

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2017-2586310
Office of Small Business Advocate	:	C-2017-2593177
Office of Consumer Advocate	:	C-2017-2595998
Daniel Killmeyer	:	C-2017-2596020
Robert Redinger, Jr.	:	C-2017-2603594
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	
	:	
Pennsylvania Public Utility Commission	:	R-2017-2586318
Office of Small Business Advocate	:	C-2017-2593515
Office of Consumer Advocate	:	C-2017-2596006
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC –	:	
Equitable Division	:	

RECOMMENDED DECISION

Before
Jeffrey A. Watson
Administrative Law Judge

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INTRODUCTION

This Decision recommends that the Joint Petition for Settlement of the Section 1307(f) Rate Investigation be approved without modification.

I. HISTORY OF THE PROCEEDINGS

Peoples Natural Gas Company LLC (Peoples LLC or Company), acting on behalf of its Peoples Division and its Equitable Division (Peoples-Equitable or Peoples-Equitable Division), 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 LLC operates two divisions – the Peoples Division and Peoples-Equitable Division. Peoples is also an affiliate of Peoples TWP LLC (Peoples TWP). (Joint Petition, p. 2.)

The Company is a public utility and a natural gas distribution company. (Joint Petition, p. 2.)

On January 30, 2017, the Company, on behalf of Peoples Division and Peoples-Equitable Division made its purchased gas costs (PGC) 60-day pre-filings with the Pennsylvania Public Utility Commission (Commission), pursuant to 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. (Joint Petition, p. 3.)

On March 1, 2017, Peoples Division and Peoples-Equitable Division 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. (Joint Petition, p. 3.)

The Commission instituted an investigation to determine the lawfulness, justness and reasonableness of the rates proposed in the Section 1307(f) filing and to satisfy the

requirements of Sections 1307, 1317 and 1318 of the Public Utility Code (at 66 Pa.C.S.A. § 1307(f); § 1317 and § 1318), in connection with the Company's 2017 Purchased Gas Cost filing for the period ending September 30, 2017.

On March 8, 2017, the Commission's Bureau of Investigation and Enforcement (I&E) filed Notices of Appearance at Docket Nos. R-2017-2586310 and R-2017-2586318.

On March 13, 2017, the Office of Small Business Advocate (OSBA) filed Notices of Appearance and Complaints at Docket Nos. C-2017-2595998 and C-2017-2593515.

On March 23, 2017, the Office of Consumer Advocate (OCA) filed Notices of Appearance and Complaints at Docket No. C-2017-2595998 and C-2017-2596006.

On March 27, 2017, a complaint was filed by Daniel Killmeyer at Docket No. C-2017-2596020 and attached to the docket at number R-2017-2586310.

On March 31, 2017, Peoples Division and Peoples-Equitale Division filed with the Commission their definitive PGC filings, including supporting information required by the Commission's regulations, the Company's direct testimony, exhibits, and Pro Forma Tariff Supplements reflecting actual and projected changes in natural gas costs and other tariff changes.

On April 4, 2017, a prehearing conference order was entered, directing the parties to file prehearing memoranda on or before 12:00 p.m. on April 6, 2017.

In addition, on April 5, 2017, a notice was issued scheduling a prehearing conference before the undersigned presiding officer (ALJ) at 10:00 a.m. on April 7, 2017, at Piatt Place, 2nd Floor Hearing Room, Suite 220, in Pittsburgh, Pennsylvania¹ and at the Commonwealth Keystone Building, Hearing Room 3, in Harrisburg, Pennsylvania.

¹ The undersigned ALJ presided by telephone from the Pittsburgh hearing room.

On April 6, 2017, the parties filed their prehearing memoranda in compliance with the Prehearing Conference Order.

On April 6, 2017, PIOGA filed a petition to intervene in both proceedings. Without objection from any party, the petition to intervene filed by PIOGA on April 6, 2017 was granted at the prehearing conference on April 4, 2017 and was memorialized by the order entered on April 13, 2017.

A prehearing conference was held on April 7, 2017. Counsel for Peoples and Peoples-Equitable, as well as I&E, OCA, OSBA and PIOGA attended the conference.

On April 13, 2017, a prehearing order was entered that established the litigation schedule and consolidated the complaints of OCA and OSBA with the Commission's investigation. In addition, the Peoples Division and Peoples-Equitable Division PGC proceedings were consolidated with the Peoples TWP PGC proceeding at Docket No. R-2017-2586317 for purposes of hearing.

On April 20, 2017, a notice was issued and provided to the parties of record, scheduling the evidentiary hearing in this proceeding for June 5 and June 6, 2017 beginning at 10:00 a.m. each day in Harrisburg, Pennsylvania.

On April 28, 2017, a formal complaint was filed by Robert Redinger, Jr., and docketed at number C-2017-2603594 and attached to the docket at number R-2017-2586310.

On May 5, 2017, OCA, OSBA, and I&E served written direct testimony.

On May 25, 2017, Peoples and PIOGA served written rebuttal testimony.

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. On or about June 2, 2017, counsel for Peoples advised the undersigned presiding officer that the Joint Petitioners had reached a settlement in principle that resolved all issues in the Peoples PGC proceeding. Counsel for Peoples requested that the undersigned presiding officer suspend the litigation schedule.

A hearing was held on June 5, 2017, at which time the Joint Petitioners' pre-filed testimony and exhibits were admitted into the record.

On June 7, 2017, an interim order was issued that suspended the litigation schedule, canceled the evidentiary hearing for June 6, 2017, and directed the Joint Petitioners to file their signed settlement agreement and statements in support of the settlement no later than 4:00 p.m. on June 27, 2017.

