceeding was docketed at No. C-2016-2547600. The Complaint in the Peoples-Equitable Division proceeding was docketed at No. C-2016-2547595.

On June 9, 2016, the Pennsylvania Public Utility Commission (Commission) issued an Order Suspending Peoples Division Supplement No. 69 and Peoples-Equitable Division Supplement No. 38 by operation of law until December 28, 2016, unless otherwise directed by Order of the Commission.

On June 15, 2016, the Company filed tariff supplements suspending Supplement No. 69 and Supplement No. 38.

By Prehearing Conference Order dated June 24, 2016, Peoples Division, Peoples- Equitable Division, OCA, OSBA and I&E were notified that the proceeding was assigned to the undersigned Administrative Law Judge (ALJ or Presiding Officer) for a telephonic Prehearing Conference on July 1, 2016 at 10:00 a.m. In accordance with the regulations pertaining to prehearing conferences, 52 Pa.Code §§ 5.221-5.224, the Parties were directed to file their prehearing memorandums on or before June 29, 2016. On June 24, 2016, a notice was issued advising the Parties of the date and time of the prehearing conference. The Parties timely filed prehearing memoranda.

The Prehearing Conference proceeded as scheduled on July 1, 2016. Counsel for the Parties participated in the Prehearing Conference, which resulted in the establishment of a litigation schedule by agreement of the Parties.

On July 7, 2016, the Company served its Direct Testimony.

On July 21, 2016, a Prehearing Order was issued setting the dates for the serving of written testimony, holding the evidentiary hearings and submitting briefs. In addition,the Complaints of OCA at Docket No. C‑2016-2547600 and OSBA at Docket No. C‑2016‑2545824 were consolidated with the Peoples Division filing at R-2016-2542918. The Complaints of OCA at Docket No. C‑2016-2547595 and OSBA at Docket No. C‑2016‑2545706 were consolidated with the Peoples-Equitable Division filing at R-2016-2542923. In addition, thePeoples Division proceeding filed at Docket No. R-2016-2542918 and the Peoples-Equitable Division proceeding filed at Docket No. R-2016-2542923 were consolidated for the purpose of the hearing and disposition in this proceeding. The evidentiary hearing was scheduled for September 7, 2016 in Harrisburg.

On August 5, 2016, I&E, OCA and OSBA served Direct Testimony.

On August 23, 2016, the Company served Rebuttal Testimony.

The Parties undertook extensive settlement discussions in this proceeding. As a result of these settlement discussions, the Parties reached a settlement in principle fully resolving all issues. On August 29, 2016, counsel for the Company advised the undersigned presiding officer that the Parties had reached a settlement in principle of all issues.

An interim order was issued on September 1, 2016 which provided that the litigation schedule set forth in the July 21, 2016 prehearing order, with respect to submission of further testimony and the filing of briefs was suspended. The Parties were advised to submit signed settlement agreement and statements in support of the settlement not later than September 20, 2016.

An evidentiary hearing was held on September 7, 2016, at which time the Parties moved their respective testimonies and exhibits into the record. Counsel for the Company, I&E, OCA and OSBA attended the hearing.

On September 20, 2016, the Company, I&E, OCA and OSBA filed a Joint Petition For Settlement Of All Issues (Joint Petition or Settlement Petition or Settlement). In addition the Parties filed their respective Statements in Support of the Joint Petition. The proposed pilot Rate MLX replacing Rider SET tariff is attached to the Joint Petition as Appendix A; the proposed rates and rules for gas service in the City of Pittsburgh and territory adjacent thereto for the pilot Rate MLX is attached to the Joint Petition as Appendix B; and the Parties’ Statements in Support of the Joint Petition are attached to the Joint Petition as Appendix C through F respectively.

On October 4, 2016, an interim order was issued which admitted the Joint Petition into the record along with the attached Appendices, and closed the record in this proceeding.

This Recommended Decision recommends the Settlement Agreement be adopted.

II. DESCRIPTION AND TERMS OF THE SETTLEMENT

The Joint Petitioners have agreed to a Settlement of all issues that have been raised inPeoples Division proceeding filed at Docket No. R-2016-2542918 and the Peoples-Equitable Division proceeding filed at Docket No. R-2016-2542923 and have requested that the Commission approve the Settlement without modification.The Joint Petitioners have further requested that the Commission authorize the Company to file the settlement tariff supplements provided as Appendices A and B to the Joint Petition, to become effective on at least one day’s notice following approval of the Joint Petition.

In accordance with Rule 5.231 of the Commission’s Rules of Practice and Procedure, 52 Pa.Code § 5.231, the Parties explored the possibility of settlement. As a result of settlement discussions, the Parties achieved a settlement in principle under which all issues were resolved. The Joint Petition was fully executed by the Company, I&E, OCA and OSBA. The appendices set forth the tariff supplements describing the agreed upon rates in Appendices A and B, and the statements in support of settlement by the respective Parties is Appendix C through F.

A. Settlement Terms

The Parties agree that the terms of the Settlement reflect a carefully balanced compromise of the interests of all of the Parties in this proceeding. The Parties unanimously agreed that the Settlement, which resolves all the Parties’ issues, is in the public interest. The Parties further requested that Peoples Division’s and Peoples-Equitable Division’s MLX Programs be approved with the following modifications set forth in the Joint Petition:

## A. MLx delivery rates

1. In order to provide specific Commission approved tariff rates applicable to prospective customers, the MLX delivery rates will be set based on the tiered delivery rate structure set forth below. The MLX delivery rate tier set by the Company for each project area shall be based on the minimum delivery rate tier required to cover the project area investment costs, as determined under the Extension of Facilities tariff rules, and be based on the estimated investment costs, which will include the cost of customer owned service lines, and number of committed customers at the time of construction. The delivery rates associated with the chosen MLX tier shall apply to all customers within each project area. Joint Petition ¶ 19.

PEOPLES (both divisions)

MLX Rate Tier

Residential

Commercial

1

6.79

$

5.10

$

2

7.23

$

5.54

$

3

7.67

$

5.98

$

4

8.11

$

6.42

$

5

8.55

$

6.86

$

6

8.99

$

7.30

$

7

9.43

$

7.74

$

8

9.87

$

8.18

$

9

10.31

$

8.62

$

MLX Delivery Rate

2. The Company will generally begin marketing a rate assuming a 50% participation level. In the event that the investment necessary is less than the investment justified by 50% participation at the MLX Tier 1 rate, the Company will decrease the participation level to the level required to economically justify the project. Joint Petition ¶ 20.