On June 27, 2017, the Joint Petitioners filed their Joint Petition for Settlement with the Commission. The Joint Petition included the tariff supplements and statements in support of Settlement filed by Peoples on behalf of both Divisions, I&E, OSBA, OCA and PIOGA, attached to the Settlement as Appendices A through F. Individual Complainants Daniel Killmeyer and Robert Redinger, Jr. were not parties to the settlement petition but the certificate of service attached to the settlement petition provided that both individual Complainants were served with a copy of the Settlement Petition on June 27, 2017.

An interim order was entered on June 28, 2017, consolidating the complaints of Daniel Killmeyer filed at Docket No. C-2017-2596020 and Robert Redinger, Jr., at Docket No. C-2017-2603594 with the filing by Peoples at Docket No. R-2017-2586310. In addition, on June 28, 2017, an interim order was entered that directed Daniel Killmeyer and Robert Redinger, Jr. to file any objections to the proposed Settlement in writing and serve copies upon the undersigned presiding officer and the parties named on the Service List, not later than 3:00 p.m. on Wednesday, July 5, 2017. No objections were filed or served upon the undersigned presiding officer by Mr. Killmeyer or Mr. Redinger.

On July 7, 2017, an interim order was issued which admitted the Joint Petition for Settlement of the Section 1307(f) Rate Investigation into the record along with the attached Appendices marked as A through F, and closed the record in this proceeding.

This Recommended Decision recommends the Settlement Agreement be adopted, without modification.

II. FINDINGS OF FACT

The Settling Parties have agreed to the following findings of fact with citations to the record of admitted evidence. These findings as stipulated by the Settling Parties, provide the information necessary to support the findings of fact set forth below and are adopted without modification.

1. 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. 4; Settlement Petition ¶ 34.)

2. 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 LLC (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, p. 4; Settlement Petition ¶ 35.)

3. Over the 1307(f)-2017 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. Although these are gas purchase arrangements, Peoples treats them the same as interstate capacity because the Company requires deliveries at the respective delivery points. Therefore, Peoples would pursue firm capacity at these points if firm city-gate delivered supply was not available. (Peoples Statement No. 2, p. 14; Settlement Petition ¶ 36.)

4. Beginning December 17, 2013, when the acquisition of Equitable Gas Company (Equitable) closed, Equitrans began providing firm transportation and firm storage services from Equitrans' Allegheny Valley Connector (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. 17; Settlement Petition ¶ 37.)

5. Beginning April 1, 2014, Equitrans began providing the Peoples Division with firm transportation service under Rate Schedule FTS from Equitrans' Mainline system. 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 AVC systems. The capacity is seasonal, and the maximum daily quantity is 251,700 Dth during November through March and 62,000 Dth during April through October. (Peoples Statement No. 2, pp. 17-18; Settlement Petition ¶ 38.)

6. In addition to the Equitrans services used during the reconciliation period, Peoples acquired via capacity release from Peoples TWP 10,000 Dth/day of Equitrans Rate GSS storage deliverability and related firm transportation under Rate FTS. Peoples does not propose to acquire this service during the 1307(f)-2017 Projected Period. (Peoples Statement No. 2, p. 18; Settlement Petition ¶ 39.)

7. 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, Rate FT firm transportation service of 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 2.48 MMDth annually and up to 40,000 Dth/day of deliverability. (Peoples Statement No. 2, p. 19; Settlement Petition ¶ 40.)

8. TETCO provides Peoples with firm transportation service under Rate Schedule FT-1 and also delivers firm-to-the-city-gate purchases made by Peoples. 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 Peoples at those three points. Peoples purchases gas on TETCO and moves it over TETCO's facilities under its Rate FT-1 service agreement to the Ebensburg delivery point. Peoples also contracts for firm delivered-to-Peoples supply to meet its needs from the TETCO system at the Claysburg and Rockwood delivery points in addition to supplementing firm transportation deliveries at Ebensburg. TETCO also provides an operational balancing agreement that helps Peoples to manage the unanticipated swings in demand at its physical interconnections with TETCO. (Peoples Statement No. 2, pp. 20-21; Settlement Petition ¶ 41.)

9. Peoples had 15,650 Dths/day of FT-1 firm transportation service under contract from TETCO for the entire 1307(f)-2017 reconciliation period. These same contract

quantities are in place for the 1307(f)-2017 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. 21; Settlement Petition ¶ 42.)

10. Pursuant to the settlement approved in Peoples' 1307(f)-2016 proceeding, Peoples issued requests for proposals (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, each for up to 25,000 Dth/day. Neither of the accepted proposals incorporated a reservation fee in the charges, so Peoples decided to accept both proposals. Both of the agreements were based on Gas Daily's M-2 index price with accompanying premiums of \$0.28 and \$0.75, respectively, per Dth of purchased gas. Although the proposal with the \$0.75 premium expires this year, the proposal with the \$0.28 premium offered to extend through the 2017-2018 season with a premium of \$0.305 per Dth. Ultimately, Peoples accepted the extension offer. (Peoples Statement No. 2, p. 23; Settlement Petition ¶ 43.)

11. 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. For the next two winter seasons, Peoples satisfied its needs at this delivery point with interruptible delivered gas purchases. For the 2016-2017 season, Peoples contracted for firm delivered gas by two separate agreements for up to 3,000 Dth/day each. Like the agreements for firm, delivered gas at Ebensburg, pricing under both of these contracts was based on Gas Daily's M-2 index price with accompanying premiums per Dth of purchased gas. (Peoples Statement No. 2, p. 28; Settlement Petition ¶ 44.)

12. The Company has proposed to issue an RFP to potential suppliers for firm delivered supply on TETCO of up to 3,000 Dth/day for the winter period November 2017 through March 2018. (Peoples Statement No. 2, p. 28; Settlement Petition ¶ 45.)

13. 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, p. 24; Settlement Petition ¶ 46.)