## b. pilot term length

As indicated in the tariffs, Rate MLX will be operated as a five-year pilot. Joint Petition ¶ 21.

## C. customer promotional materials

### 1. The Company agrees to include in the promotional materials that the customer signs to apply for service the following: the Rate MLX tier rate, the otherwise applicable delivery rate and an explanation that the cost of the extension is included in the MLX rate. Joint Petition ¶ 22.

## D. mlx project analysis

1. The Company agrees to isolate the incremental capital costs and revenues associated with each Rate MLX project. Specific items will include
   1. investment per project;
   2. total distance of mains installed per project;
   3. assumed participation rate used to develop the rate for each project, the actual number of customers by class initially connected by project and number of subsequent connections per project;
   4. Rate MLX revenues received by class per project;
   5. annual participant average use per customer (by class);
   6. average participant investment cost per customer (by class);
   7. the number of existing residential homes and businesses within a project area who have not yet connected (to the extent that such information is available);
   8. program marketing expenses; and
   9. number of participants in each residential and commercial project.

Joint Petition ¶ 23.

1. Analyses that examine Rate MLX revenue requirements, capital costs, and normalized revenues for each Rate MLX project will be supplied as supplemental analyses supporting cost allocation studies and rate design in the next base rate case or by December 31, 2020, whichever comes first.
   1. If these analyses are supplied as part of a base rate case, and where justified, the Company and any other signatory party to this Settlement may make a recommendation to move a particular Rate MLX project or projects to a lower, more appropriate MLX rate tier, or, to the RS class or appropriate commercial class, when such movement is supported by the analyses.
   2. As part of future base rate proceedings, the Company may also propose adjustments to the MLX delivery rates for each MLX rate tier. Further, MLX Project Investment will be directly assigned to each rate class for cost of service purposes to the extent possible. Assignment for mixed-use projects will be based on the proportion of revenue contribution by each class
   3. Any party may challenge any of the Company’s recommendations.

Joint Petition ¶ 24.

1. If Rate MLX is continued at the conclusion of the pilot, subsequent analysis, as described in paragraph 24, will be provided to the Commission, I&E, OCA and OSBA every two years after the first analysis unless a rate case has occurred within that timeframe, so that the period of time between evaluations does not exceed two years.. Analysis for all MLX projects will be prepared at the same time. Joint Petition ¶ 25.

## E. customer service lines

### 1. Customer service line investment (curb to meter) will be included within the project cost. This investment will be considered plant in service for rate base determination. The customer will maintain ownership of, and maintenance obligations for, the curb to meter portion of the service line. The cost of the curb to meter portion of the service line for customers tapping into a MLX project after initial construction will be limited to the average cost of curb to meter installations for customers who tied in at the time of the main line installation. The cost of future curb to meter service lines will also be included in rate base. Joint Petition ¶ 26.

## F. tariff

1. Appendices A and B of the Joint Petition contain the pro forma tariff pages showing the MLX rates and program terms for Peoples Division and Peoples-Equitable Division as modified by the terms of the Settlement. Joint Petition ¶ 27.

# B. Conditions of Settlement

1. The Joint Petitioners have agreed that the Settlement is conditioned upon the Commission’s approval of the terms and conditions contained in the Settlement without modification. If the Commission modifies the Settlement, any Party may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an Order modifying the Settlement. Joint Petition ¶ 32.
2. The Settlement has been proposed by the Parties to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Parties have reserved their respective procedural rights to present rejoinder testimony, conduct hearings, briefing and argument of their respective positions. 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. Joint Petition ¶ 33.
3. The Joint Petitioners have acknowledged 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. The Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement the Settlement. Joint Petition ¶ 34.
4. The Joint Petitioners have agreed that if the undersigned presiding officer would adopt the Settlement without modification, the Parties waive their rights to file Exceptions. Joint Petition ¶ 35.

III. DISCUSSION

A.Applicable Legal Principles

The Commission encourages parties in contested on-the-record proceedings to settle cases. See 52 Pa.Code § 5.231. Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission’s decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily imposes.

By definition, a “settlement” reflects a compromise of the parties’ positions and arguably fosters and promotes the public interest. When parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest. *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

In the instant proceeding, the Settlement was achieved only after a comprehensive investigation of the issues raised in this proceeding by the Parties. In addition to a comprehensive investigation and informal discovery, the Parties responded to numerous formal discovery requests. In support of their positions, the Company, I&E, OCA and OSBA engaged in discovery or served testimony and/or accompanying exhibits, such testimony and exhibits being subsequently admitted into the record at the evidentiary hearing held on September 7, 2016. The Parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

In addition, the Parties, as well as witnesses, experts and counsel, have considerable experience in similar 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 issues which were settled in this matter.

For these reasons and the reasons set forth herein, the Settlement is just and reasonable and the Settlement reached by the Parties should be approved.

## 

## B. Summary of Peoples’ Current Extension Programs

In its Statement in Support of Settlement, the Company provided a summary of Peoples’ current extension programs and the Rate MLX program, which is summarized below.

According to the Company, Rider SET for both the Peoples Division and the Peoples-Equitable Division is a five-year pilot program designed to reduce the barriers faced by customers that are interested in receiving natural gas service in areas where natural gas service is currently unavailable. Peoples Statement in Support, p. 2. Peoples explains that traditionally, customers requesting an extension of service to their property were required to pay a lump sum contribution in aid of construction (CIAC) if the service extension was not economical for the Company, that is, in cases where the base revenues projected to be received from the new service using the extended facilities would not cover the investment costs. Peoples Statement in Support, p. 2-3. Peoples explains that upfront CIACs are often burdensome for customers because the customer must pay the required cash CIAC payment and the cost of internal piping and new gas appliances. According to the Company, this cash requirement can prevent customers from proceeding with the extension of natural gas service. Peoples St. No. 1, p. 5; Peoples Statement in Support, p. 3.

Rider SET provides customers the option to avoid the upfront CIAC and, instead, to make flat monthly payments over a period of years to pay the uneconomical investment costs. Peoples Statement in Support, p. 3. According to Peoples, in lieu of a CIAC, a residential customer currently pays a fixed $55 monthly fee for the cost of extending the distribution main and a fixed $15 monthly fee for the cost of the customer service line for a period no longer than 25 years. Commercial customers pay a calculated monthly fee for a period no longer than 20 years. (Peoples St. No. 1, p. 5.) Under Rider SET, the fixed fee applies until the SET customers for an individual project pay for the Company’s uneconomic extension costs. Peoples Statement in Support, p. 3.

Peoples explains that the SET Program was approved by the Commission on March 26, 2015. The Company asserts that it performed substantial marketing efforts throughout 2015 but was unsuccessful in enrolling any SET expansion projects. The Company asserts that customers were opposed to paying the fixed SET fee due primarily to confusion about why they needed to pay a separate charge for service and due to the uncertainty of how long that they would have to pay the additional charge. Peoples Statement in Support, p. 3.

As an alternative to the SET Program, Peoples explains that it filed a Service Expansion Gas Exchange and Interconnection Agreement (Service Expansion Agreement) with its affiliate, Peoples TWP LLC (PTWP). According to Peoples, under the Service Expansion Agreement, Peoples can interconnect its distribution lines with facilities to be built by PTWP to serve new natural gas customers. Peoples asserts these new customers are served by PTWP and pay PTWP’s tariff delivery rate, which is higher than either Peoples Division’s or Peoples-Equitable Division’s delivery rate. Peoples Statement in Support, p. 3. According to Peoples, the higher base rate revenues created by the higher PTWP rates support somewhat longer system extensions and can eliminate the need for either a CIAC or fixed monthly payments under Rider SET for certain extensions. Peoples Statement in Support, p. 3-4. Under this approach, Peoples asserts that approximately 123 feet of main can be extended for each residential customer, and in those situations, the Service Expansion Agreement simplifies the natural gas service extension process for potential customers. Peoples St. No. 1, p. 6; Peoples Statement in Support, p. 4.

According to Peoples, as a result of this experience with the Service Expansion Agreement and Rider SET, Peoples believes that customers are more receptive to paying a higher delivery rate than a fixed monthly fee of $55 to extend gas service. Peoples Statement in Support, p. 4.

## C. Summary of the Rate MLX Program

Based upon Peoples perceived success of the Service Expansion Agreement Program, Peoples proposed to implement Rate MLX[[1]](#footnote-1) for its Peoples and Peoples-Equitable Divisions. Peoples explains that under Rate MLX, Peoples will charge customers a customized delivery rate that recovers expansion costs that would be uneconomical if Peoples could charge only its standard delivery rates. Peoples Statement in Support, p. 4. According to Peoples, the customized delivery rate is designed to recover the investment costs related to a specific MLX project and will be applicable to all customers within each MLX project area. Peoples Statement in Support, p. 4. By substituting the customized delivery rate for the standard Peoples delivery rate, Peoples asserts that Rate MLX will provide a revenue stream that economically supports the cost of the extension (based on the economical extension analysis model). Peoples St. No. 1, p. 8; Peoples Statement in Support, p. 4. According to Peoples, Rate MLX therefore provides the opportunity to extend service more than the 123 feet per customer that is supported by the Service Expansion Agreement by determining the rate necessary to justify the required investment. Peoples Statement in Support, p. 4.

Peoples asserts that customers will be more amenable to paying higher delivery rates under Rate MLX than paying the fixed monthly Rider SET fee. Peoples Statement in Support, p. 4-5. Due to the low cost of natural gas as compared to higher costs of alternative fuel sources, Peoples asserts Rate MLX will save customers money. Peoples Statement in Support, p. 5. Furthermore, according to the Company, Rate MLX will enable the Company to extend natural gas service to customers that are located beyond the distance to extend service under the current Service Expansion Agreement, which is 123 feet per residential customer. Depending on the specific project, Rate MLX could justify a mainline extension of up to approximately 175 feet per residential customer without requiring an upfront CIAC. Peoples Statement in Support, p. 5.

D. Statements of the Joint Petitioners in Support of the Settlement

For the Commission’s consideration the Parties submitted separate Statements in Support of the Settlement Petition (Statement in Support). In their Statements in Support, Peoples, I&E, OCA, and OSBA conclude, after extensive discovery and discussion, that the Settlement is in the interests of the Company and its customers, and is otherwise in the public interest.

Noting there is no opposition to the Settlement, the positions of the Joint Petitioners are summarized by issue below.

## E. MLX Delivery Rates

### 1. Peoples’ Position

In its original filing, Peoples proposed that the delivery rate for each MLX project could fall within a range of $6.79, as a minimum, to a maximum of $10.32 per Mcf for Peoples Division and $10.34 per Mcf for Peoples-Equitable Division. According to Peoples, the minimum delivery rate of $6.79 is the PTWP delivery rate and the same delivery rate that customers receive when Peoples relies on the Service Expansion Agreement to extend service. According to the Company, the maximum delivery rates of $10.32 per Mcf for Peoples Division and $10.34 per Mcf for Peoples-Equitable Division would produce the same incremental annual increase in non-gas revenue that would have been generated by the flat monthly payment of $55 under Rider SET over Peoples Division’s and Peoples-Equitable Division’s current delivery rates, respectively, for an average customer using 92 Mcf per year. Peoples St. No. 1, p. 8; Peoples Statement in Support, p. 5.

In its Direct Testimony, OCA argued that separate MLX rates for each MLX project, as initially proposed by the Company, could cause customer confusion and an administrative burden for the Company. OCA St. No. 1, pp. 4-5; Peoples Statement in Support, p. 5. Therefore, OCA proposed to establish five pre-defined rate tiers for MLX projects and proposed that if a MLX rate calculation resulted in a rate that was between two tiers, the project would be assigned to the closest MLX rate tier. OCA St. No. 1, p. 6; Peoples Statement in Support, p. 5-6. However, the Company asserts that this proposal could result in an MLX project being assigned a Rate Tier that is lower than would be sufficient to recover the expansion costs. Peoples Statement in Support, p. 6.

In Rebuttal Testimony, the Company agreed with OCA that there could be benefits to adopting specific Rate MLX tiers. In order to address OCA’s concerns, the Company proposed nine rate tiers instead of five. According to Peoples, the addition of more rate tiers reduces the potential variance between project costs and the MLX tier rate and provides the Company with a more reasonable opportunity to recover its expansion costs. Peoples Statement in Support, p. 6.

The Settlement adopts the nine rate tiers that were proposed by the Company in its Rebuttal Testimony as forth below:

Peoples Statement in Support, p. 6.