14. 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, which is not physically integrated with the rest of the Peoples' system. (Peoples Statement No. 2, p. 29; Settlement Petition ¶ 47.)

15. During the 1307(f)-2017 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. 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. 25; Settlement Petition ¶ 48.)

16. The Company issued another RFP for firm delivered supply on Tennessee that will provide for delivery of natural gas on a firm basis at the same quantities and same Tennessee delivery points as previous years' agreements for the winter periods of November 2017 through March 2018 and November 2018 through March 2019. (Peoples Statement No. 2, p. 25; Settlement Petition ¶ 49.)

17. NFGS provides Peoples with no-notice storage service and firm transportation service under rates approved by the 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 to an 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, p. 26; Settlement Petition ¶ 50.)

18. During the entire 1307(f)-2017 reconciliation period and for the first two months of the 1307(f)-2017 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. The contracts have automatically renewed on April 1 of each year since 2003 and will renew again, effective April 1, 2017. As a result, the NFGS contracts will be in effect throughout the 1307(f)-2017 projected period. (Peoples Statement No. 2, p. 27; Settlement Petition ¶ 51.)

19. 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. 31; Settlement Petition ¶ 52.)

20. 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 would improve service reliability for both companies. Under the exchange arrangement, Peoples TWP receives gas from Peoples at interconnections 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. 33-34; Settlement Petition ¶ 53.)

21. 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. 35-36; Settlement Petition ¶ 54.)

22. Peoples has an incentive pricing program that is intended to increase receipts of locally produced gas into operationally favorable locations on lines that have limited redundancy options. Last year, Peoples, through analysis, modeling and remediation, identified Bentleyville as the area on its system where supplemental, conventional, locally-produced gas could most benefit operational reliability. During the past year, Peoples was able to address the reliability issue at Bentleyville by interconnections with other systems, negating the need to offer incentive gas pricing in the area. As conventional gas supplies continue to decline, Peoples continues to watch for areas of its system where lower gas receipts would create reliability concerns. (Peoples Statement No. 2, p. 39; Settlement Petition ¶ 55.)

23. 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. 40; Settlement Petition ¶ 56.)

24. Peoples Division and Peoples-Equitable Division purchased gas under the EQT Energy gas purchase agreements during the 1307(f)-2017 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 Equitable 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, pp. 42-43; Settlement Petition ¶ 57.)

25. 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. 49; Settlement Petition ¶ 58.)

26. The Company-wide percentage UFG was 5.5% for the 12-months ended August 31, 2016. (Peoples Statement No. 2, p. 50; Settlement Petition ¶ 59.)

27. The Company has assembled a cross-functional team to assess, analyze and take deliberate steps to mitigate UFG. The UFG team will be led by a new, senior, full-time manager with a primary job description of managing UFG activity. Peoples' immediate plan is to continue the UFG reduction initiatives described above, which have proven over time to be effective. Peoples will prioritize Enhanced Leak Repair where appropriate and replace pipelines that cannot be repaired. There have been tangible benefits including improvement in unaccounted for gas as a result of prioritizing leak repair efforts based on pressure. The Company will continue to monitor supply interconnects to ensure accurate measurement and backflow prevention equipment is effective. Peoples will also continue system segmentation efforts to identify and report unaccounted for gas based on pipeline function. (Peoples Statement No. 2, p. 51; Settlement Petition ¶ 60.)

28. 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. 12; Peoples Statement No. 3, pp. 3-4; Settlement Petition ¶ 61.)

29. During the eight-month interim period beginning February 1, 2017, and the projected 12-month period beginning October 1, 2017, when rates contained in this Settlement will be in effect,² 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, the rates to be adopted by the Commission result from Peoples Division's and Peoples-Equitable Division's 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 by the Settling Parties 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, 2017, through September 30, 2018, 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, 2017, and the 12-month application period commencing October 1, 2017, and ending September 30, 2018.³

III. DESCRIPTION AND TERMS OF THE SETTLEMENT

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

² The proposed tariff rates effective October 1, 2017, will be updated to reflect actual and projected over/undercollections through September 30, 2017, as stated in Paragraph 30 of this Settlement.

³ The Parties provided this section as a conclusion of law in the Settlement. This provision is being adopted as a finding of fact.

resolved. The Joint Petition, which is fully executed by Peoples Division, Peoples-Equitable, I&E, OCA, OSBA and PIOGA, consists of 25 pages and Appendix A through F. The appendices include the tariff supplement describing the agreed-upon rates in Appendix A, and Appendix B through F, which set forth the statements in support of settlement by Peoples Division, Peoples-Equitable, I&E, OCA, OSBA and PIOGA.

The parties also expressed their agreement with respect to the following issues: (1) Retainage and Lost and Unaccounted For Gas; (2) Sharing Mechanism; (3) NP-1 Balancing Charges; (4) Actual Gas Cost Reporting; and (5) Miscellaneous Issues. The Settling Parties have specifically agreed to the following settlement terms, as provided below, which are adopted without modification.

In addition, the Settling Parties have stipulated to facts sufficient to support the conclusion that Peoples Division and Peoples-Equitable Division have met their Section 1307(f) and Section 1318 statutory obligation. (Settlement, pp. 2-3, 8-19.) Accordingly, the Commission should approve Peoples Division's and Peoples-Equitable Division's filings as to these uncontested issues.

SETTLEMENT TERMS

A. RETAINAGE AND LOST AND UNACCOUNTED FOR GAS

1. Effective October 1, 2017, the tariffed retainage rate for all rate classes of both the Peoples and Peoples-Equitable Divisions shall be 6.4%. (Settlement Petition ¶ 24.)