PEOPLES (both divisions)

MLX Rate Tier

Residential

Commercial

1

6.79

$

5.10

$

2

7.23

$

5.54

$

3

7.67

$

5.98

$

4

8.11

$

6.42

$

5

8.55

$

6.86

$

6

8.99

$

7.30

$

7

9.43

$

7.74

$

8

9.87

$

8.18

$

9

10.31

$

8.62

$

MLX Delivery Rate

Peoples explains the Settlement also provides that the MLX delivery rate tier set by the Company for each project area will be based on the minimum delivery rate tier required to cover the project area investment costs, as determined under the Extension of Facilities tariff rules, and based on the estimated investment costs and number of committed customers at the time of construction. These MLX rate Settlement provisions, according to the Company, are reasonable and in the public interest because they provide specific MLX rates for customers to reduce the variance between rates, and allow the Company a reasonable chance to recover its MLX project costs. Peoples Statement in Support, p. 6-7.

In testimony, the OCA proposed that a three-year average revenue requirement be used to set the initial MLX rate. OCA St. No. 1, p. 8. Peoples asserts it has agreed to revise its model used to determine the initial MLX rate to address the OCA’s proposal. Peoples Statement in Support, p. 6.

The Company further notes that the Settlement does not provide for any additional rate tiers below the lowest originally proposed MLX rate. Peoples Statement in Support, p. 6.

The OCA also argued that the MLX rate be evaluated, and potentially lowered, every three years outside of a base rate proceeding. OCA St. No. 1, p. 8. The Company explained in Rebuttal Testimony that this proposal was contrary to established ratemaking principles and would be unfair to other customers. Peoples St. No. 1-R, p. 8. The Settlement reflects the Company’s position. Peoples Statement in Support, p. 6.

### 2. I&E’s Position

I&E explains that the MLX delivery rates will be based on a tiered structure which is outlined in the Settlement Petition on page 5. The MLX delivery rate tier for each particular project is based on the minimum delivery rate tier that would be needed to cover the project investment costs. All customers associated with the same Rate MLX project will pay the same MLX tier rate. I&E Statement in Support, p. 4. According to I&E, when the Company begins marketing Rate MLX in a particular project area, the Company will assume a 50% participation level. If it becomes evident that the investment necessary is less than the investment justified by 50% participation, the Company will decrease the participation level to the level required to economically justify the project. I&E Statement in Support, p. 4-5.

According to I&E, Rider SET was largely unsuccessful for the Company, in part because the fixed, monthly payment option that customers were given under Rider SET led to confusion, which in turn resulted in substantial customer resistance. Peoples St. No. 1, p. 6; I&E Statement in Support, p. 5. Under the Company’s Rate MLX proposal, as filed, each Rate MLX project would have its own separate Rate MLX that customers would be charged. I&E asserts this could also have led to confusion because there would be no specific rate identified in the tariff to point out to potential customers. In addition, each MLX project having its own unique rate could have caused a potentially unwieldy rate case. According to I&E, there would be no uniformity by which each separate Rate MLX project could be evaluated and given the fact that there could be a potentially large number of Rate MLX projects it would have been all but impossible for the parties to a rate case to evaluate whether the rate charged for each individual project was reasonable. I&E Statement in Support, p. 5.

By implementing a tiered structure, as set forth in the Settlement, I&E argues customer confusion will be reduced. Readily identified prices are being set forth in the tariff that the Company can easily point out to customers. Further, as all the different tiers are laid out in the tariff, I&E asserts this eliminates potential confusion that could result from all of the MLX rates being different. I&E Statement in Support, p. 5-6. There could have been confusion under the Company’s as-filed proposal because communities that are close to each other may be charged different MLX rates. According to I&E, while the tariff structure does not eliminate the fact that different projects will have different MLX rates, because all potential rates are identified in the tariff, it is easier to explain to customers why they might be paying a higher or lower rate than someone in a neighboring community also on Rate MLX. I&E Statement in Support, p. 5‑6.

I&E asserts that serving to eliminate customer confusion will potentially allow for more customers to sign up to receive gas service. Further, the tiered structure makes evaluation of the MLX rates much less cumbersome in a base rate case. Being able to easily identify whether a customer is being charged a just and reasonable rate, according to I&E, is in the public interest. I&E Statement in Support, p. 6.

### 3. OCA’s Position

OCA expressed several concerns with the Company’s as-filed proposal to have separate customized rates for each Rate MLX project. Specifically, within a few years, OCA asserts there could likely be dozens of different rates, which would cause customer confusion, be impractical for the Company to periodically evaluate, and cause tremendous administrative burden on the Company. OCA Statement in Support, p. 3. OCA recommended that the range be broken into five predefined tiered rates. *Id*.

According to OCA, the Settlement adopts a tiered rate structure that will have nine tiers, and the tier selected for each Rate MLX project will be the minimum tier that covers the project’s investment costs. Settlement ¶ 19; OCA Statement in Support, p. 3-4. OCA asserts the tiered rate structure simplifies Rate MLX and makes it more feasible for the Company and other interested Parties to periodically evaluate the rates for each project. OCA Statement in Support, p. 4.

OCA further notes that the Company did not address extension projects that would produce rates that fall between the tariffed residential delivery rate and the lowest Rate MLX tiered rate. OCA St. No. 1 at 6; OCA Statement in Support, p. 4. OCA Witness Watkins testified that this issue should be resolved if any plan is approved. *Id*. According to OCA, the Settlement provides a resolution to this issue, as these projects would be assigned the lowest Rate MLX tier initially, and when appropriate, moved to the tariffed residential delivery rate. Settlement ¶¶ 20, 24, OCA Statement in Support, p. 4. OCA submits that this is a reasonable way to handle this subset of projects, as it allows these projects (i.e., potential customers who would rather participate in Rate MLX than pay an upfront CIAC) to move forward with the extension project. Because the Settlement also requires that the Company periodically evaluate the rates for each project and adjust to a lower rate (or the tariffed residential delivery rate) when appropriate, OCA asserts there is no concern that customers within these projects will be overcharged for their mains extensions. OCA Statement in Support, p. 4.

4. OSBA’s Position

OSBA did not specifically address this issue in its Statement in Support of Settlement.

## 

## F. Pilot Term Length

### 1. Peoples’ Position

Peoples proposed Rate MLX as a permanent replacement for its Rider SET extension program. Peoples explains the Settlement adopts the other Parties’ recommendations to implement Rate MLX as a five-year pilot program. I&E St. No. 1, p. 11; OCA St. No. 1, p. 11; OSBA St. No. 1, p. 6; Peoples Statement in Support, p. 7-8. Under the Settlement, Peoples explains that Rate MLX will be closed to new participants after five years unless Peoples files for Commission approval to extend Rate MLX. This will allow for the evaluation of the Rate MLX Program’s success before potentially implementing it on a permanent basis. Peoples Statement in Support, p. 8.

### 2. I&E’s Position

I&E explains that expanding gas service to customers who currently have no service in their particular area can be a time consuming process in order to market the project to those customers and, then, time must be taken to construct the project and get it up and running. I&E asserts a time period of 5 years gives the Company enough time to get a sufficient number of Rate MLX projects completed to give the Parties to the Settlement the opportunity to see if Rate MLX is actually beneficial to the Company and their customers. I&E asserts the Company’s past gas expansion programs have been largely unsuccessful and allowing Rate MLX to operate for five years presents sufficient time to evaluate whether this program is working well. I&E Statement in Support, p. 6-7.

Further, I&E asserts that by operating only as a pilot program, if Rate MLX is not functioning in a way that is beneficial to the Company and their customers, it is not a program that is expected to continue in perpetuity. It provides a certain end date by which, if needed, the Company can propose to implement a different program. The fact that it has an end date provides the Parties to the Settlement with a predetermined date by which they will be able to evaluate the usefulness of this program. I&E Statement in Support, p. 7.

### 3. OCA’s Position

OCA recommended that if Rate MLX is approved, that it should be implemented as a five-year pilot program, which was adopted in the Settlement. Settlement ¶ 21; OCA St. No. 1 at 11; OCA Statement in Support, p. 4. Because Rate MLX is a novel approach to addressing the cost barriers associated with extending natural gas mains to unserved customers, implementing Rate MLX as a pilot program, according to OCA, is in the public interest as it provides the Company and the Commission the opportunity to monitor and evaluate Rate MLX before adopting it as a permanent tariff provision. OCA Statement in Support, p. 4-5.

### 4. OSBA’s Position

OSBA recommended that the proposed Rate MLX be implemented as a pilot, rather than as a permanent replacement for Rider SET, because it was replacing a pilot program. OSBA Statement No. 1 at 6; OSBA Statement in Support, p. 3. OSBA notes that the Settlement terms are consistent with OSBA’s recommendation and concluded that it is reasonable and in the interest of the Company’s small business customers. OSBA Statement in Support, p. 3-4.

## G. Customer Promotional Material

### 1. Peoples’ Position

Under Section III(C) of the Settlement, the Company explains that it agreed to include in the promotional materials that the customer signs in order to apply for service: the Rate MLX tier rate; the otherwise applicable delivery rate; and an explanation that the cost of the extension is included in the MLX rate, which was recommended by OCA. OCA St. No. 1, p. 10; Peoples Statement in Support, p. 8.

### 2. I&E’s Position

I&E explains that when a customer signs up for Rate MLX, the customer will receive the customer’s Rate MLX tier rate, the applicable delivery rate and an explanation that the cost of the extension is included in the MLX rate. According to I&E, this information will serve to eliminate confusion because it shows the customer what their rate is and what is included in that rate. Elimination of customer confusion will reduce at least one barrier the Company has found in expanding gas service in the Company’s territory. I&E Statement in Support, p. 7-8.

### 3. OCA’s Position

OCA explains that the proposal provided in the Settlement adopts OCA’s recommendation that the Company disclose this specific information to potential customers prior to moving forward with an extension project. Settlement ¶ 22, OCA Statement in Support, p.5; OCA St. 1 at 10-11. OCA asserts that a potential customer should be aware that the rate he or she will be charged under Rider MLX is different from the tariffed residential delivery rate prior to investing in this program, and that the costs of the natural gas expansion project are built into the rate that they will pay under Rate MLX in order to allow potential customers to make informed decisions as to whether or not to participate. OCA Statement in Support, p. 5.

### 4. OSBA’s Position

OSBA did not specifically address this issue in its Statement in Support of Settlement.

5. Customer Promotional Materials Summary

As part of the Settlement, the Company agreed to include certain information in the promotional materials provided to customers when they sign their application for service. This information includes the Rate MLX tier rate, the otherwise applicable delivery rate and an explanation that the cost of the extension is included in the MLX rate.

As the Parties have agreed, providing this customer promotional material to customers applying for service provides essential information to the customer and eliminates or reduces confusion as to their particular rate and what is included in that rate.

## H. MLX Project Analysis

### 1. Peoples’ Position

Peoples explains that the Settlement provides that the Company agreed to isolate the incremental capital costs and revenues associated with each Rate MLX project. Specific items include the following:

* 1. investment per project;
  2. total distance of mains installed per project;
  3. assumed participation rate used to develop the rate for each project, the actual number of customers by class initially connected by project and number of subsequent connections per project;
  4. Rate MLX revenues received by class per project;
  5. annual participant average use per customer (by class);
  6. average participant investment cost per customer (by class);
  7. the number of existing residential homes and businesses within a project area who have not yet connected (to the extent that such information is available);
  8. program marketing expenses; and
  9. number of participants in each residential and commercial project.

Peoples Statement in Support, p. 8-9.

In addition, the Company agreed to provide analyses that examine Rate MLX revenue requirements, capitalized costs and normalized revenues in its next base rate case or by December 31, 2020. The Settlement further clarifies that:

a) If these analyses are supplied as part of a base rate case, and where justified, the Company and any other signatory party to this Settlement may make a recommendation to move a particular Rate MLX project or projects to a lower, more appropriate MLX rate tier, or, to the RS class or appropriate commercial class, when such movement is supported by the analyses.

b) As part of future base rate proceedings, the Company may also propose adjustments to the MLX delivery rates for each MLX rate tier. Further, MLX Project Investment will be directly assigned to each rate class for cost of service purposes to the extent possible. Assignment for mixed-use projects will be based on the proportion of revenue contribution by each class

c) Any party may challenge any of the Company’s recommendations.

Paragraph 25 of the Settlement also provides for subsequent analysis every two years (or in rate cases) if Rate MLX is continued after the pilot term. Peoples Statement in Support, p. 9.

According to Peoples, all of the other Parties in this proceeding proposed that the Company analyze and report on its experience with Rate MLX projects. I&E St. No. 1, pp. 10-11; OCA St. No. 1, p. 11; OSBA St. No. 1, p. 6; Peoples Statement in Support, p. 9. Peoples explains that these Settlement provisions require detailed analysis and reporting for each project and address the Parties’ concerns, as they will allow the Company, the Commission and the Parties to evaluate the success of the Rate MLX program. Peoples Statement in Support, p. 9.