2. It is acknowledged that Peoples' distribution unaccounted for gas (UFG) percentage of 2.75% for the 12-month period ending August 31, 2016, 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 distribution and gathering system UFG. The Company shall provide to Joint Petitioners by April 2, 2018, a report from its UFG team providing an analysis and recommendations to mitigate UFG, with a specific focus on the gathering system. The Company also agrees to examine this issue in its next base rate proceeding, provided that nothing in this section limits any Joint Petitioner's right to address retainage and UFG issues in future PGC or base rate proceedings. (Settlement Petition ¶ 25.)

B. SHARING MECHANISM

1. Joint Petitioners agree that the current 75% customer/25% company capacity release and off-system sales sharing mechanism shall be extended for an additional one-year period through September 30, 2018. (Settlement Petition ¶ 26.)

C. NP-1 BALANCING CHARGES

1. The Dominion Transmission, Inc. (DTI) Rate Schedule GSS deliverability and capacity costs under Contract No. 300196 and the DTI Rate Schedule FT capacity costs under Contract 200654 will be included in determining the NP-1 balancing charges commencing October 1, 2017, resulting in balancing charges of \$0.3571 for SGS and MGS customers and \$0.0920 for LGS customers, as opposed to the rates originally proposed by Peoples of \$0.3113 and \$0.0802, respectively. (Settlement Petition ¶ 27.)

D. ACTUAL GAS COST REPORTING

1. Joint Petitioners agree that in an effort to eliminate the request for waivers as part of Peoples' quarterly and annual gas cost filings, only actual gas costs will be reported in the final month of any filing. If a gas cost is not known and the estimated gas cost is less than one percent (1%) of the monthly gas costs, the Company will not record an estimated cost but rather will record the cost as zero. The Company will provide actual gas costs in the next quarterly or annual gas cost filing after the actual gas costs become available. (Settlement Petition ¶ 28.)

E. MISCELLANEOUS

1. Except as revised by this Settlement, the proposed rates and other requested approvals contained in the Company's PGC filing should be approved. (Settlement Petition ¶ 29.)

2. 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, 2017. (Settlement Petition ¶ 30.)

3. Joint Petitioners agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Statement No. 2 and related exhibits included in the 1307(f)-2017 definitive filing. (Settlement Petition ¶ 31.)

RATE IMPACT OF SETTLEMENT

Under the June 7, 2017 Interim Order, the ALJ directed the parties to set forth the following in their Joint Settlement Petition:

1. Current rates for each customer class;
2. Requested and negotiated changes in gas costs for each customer class, identified in terms of dollar amounts and percentages of increase or decrease from the current rates; and
3. Impact upon each customer class (*i.e.*, under the proposed rate each customer would have paid X, and under the agreed-upon amount, each customer will pay Y).

June 7, 2017 Interim Order, p. 6.

The requested information is set forth in the tables below:

Peoples			As-Filed		Settlement		
<u>Rate Schedule</u>	<u>Average Annual Usage (Mcf)</u>	<u>Existing Tariff Rates 1/</u>	<u>Gas Cost Change</u>	<u>Percent Change</u>	<u>Gas Cost Change</u>	<u>Annual Bill As-Filed</u>	<u>Annual Bill Settlement</u>
RS	90	\$8.1310	\$0.9853	12.1%	(\$0.0146)	\$996.24	\$994.92
Commercial SGS	282	\$6.6094	\$0.9514	14.4%	(\$0.0143)	\$2,319.63	\$2,315.60
Industrial SGS	282	\$6.1581	\$0.9514	15.4%	(\$0.0143)	\$2,256.88	\$2,252.85
Commercial MGS	4,795	\$6.3884	\$1.0129	15.9%	(\$0.0143)	\$36,459.43	\$36,390.87
Industrial MGS	4,795	\$5.6919	\$1.0128	17.8%	(\$0.0143)	\$33,119.24	\$33,050.67
Commercial LGS	50,000	\$6.4369	\$0.8761	13.6%	(\$0.0143)	\$372,517.00	\$371,802.00
Industrial LGS	50,000	\$5.7719	\$0.8760	15.2%	(\$0.0143)	\$339,262.00	\$338,547.00
1/ Peoples net billing rate effective January 1, 2017.							

Peoples-Equitable Division			As-Filed		Settlement		
<u>Rate Schedule</u>	<u>Average Annual Usage (Mcf)</u>	<u>Existing Tariff Rates 1/</u>	<u>Gas Cost Change</u>	<u>Percent Change</u>	<u>Gas Cost Change</u>	<u>Annual Bill As-Filed</u>	<u>Annual Bill Settlement</u>
RS	90	\$7.9054	\$0.9841	12.4%	(\$0.0146)	\$959.06	\$957.74
SGS	163	\$6.8806	\$0.9511	13.8%	(\$0.0142)	\$1,480.57	\$1,478.25
LGS	1,076	\$6.5680	\$1.0126	15.4%	(\$0.0143)	\$9,956.73	\$9,941.34
LGS>25,000 Mcf/Yr	50,000	\$6.4064	\$0.8758	13.7%	(\$0.0143)	\$383,310.00	\$382,595.00
1/ Peoples-Equitable Division net billing rate effective January 1, 2017.							

(Settlement Petition ¶¶ 31-33.)

CONDITIONS OF SETTLEMENT

1. The Settlement is conditioned upon the Commission’s approval of the terms and conditions contained in the Settlement without modification. The Settlement shall become effective on the date on which the Commission enters a final order that adopts the terms and conditions of the Settlement. If the Commission enters a final order that approves the Settlement, but with one or more modifications, the 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. (Settlement Petition ¶ 85.)

2. The Joint Petitioners acknowledge and agree that the 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. (Settlement Petition ¶ 86.)

3. The 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. (Settlement Petition ¶ 87.)

4. 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. The Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement the Settlement. (Settlement Petition ¶ 88.)