### 2. I&E’s Position

I&E explains that one of the key components for I&E in being able to agree to the Settlement was being able to easily analyze the Rate MLX projects when the Company files a base rate case or at some other pre-determined point. As the number of Rate MLX projects the Company will undertake could potentially be very large and a base rate case runs on a statutorily identified timeline, it is essential to I&E to be able to easily evaluate this information as part of a base rate filing in a timely manner. I&E Statement in Support, p. 8.

I&E explains that the Company has agreed to several record-keeping provisions that will make the Rate MLX project analysis easier for all Parties involved, such as Paragraph D.23 of the Settlement that identifies a list of specific items that the Company has agreed to track. I&E Statement in Support, p. 8.

Additionally, I&E notes that on December 31, 2020, or when the next base rate case is filed, whichever comes first, the Company has agreed to provide analyses that examine Rate MLX revenue requirements, capital costs, and normalized revenues for each project. I&E Statement in Support, p. 8.

The Settlement also indicates that if the analyses are provided as part of a base rate case, the Parties may recommend moving a particular project to a lower tier or the residential (RS) rate class or appropriate commercial class where this movement is supported by the analyses. Rate cases are complex proceedings, therefore, according to I&E, having this information accurately tracked is essential to I&E’s ability to determine whether the rates charged are just and reasonable. Further, the way the Settlement is structured potentially gives the Parties the ability to review this information before a rate case is even filed which helps to streamline the review process. I&E Statement in Support, p. 8-9.

In addition, I&E explains that it was concerned because there was no date certain when customers would drop off Rate MLX to the appropriate residential or commercial rate. Therefore, if justified, the Company or the Parties may recommend the Rate MLX project customers be moved to a lower Rate MLX tier or to the appropriate residential or commercial class. This provision ensures that the customer will not be stuck paying a Rate MLX tier that is too high or continue on Rate MLX when the project costs have been recouped. I&E Statement in Support, p. 8.

According to I&E, the Company has also agreed that if Rate MLX continues beyond the five year pilot, subsequent analyses will be provided every two years after the first analysis unless there is an intervening base rate case. Because the number of Rate MLX projects could be so high, the ability to analyze and evaluate each project as part of a base rate case in a quick and efficient manner is important to I&E. I&E asserts that providing these analyses every two years gives the Parties a preview of what information they would be looking at in a rate case and will help to ensure that all Rate MLX customers are paying the appropriate rate. I&E Statement in Support, p. 8-9.

### 3. OCA’s Position

OCA recommended that each Rate MLX project be examined periodically, either every three years or as part of a rate case, to determine whether the rate being charged should be adjusted. OCA St. 1 at 9; OCA Statement in Support, p. 5. If Rate MLX is continued at the conclusion of the pilot, under the Settlement, the Company agrees to perform subsequent analyses every two years, unless a rate case has occurred within that timeframe. Settlement ¶ 25. Further, the Settlement provides for specific information that the Company will provide in its analyses of the Rate MLX projects. Settlement ¶ 23. According to OCA, these settlement provisions provide an important consumer protection as they should ensure that customers participating in Rate MLX are not overcharged for their mains extension project. The OCA submits that periodic evaluation of the Rate MLX projects ensures that customers taking service under Rate MLX are paying the appropriate rate for their extension projects and that when appropriate, will have their rates adjusted to a lower-tiered rate, until the customers are ultimately transitioned to the tariffed residential delivery rate. OCA Statement in Support, p. 5‑6.

### 4. OSBA’s Position

OSBA argues that it is important that a given Rate MLX delivery charge be subject to periodic review, and possible adjustment, over time. OSBA Statement No. 1 at 5.

According to OSBA, the Company intends to set the Rate MLX delivery charge at the minimum level necessary to make an extension project economical, based, in part, on its expectations regarding customer participation rates, annual consumption levels and projected project costs. *Id.* However, OSBA asserts if actual project costs or delivery revenues differ significantly from the Company’s initial projections, the Rate MLX delivery rate could require an adjustment over time so that actual delivery revenues properly track actual project costs. *Id*. OSBA explains that the Company has agreed to undertake a detailed project-by-project analysis to evaluate the appropriateness of individual Rate MLX delivery charges, which will be completed by the Company’s next base rate case or by December 31, 2020, whichever comes first. OSBA Statement in Support, p. 4. If Rate MLX is continued at the conclusion of the pilot, subsequent analysis will be provided to the Parties every two years after the first analysis, unless a rate case has occurred within that timeframe. OSBA Statement in Support, p. 4.

I. MLX Project Analysis Summary

As part of the Settlement, the Company agreed to isolate the incremental capital costs and revenues associated with each Rate MLX project.

In addition, analyses that examine Rate MLX revenue requirements, capital costs and normalized revenues for each Rate MLX project will be supplied as supplemental analysis supporting cost allocation studies and rate design in the next base rate case or by December 31, 2020, whichever comes first.

Furthermore, if Rate MLX is continued at the conclusion of the pilot, as described in paragraph 24 of the Settlement, subsequent analysis will be provided to the Commission, I&E, OCA and OSBA every two years after the first analysis unless a rate case has occurred within that timeframe, so that the period of time between evaluations does not exceed two years. Analysis for all MLX projects will be prepared at the same time. Joint Petition ¶ 25.

The Parties have explained in their Statements in Support of Settlement, that the Settlement contains provisions to make the Rate MLX project analysis easier for the Parties, and identifies various items that the Company will track. In addition, the Company has agreed to provide analyses that examine Rate MLX revenue requirements, capitalized costs, and normalized revenues for each project. The Settlement further provides that the Parties may recommend that Rate MLX project customers be moved to a lower rate MLX tier or to the appropriate class to ensure that customers will not pay a Rate MLX tier that is too high or continue on Rate MLX when the project costs have been recouped. The Settlement also provides for the project to be examined periodically to determine whether the rate being charged should be adjusted.

These terms negotiated by the Parties provide important customer protections to ensure that customers participating in the project are not overcharged.

## J. Customer Service Lines

### 1. Peoples’ Position

The Company explains that, in its initial filing, it proposed to evaluate each Rate MLX project individually to determine whether to include customer service line costs in the project. OCA expressed several concerns regarding potential disputes among customers and whether it was legal for the Company to install a customer service line and include the cost in rates. OCA St. No. 1, pp. 9-10; Peoples Statement in Support, p. 9-10.