5. The 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. The 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. (Settlement Petition ¶ 89.)

6. 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. (Settlement Petition ¶ 90.)

IV. 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 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 October 4, 2004); *Pa. Pub. Util. Comm'n v. CS Water and Sewer Assoc.*, 74 Pa. PUC 767 (199).

Because Peoples' annual operating revenues derived from providing gas service to customers in Pennsylvania exceed \$40 million, the Company's recovery of purchased gas costs is governed by Section 1307(f) of the Code.

Sections 1318(a)(1), (2), (3) and (4), and Sections 1318(b)(1), (2) and (3) of the Code require that the Commission make the following specific findings with respect to the Company's gas procurement policy. These required findings include: a finding that the Companies have fully and vigorously represented the interests of its ratepayers before FERC and other non-commission proceedings (§ 1318(a)(1)); a finding of prudence in negotiating or renegotiating of gas supply contracts (§ 1318(a)(2)); a finding of prudence concerning efforts to obtain lower cost gas supplies, including the use of gas transportation (§ 1318(a)(3)); a finding that gas supplies have not been withheld from the market imprudently (§ 1308(a)(4)); a finding that full and vigorous attempts have been made to obtain less costly gas supplies from nonaffiliated interests (§ 1318(b)(1)); a finding that each contract for the purchase of gas from an affiliated interest is consistent with a least cost fuel procurement policy (§ 1318(b)(2)); and a finding that affiliated interests have not imprudently withheld gas from the market (§ 1318(b)(3)).

In this proceeding, the Settling Parties have stipulated to facts that support the conclusion that Peoples has complied with the requirements of Section 1318 with regard to its gas purchases and gas purchasing practices for the 12-month period ending January 31, 2017 and that the rates agreed upon are just and reasonable. (Settlement, ¶¶ 34-61, 63.)

The Settling Parties have stipulated that, as to all actual purchased gas costs in the historical period, during the 12-month period ended January 31, 2017:

a. Peoples Division and Peoples-Equitable Division met the requirements of Section 1318(a) of the Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate, and reliable service to its 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 Code relating to purchases from and services provided by entities that are considered affiliates. (Settlement, pp. 17-18.)

As the Companies presented evidence to support its Section 1307(f) and Section 1318 statutory obligations, and the Settling Parties stipulated to these issues, the Commission should approve the Settlement as to these uncontested issues, and as to the Settlement in total, without modification.

B. Statements of the Settling Parties in Support of the Settlement

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, the Settling Parties responded to numerous formal discovery requests (many of which had multiple subparts). In support of their positions, Peoples Division, Peoples-Equitable, I&E, OCA and PIOGA exchanged information or served testimony and accompanying exhibits, which were subsequently admitted into the record at the evidentiary hearing held on June 5, 2017. The Joint Petitioners participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

In addition, 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' 2017 1307(f) filings for its Peoples Division and Peoples-Equitable Division, as modified by the Settlement, should be approved.

For the Commission's consideration the parties submitted separate Statements in Support of the Settlement Petition. In their Statements, Peoples Division, Peoples-Equitable, I&E, OCA, OSBA and PIOGA conclude, after extensive discovery and discussion, that the Settlement is in the interests of the Companies and their customers, and is otherwise in the public interest.

Noting there is no opposition to the Settlement, the positions of the Settling Parties are summarized below.

C. Retainage and Unaccounted For Gas

1. Peoples' Position

a. Retainage

Retainage represents the gas that transportation customers must deliver to the system to compensate for their share of UFG and company use (CU). (I&E Statement No. 1, p. 10.) Transportation customers are required to supply gas in excess of their usage to meet this requirement. This extra gas is called retainage. (I&E Statement No. 1, p. 10.) PGC customers are not charged retainage directly because they pay for UFG and CU in their PGC rate. (I&E Statement No. 1, p. 10.)

Peoples recommended increasing the tariffed retainage rate to 6.4% for all transportation customers based on the most recent two-year average for UFG and CU and the projected level of retainage discounting. (Peoples Statement No. 1, p. 17; Peoples Exhibit No. 8.) In testimony, I&E agreed with Peoples' proposed retainage rate. (I&E Statement No. 1, p. 12.) OCA raised a concern with the level of UFG on Peoples' gathering system and argued

that transportation customers who use gas delivered through the gathering system should be assigned responsibility for UFG on Peoples' gathering system. (OCA Statement No. 1, pp. 8-9.) As a result, OCA proposed that the Company should adopt separate retainage charges for its distribution and gathering systems of 4.1% and 9.0%, respectively. (OCA Statement No. 1, p. 9; OCA Schedule JDM-2; Peoples Statement in Support pp. 3-4.)

In rebuttal, Peoples and PIOGA disagreed with OCA's recommendation. (Peoples Statement No. 4-R, p. 14; PIOGA Statement No. 1, pp. 3-4.) The Company explained that OCA's proposal fails to recognize that Peoples' gathering system is integrated with the distribution system and serves all customers who use the integrated system. (Peoples Statement No. 4-R, p. 14.) Moreover, OCA's proposal raised issues of fairness in unbundling and allocating gas costs and in upsetting the near-term expectations of transportation customers suppliers, and producers. (Peoples Statement No. 4-R, pp. 14-17.) According to Peoples, the unbundling of gathering-related costs raises complex issues and involves much more than allocating UFG to transportation customers who "use" the gathering system. (Peoples Statement No. 4-R, p. 17; Peoples Statement in Support p. 4.)

b. Unaccounted For Gas

I&E, OSBA, and OCA raised issues concerning the levels of UFG on Peoples' systems. (I&E Statement No. 1, pp. 4-9; OSBA Statement No. 1, pp. 1-4; OCA Statement No. 1, p. 9.) I&E recognized that Peoples' distribution system UFG of 2.75% for the year ended August 31, 2016, is within the third year UFG target of 4.0% established by the Commission. (I&E Statement No. 1, p. 4); *see* 52 Pa. Code § 59.111(c)(1). However, I&E urged the Company to take further steps to mitigate its UFG after observing higher levels of UFG on the gathering system and an increase in UFG on a total system basis over the past few years. (I&E Statement No. 1, pp. 5-9.) Moreover, I&E recommended that Peoples accelerate its pipeline replacement program and provide I&E and the Commission's Bureau of Technical Utility Services (TUS) with a quarterly update on UFG, which would include actual capital expenditures on pipeline replacement and retirements. (I&E Statement No. 1, pp. 8-9; Peoples Statement in Support p. 5.)