In Rebuttal Testimony, the Company explained that it would not own or maintain the customer service lines. In addition, the Company notes that the Commission has ordered Peoples to install certain customer service lines under the Company’s Long-Term Infrastructure Improvement Plan (LTIIP). *Petition of Peoples Natural Gas Company, LLC for Approval of its Second Revised Long-Term Infrastructure Improvement Plan for its Peoples Division and Equitable Division*, Docket Nos. P-2013-2344596, P-2013-2342745, Order entered March 10, 2016. The Company also explained that it was important to include customer service lines in the Rate MLX projects to minimize hurdles for customers to take gas service. Ms. Petrichevich explained:

Most importantly, we believe that a customer does not distinguish a customer service line from, for example, a company service line or a company main line with the same clarity that those of us who work in utility regulation do. Rather, when a prospective customer desires natural gas service, the customer recognizes a need to extend a gas line from where it currently ends all the way to the customer’s house – not just to the street in front of the house or to the property line at the street. As a result, the customer desires and expects to receive an all-inclusive gas service price, not a segmented price that charges in the usage rate the cost to install the gas line up to the customer’s property but then adds a separate, monthly charge for the cost of the gas line from the street to the house.

Peoples St. No. 1-R, pp. 9-10.

Peoples explains that the Settlement includes customer service lines in the project costs and allows such costs to be included in the Company’s rate base. In order to address OCA’s concerns about treating MLX customers the same, Peoples asserts the Settlement requires the Company to include service line costs for all MLX projects in the MLX rate. In addition, the Settlement provides that if a customer taps into a Rate MLX project after initial construction, the customer will only have to pay any costs over the average cost of curb to meter installations for customers who were connected at the time of main line installation. Peoples Statement in Support, p. 10-11.

Peoples asserts that these Settlement provisions are in the public interest because they reduce barriers for customers to participate in the Rate MLX program and also treat Rate MLX customers consistently with respect to customer service line costs. Peoples Statement in Support, p. 11.

### 2. I&E’s Position

I&E did not specifically address this issue in its Statement in Support of Settlement.

### 3. OCA’s Position

OCA did not specifically address this issue in its Statement in Support of Settlement.

### 4. OSBA’s Position

OSBA did not specifically address this issue in its Statement in Support of Settlement.

5. Customer Service Lines Summary

The Settlement provides that service line investments will be included within the project costs which will be considered plant in service for rate base determination. In addition, the customer will maintain ownership of and maintenance obligation for the curb to meter portion of the service line.

The Settlement further provides that the cost of the curb to meter portion of the service line for customers tapping into an MLX project after initial construction will be limited to the average cost of curb to meter installations for customers who tied in at the time of the main line installation. Finally, the cost of future curb to meter service lines will also be included in rate base.

Importantly, the Settlement includes customer service lines in the project costs and allows such costs to be included in the Company’s rate base. Furthermore, as Peoples explained, the Settlement requires the Company to include service line costs for all MLX projects in the MLX rate. As the Parties stated, these provisions appear to reduce barriers to customers to participate in the program.

As the Company explained, including customer service lines in the Rate MLX project will serve to reduce hurdles for customers to receive gas service, and eliminate the need for customers to pay a separate charge for the cost of the gas line from the street to the customer’s house. This provision which will be beneficial to customers desiring to utilize gas service, is customer friendly and includes service line costs in the MLX rate and is therefore in the public interest.

## K. Tariff

### 1. Peoples’ Position

According to Peoples, the Settlement provides for the approval of the *pro forma* tariffs for the two Divisions that are attached as Appendices A and B to the Petition and which contain the MLX rates and other terms that were agreed to by the Parties under the Settlement. Peoples Statement in Support, p 11.

### 2. I&E’s Position

I&E agrees that Appendices A and B reflect the accurate MLX rates and program terms for both Peoples Division and Peoples-Equitable Division as modified by the Settlement. I&E’s Statement in Support, p. 9-10.

### 3. OCA’s Position

OCA did not specifically address this issue in its Statement in Support of Settlement.

### 4. OSBA’s Position

OSBA did not specifically address this issue in its Statement in Support of Settlement.

5. Tariff Summary

The *pro forma* tariff showing the MLX rates and program terms are set forth in Appendices A and B of the Joint Petition. The *pro forma* tariffs contain the MLX rates as agreed to by the Parties in this proceeding.

L.Summary

The Company asserts that the MLX Pilot Program will provide substantial public benefits by allowing new customers that could not otherwise afford to pay large up-front CIAC amounts to receive the benefits of natural gas service. It appears that the MLX program may be better received by customers than the former SET Program as it is simpler to understand and will allow longer extensions per customer than the Service Expansion Agreement. Peoples notes that natural gas is currently one of the cleanest, most abundant and least expensive energy sources in Pennsylvania and across the United States and that over the past several years, the production of natural gas in the United States has increased substantially due to the extraction of gas from shale formations, with one of the biggest shale formations located in large part in the western and northern portions of Pennsylvania. Peoples Statement in Support, p. 11.

Peoples also asserts that the massive influx of new gas production has caused a substantial decrease in the price of natural gas, which has caused a significant divergence between natural gas and alternate fuel prices in recent years. This substantial price difference, according to Peoples, means that Pennsylvania consumers currently heating with oil and other heating sources who can gain access to natural gas distribution service have the opportunity to save substantial sums of money over time. Peoples asserts the increase in new gas production and the substantial decrease in the price of natural gas are projected to remain relatively stable for the foreseeable future. Peoples Statement in Support, p. 12.

Peoples asserts there are also significant environmental benefits associated with converting homes and businesses using fuel oil or coal as their primary heating fuel, which are less beneficial to the environment, to natural gas. Peoples Statement in Support, p. 12.

In addition, the Settlement, structures a nine-tier program with simplified terms as a five-year pilot program, and gives customers, the Company and the Parties an opportunity to properly evaluate the program. In addition, the promotional materials provided to customers when they sign the program application provides valuable information to the customers. The Settlement also includes various provisions to make the project analysis easier for the Parties and identifies various items that the Company will track. These provisions promote important customer protections in order to help to ensure that customers participating in the project are not overcharged.

The Settlement includes customer service lines in the project costs and allows the costs to be included in the Company’s rate base, and helps to reduce barriers to customers to participate in the program.

The Parties have explained that they have agreed to a settlement of all issues in the above-captioned proceeding and the Settlement was achieved only after an extensive investigation of Peoples’ filing, including extensive informal and formal discovery and the service of written direct testimony by the Parties. In addition to informal discovery, Peoples responded to numerous formal discovery requests. The Parties also served testimony and accompanying exhibits supporting their respective positions.