Additionally, OSBA recommended that Peoples: (1) provide an estimate of the improvements in UFG levels that may be expected over time from prioritizing existing mitigation measures in its next PGC case; or (2) sponsor an alternative mitigation plan in that proceeding that will produce measurable improvements in UFG levels. (OSBA Statement No. 1, p. 4.) OCA addressed only the gathering system UFG, characterized it as “extremely high,” and stated that it needs to be addressed by the Company. (OCA Statement No. 1, p. 9; Peoples Statement in Support p. 5.)

Peoples stated that it shares the parties’ concerns with system-wide UFG over the 2013-2016 period. (Peoples Statement No. 4-R, p. 6.) Peoples explained that the Company has assembled a cross-functional team to assess, analyze, and take action to mitigate UFG and that the Company is working on a UFG mitigation plan. (Peoples Statement No. 2, p. 51; Peoples Statement No. 4-R, p. 6; Peoples Statement in Support pp. 5-6.) Among other things, the Company’s UFG team will examine the reason that losses on the Peoples system are not linear in relation to supply. (Peoples Statement No. 4-R, pp. 6-7; Peoples Statement in Support pp. 5-6.)

Furthermore, Peoples explains it has focused resources on the following programs: (1) Enhanced Leak Repair Program designed to prioritize leaks and repair to reduce leak backlog; (2) Measurement Improvements designed to audit and improve measurement at producer interconnects; (3) studying the impact of temperature on the measurement accuracy of non-compensated meters on residential and small commercial customers; (4) evaluating interconnect improvements designed to eliminate the possibility of gas backflow; (5) pipeline improvements to abandon or replace pipelines that are obsolete or cannot be repaired; and (6) updating and analyzing segmentation models and determining if the remediation efforts are making improvements. (Peoples Statement No. 2, pp. 50-51.) Peoples’ immediate plan is to continue these UFG reduction initiatives, which have proven over time to be effective. (Peoples Statement No. 2, p. 51.) The Company will prioritize Enhanced Leak Repair, will continue to monitor supply interconnects to ensure accurate measurement and backflow prevention equipment is effective, and will continue system segmentation efforts to identify and report UFG based on pipeline function. (Peoples Statement No. 2, p. 51.) However, Peoples explains, it is

not feasible to expect immediate and significant reductions in UFG as a result of UFG mitigation efforts. (Peoples Statement No. 4-R, p. 6; Peoples Statement in Support pp. 6-7.)

In addition, Peoples responded to I&E's recommendations that the Company accelerate its pipeline replacement program and provide quarterly updates on UFG. First, Peoples explained that accelerating the pipeline replacement program would not necessarily produce immediate UFG reductions because determining which pipelines should be scheduled for replacement is contingent on a risk analysis under the Company's Long-Term Infrastructure Improvement Plan (LTIIP). (Peoples Statement No. 4-R, p. 7.) Although leakage is a relevant factor in that risk analysis, it is not the only factor. (Peoples Statement No. 4-R, p. 7.) For example, a leaking pipeline in a non-populated rural area may receive a lower risk ranking than a non-leaking pipeline in a highly populated, urban area. (Peoples Statement No. 4-R, p. 7.) According to Peoples, because less than 1% of Peoples' customers are served directly from gathering systems, it is unlikely that accelerating pipeline replacement, based on the Company's current risk analysis model, would significantly reduce UFG in the gathering system. (Peoples Statement No. 4-R, p. 7.) Thus, Peoples explains that accelerating the pipeline replacement program would not necessarily produce immediate UFG reductions. (Peoples Statement No. 4-R, p. 7; Peoples Statement in Support pp. 6-7.)

Peoples also argued that I&E's quarterly UFG report would likely be ineffective. (Peoples Statement No. 4-R, p. 8.) I&E's recommendation appeared to presume that immediate, substantial system loss reductions from individual UFG mitigation projects should appear in the quarterly reports, but that is unlikely. (Peoples Statement No. 4-R, p. 8.) The Company argues it would have difficulty accurately measuring UFG on a quarterly basis. (Peoples Statement No. 4-R, p. 8.) According to Peoples, unbilled volumes result from gas purchases being made on a calendar month basis while customers are cycle billed throughout the month. (Peoples Statement No. 4-R, p. 8.) As a result, Peoples asserts there cannot be a direct comparison of purchases and deliveries, and the differences on the delivery side must be estimated. (Peoples Statement No. 4-R, p. 8.) Peoples explains that estimation is especially difficult when the end date is a winter month, because weather differences each day makes estimation imprecise and winter heating load can cause substantial variances to the amount called UFG, since that is the fallout number

(in other words, the Company does a weather calculation to estimate unbilled volumes, and the difference is UFG). (Peoples Statement No. 4-R, p. 8.) According to Peoples, it would be virtually impossible to eliminate this effect in quarterly reports. (Peoples Statement No. 4-R, p. 8.) This is the reason that UFG is normally calculated on an annual basis for a period ending in a summer month. Also, some improvements, such as measurement, are throughput dependent, and the effects of the improvements would only show up when gas is actually flowing in significant volumes. (Peoples Statement No. 4-R, p. 8; Peoples Statement in Support p. 8.)

Further, Peoples already provides numerous reports on its pipeline replacements, including quarterly financial reports under 52 Pa.Code § 71.3 and 66 Pa.C.S. § 1358(b)(3) as well as the annual asset optimization plan required under 66 Pa.C.S. § 1356. (Peoples Statement No. 4-R, pp. 8-9.) An additional report of the same information would not help reduce UFG on the Peoples' system. (Peoples Statement No. 4-R, p. 9; Peoples Statement in Support p. 8.)

Moreover, Peoples responded to OSBA's alternative recommendations and explained that OSBA failed to recognize the difficulty in assigning expected, quantified results to specific UFG mitigation actions. (Peoples Statement No. 4-R, p. 10.) The Company explains that its system is complex, with multiple receipt points into gathering lines, with customers served from gathering lines, and with unmetered flows from gathering lines into downstream systems. (Peoples Statement No. 4-R, p. 10.) Therefore, it would be difficult to determine the cause and effect of individual mitigation actions and to match "measurable improvements" to specific components of a new mitigation plan. (Peoples Statement No. 4-R, p. 10; Peoples Statement in Support p. 8.)

Peoples responded to OCA's characterization of the gathering system having an "extremely high" level of UFG. The Company explained that high UFG on a multi-function pipeline system that includes gathering facilities, such as Peoples' system, is not unusual, particularly when compared to UFG levels on similar systems. (Peoples Statement No. 4-R; pp. 6, 10-11; Peoples Statement in Support pp. 8-9.)

2. OCA's Position

a. Retainage and Unaccounted For Gas

The Settlement provides that the tariffed retainage rate for all rate classes for both Peoples and Peoples-Equitable will be 6.4%. (Settlement ¶ 24.) It further provides that the Company has committed to continuing their efforts to reduce distribution and gathering system UFG and will provide to the parties a report from its UFG team by April 2, 2018, which will offer analysis and recommendations for mitigating UFG, with particular focus on the gathering system. In addition, the Company agrees to examine this issue in their next base rate case. (Settlement ¶ 25; OCA Statement in Support p. 3.)

In testimony, OCA proposed that the Company adopt separate retainage charges for their distribution and gathering systems. This recommendation was the result of OCA witness Mierzwa's observation that the difference in UFG percentage between the distribution system and the gathering system was sizable (2.7% and 9.2%, respectively) and that transportation customers made greater use of the gathering system than did sales customers and therefore a separate retainage charge for the gathering system was appropriate. OCA St. No. 1 at 8-9; OCA Statement in Support p. 3.)

OCA explains the Company responded with concerns over the difficulty and the alleged unfairness of separating the retainage charges between the distribution and gathering system. Peoples St. No. 4-R at 13-17. While the OCA understands the points made by the Company regarding a separation of retainage costs, the OCA nevertheless remains concerned for the level of UFG on the gathering system. In that regard, under this provision of the Settlement, the Company commit to producing a report from their UFG team for next year's PGC case that will analyze and recommend mitigation measures for UFG on their system, with specific focus on the gathering system. The Company also commits to examining this issue in its next base rate proceeding. The OCA is encouraged that Peoples has assembled a cross functional team led by a new, senior, full-time manager whose primary job description will be managing UFG activity. This level of focus on the problems with UFG, particularly on the gathering system, holds the

potential for improvement. For these reasons, the OCA supports this provision of the Settlement. (OCA Statement in Support pp. 8-9.)

3. I&E's Position

According to I&E, the Settlement acknowledges that Peoples' Lost and Unaccounted For Gas for the 12-month period ending August 31, 2016 of 2.75% on a combined basis is in compliance with 52 Pa.Code § 59.111(c)(1). As testified to by I&E witness Apetoh, (I&E Statement No. 1, pp. 4-5) Peoples' overall system Lost and Unaccounted For Gas is increasing and must be addressed, which Peoples has committed to and addressed in the testimony of Witness Kent E. Huzzey. (Peoples Statement No. 2, pp. 49-51.) This will also include a focus upon the gathering system of the Peoples' lines, which is a significant source of UFG. By and through this agreement, I&E explains this issue will be examined in the next base rate proceeding as well. Peoples further agrees to provide to the signatory parties of this agreement an analysis and recommendation to mitigate UFG by April 2, 2018. (I&E Statement in Support p. 4.)

As noted in the testimony of I&E witness Apetoh, (I&E Statement No. 1, pp. 7-8) if the current upward trend in UFG continues, I&E intends to make an adjustment to disallow recovery of certain costs in Peoples' next 1307(f) filing. This will allow the company time to address this issue while still ensuring that ratepayers are not footing the bill for continuously increasing Lost and Unaccounted For Gas. (I&E Statement No. 1, p. 8; I&E Statement in Support pp. 4-5.)

4. OSBA's Position

OSBA notes the Company's reported lost and unaccounted for gas level has steadily increased over the last three years from a low of 3.79% in 2014 to a high 5.54% in 2016 (excluding gas used for Company operations). (OSBA Statement No. 1, p. 1; OSBA Statement in Support p. 3.) OSBA witness, Brian Kalcic, recommended that the Commission direct the Company (i) to provide an estimate of the improvements in UFG levels that may be expected

over time from prioritizing existing mitigation measures in its next PGC proceeding, or (ii) to sponsor an alternative mitigation plan in that proceeding that will produce measurable improvements in UFG levels for ratepayers. (OSBA Statement No. 1, p. 1; OSBA Statement in Support p. 3.)