The Parties assert the Settlement is just and reasonable and should be approved. Under the circumstances, the Settlement represents a reasonable compromise of the Parties’ litigation positions and should be approved without modification.

M. The Public Interest

Commission policy promotes settlements. *See* 52 Pa.Code § 5.231. Settlements reduce the time and expense the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See Id*. § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm’n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm’n v. C.S. Water and Sewer Assocs.*, 74 Pa. PUC 767 (1991).

This Settlement is in the public interest because it will conserve the resources of the Commission and the Parties. Settlements lessen the time and expense the Parties must expend litigating a case and at the same time conserve administrative hearing resources. Although a substantial amount of pre-served testimony has already been submitted in this proceeding, such efforts were necessary to properly examine the Company’s filing. Nonetheless, the resolution of the issues contained in the Settlement will avoid further litigation on those issues, thereby, serving judicial efficiency and allowing the Parties and the Commission to conserve its resources, the costs of which will ultimately be borne by customers.

Each of the provisions of the Settlement is reasonable and supports adopting the Settlement in its entirety, without modification, as being in the public interest. The standard to judge the Settlement is whether the Settlement is the public interest. As a whole, the Settlement is in the public interest. In addition, the issues raised by the Parties in this proceeding were extensively discussed in pre-served testimony that was admitted into the record. The Settlement is, therefore, also supported by substantial evidence.

The MLX Pilot Program, as modified by the Settlement, will affirmatively promote the public interest in a substantial way. The MLX Pilot Program, subject to the terms and conditions contained in the Settlement will: (1) allow eligible new customers to obtain natural gas service without paying a large up-front contribution; (2) not burden existing customers with the costs of line extensions; and (3) make gas service more readily available, thereby producing energy cost savings and other benefits for MLX customers.

The Settlement provides that MLX delivery rates will be set based upon a tiered delivery rate for each project area. The rate tier will be based upon factors including estimated investment costs, the cost of customer-owned service lines, and the number of committed customers at the time of construction. In addition, the Settlement provides that the delivery rates associated with the chosen Rate MLX tier will apply to all customers within each project area.

It is reasonable to conclude that the nine-tiered structure, as set forth in the Settlement should eliminate potential confusion that could have been created by the Company’s initial proposal, and which may assist in determining whether customers are being charged just and reasonable rates. The compromise set forth in the Settlement appears to be designed to eliminate confusion to customers and would serve the public interest.

In addition, the MLX nine-tier system is based on the minimum delivery rate tier that would be needed to cover the project investment costs. This approach will provide clarity to the costs of individual projects and how those costs are allocated to customers who will be served by each specific project.

The Settlement provides a compromise reached by the Parties to implement the Rate MLX program as a five-year pilot. Approving Rate MLX as a five-year pilot program as opposed to a permanent replacement for Rider SET, appears reasonable to implement the proposal and to provide a sufficient time period to evaluate its success. Such a proposal will permit customers and the Company to determine if the proposal is successful and therefore, under the circumstances, serves the public interest.

# N. Conclusion

This Recommended Decision has examined whether the Settlement is in the public interest, satisfies applicable statutes and regulations and is supported by substantial evidence.

In the Settlement Petition, the Parties agree that the 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 testimony and exhibits by the Parties.

The Parties point out that acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings. In addition, it appears from a reading of the initial proposal of the Company that the Settlement is the product of significant compromise by the Parties regarding various issues raised in this proceeding.

For the reasons similar to those stated by the Parties in their respective Statements in Support of the Settlement, I agree that the Settlement is in the public interest and should be approved in its entirety without modification.

# IV. Conclusions of Law

The Commission has jurisdiction over the Parties and subject matter of this proceeding. 66 Pa.C.S. § 501, *et seq*.

2. The Commission encourages parties in contested on-the-record proceedings to settle cases. 52 Pa.Code § 5.231.

3. The Joint Petition For Settlement Of All Issues that Peoples, I&E, OCA and OSBA have submitted is in the public interest.

4. The modifications agreed upon by the Parties, as set forth in the Joint Petition For Settlement Of All Issues are reasonable and appropriate.

5. The Joint Petition For Settlement Of All Issues is in the public interest.

V. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition For Settlement Of All Issues thatPeoples Natural Gas Company LLC, Peoples Natural Gas Company LLC – Equitable Division, the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate filed in the above-captioned case at Docket Nos. R-2016-2542918 and R-2016-2542923 be approved and adopted without modification.
2. That Peoples Natural Gas Company LLC, Peoples Natural Gas Company LLC – Equitable Division, the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate shall comply with the terms and conditions of the Joint Petition For Settlement Of All Issues as though each term and condition therein had been the subject of an individual ordering paragraph herein.
3. That Peoples Natural Gas Company LLC and Peoples Natural Gas Company LLC – Equitable Division, shall file the Tariff Supplements attached to the Joint Petition For Settlement Of All Issues as Appendices A and B to become effective on at least one day’s notice after entry of the Commission’s order approving the Joint Petition For Settlement Of All Issues.
4. That the complaint filed by the Office of Small Business Advocate in the Peoples Natural Gas Company LLC proceeding (R-2016-2542918) at Docket No. C-2016-2545824 is deemed satisfied.
5. That the complaint filed by the Office of Small Business Advocate in the Peoples Natural Gas Company LLC-Equitable Division proceeding (R-2016-2542923) at Docket No. C-2016-2545706 is deemed satisfied.
6. That the complaint filed by the Office of Consumer Advocate in the Peoples Natural Gas Company LLC proceeding (R-2016-2542918) at Docket No. C-2016-2547600 is deemed satisfied.
7. That the complaint filed by the Office of Consumer Advocate in the Peoples Natural Gas Company LLC-Equitable Division proceeding (R-2016-2542923) at Docket No. C-2016-2547595 is deemed satisfied.
8. That upon Commission acceptance and approval of the Joint Petition For Settlement Of All Issues, the investigations at Docket Nos. R-2016-2542918 and R-2016-2542923 be marked closed.

Date: October 7, 2016 /s/

Jeffrey A. Watson

Administrative Law Judge

1. Rate MLX is a proposed new delivery rate for main line extensions which would replace the existing pilot Rider SET and would be offered to customers wishing to convert to natural gas. The proposed rate would be set for each project area. [↑](#footnote-ref-1)