The OSBA determines that its concerns about the Company's UFG levels have been addressed satisfactorily in Section II.A of the Joint Petition regarding reducing distribution and gathering system UFG and providing the Joint Petitioners with a report regarding recommendations to mitigate UFG. Therefore OSBA concludes that the Settlement is therefore reasonable and in the interest of the Company's Small C&I customers. (OSBA Statement in Support p. 4.)

5. PIOGA's Position

PIOGA intervened in this proceeding because of concerns related to the measures of Peoples to address and mitigate unaccounted for gas on its pipeline systems, and the Company's retainage levels to recover its UFG expense. (PIOGA Statement in Support p. 2.)

In PIOGA's view, the agreed-upon provisions represent an appropriate response to the concerns expressed by OCA with the higher level of UFG on the Company's gathering pipelines and the OCA's proposal for separate retainage rates for the Company's distribution system and gathering system. While the OCA's proposal for a combined 13.1% retainage rate for transportation customers using the Company's gathering system if the customer was served by the Company's distribution system was not to be assessed to producers delivering into the "gathering system," the nature of the relationship between producers and other natural gas suppliers (NGSs) and retail customers means, according to PIOGA, that some portion, or all, of the increased gathering retainage charge could likely be borne by the transportation customers' producers or NGSs. PIOGA explains that this would reduce revenues to producers and NGSs that are already dealing with problems caused by Pennsylvania's low-price natural gas environment. (PIOGA Statement No. 1-R, p. 4; PIOGA Statement in Support pp. 2-3.)

In addition, as explained in both PIOGA's and the Company's rebuttal testimony, the Company's pipeline systems each do not consist of a separate and discrete "distribution system" and "gathering system." On the contrary, the Divisions' distribution and gathering pipelines and facilities are interspersed throughout the service territories to serve sales and transportation customers as an integrated operation. (PIOGA St. No. 1-R, p. 3; Peoples Statement No. 4-R p.14.) Accordingly, PIOGA asserts it would not be fair to impose on transportation customers using the gathering system additional and higher retainage charges. (PIOGA St. No. 1-R, p. 4; Peoples Statement No. 4-R, pp. 15-17; PIOGA Statement in Support p. 3.)

D. Analysis

Retainage represents the gas that transportation customers must deliver to the system to compensate for their share of UFG and CU. (I&E Statement No. 1, p. 10.) Transportation customers are required to supply gas in excess of their usage to meet this requirement. This extra gas is referred to as retainage. (I&E Statement No. 1, p. 10.) PGC customers are not charged retainage directly because they pay for UFG and CU in their PGC rate. (I&E Statement No. 1, p. 10.)

Peoples recommended increasing the tariffed retainage rate to 6.4% for all transportation customers based on the most recent two-year average for UFG and CU and the projected level of retainage discounting. (Peoples Statement No. 1, p. 17; Peoples Exhibit No. 8.) The Company explained that it discounts a customer's retainage rate when certain competitive circumstances exist and when the discount passes the established net benefit test. The discounted retainage is then recovered from other customers. (Peoples Statement No. 1, pp. 18-23.)

The Settlement adopts Peoples' proposed 6.4% retainage rate for all rate classes. In addition, in response to concerns raised by I&E, Peoples has agreed to examine UFG issues in its next base rate proceeding, provided that nothing in the Settlement provision regarding this issue limits any Joint Petitioner's right to address retainage and UFG issues in future PGC or

base rate proceedings. (Settlement ¶ 25.) I&E indicates that it supports the initiatives to reduce UFG by the Company that will be undertaken through this Settlement and believes that they are in the public interest and stresses that unless the trend of increasing UFG is halted, a financial adjustment will be made in the next PGC filing. In addition, the Joint Petitioners acknowledge that Peoples' UFG percentage for the 12-month period ending August 31, 2016, is in compliance with the Commission's regulations. Furthermore, Peoples has committed to continue its efforts to reduce UFG. Peoples will also provide the Joint Petitioners by April 2, 2018, with a report from its UFG team providing an analysis and recommendations to mitigate UFG and has agreed to examine this issue in its next base rate proceeding, provided that nothing in this section limits any Joint Petitioner's right to address retainage and UFG issues in future PGC or base rate proceedings.

Accordingly, the Settlement reflects a reasonable compromise of the parties' litigation positions and, under the circumstances, should be approved without modification.

E. Sharing Mechanism

1. Peoples' Position

Peoples currently has a mechanism under which revenues from capacity releases, off-system sales, and parks/loans are shared between Peoples and PGC customers on a 25%/75% basis. (Peoples Statement No. 1, p. 15.) The current mechanism, as approved in Peoples' 2015 PGC proceeding, is set to expire September 30, 2017. (Peoples Statement No. 1, pp. 15-16.) Peoples proposed to extend the sharing mechanism indefinitely with the condition that such extension would not prevent any party from challenging the prospective continuation of the sharing mechanism in future PGC proceedings. (Peoples Statement No. 1, p. 16; Peoples Statement in Support, pp. 9-10.)

Peoples explained that OSBA agreed that the sharing mechanism should be extended, but only through September 30, 2019. (OSBA Statement No. 1, p. 5; Peoples Statement in Support, pp. 9-10.) Under the Settlement, the current 75%/25% sharing mechanism

will be extended for an additional one-year period through September 30, 2018. (Settlement ¶ 26.) Both Peoples and OSBA agreed that the sharing mechanism should be extended, but they disagreed on the length of that extension. Therefore, this settlement provision represents a reasonable compromise of the parties' litigation positions and should be approved without modification. (Peoples Statement in Support, p. 10.)

2. OCA's Position

OCA indicated that it supports the extension of the current 75% customer-25% company capacity release and off-system sales sharing mechanism for an additional one-year period through September 30, 2018. The OCA supports this extension. (OCA Statement in Support, p. 4.)

3. I&E's Position

I&E avers that a one year extension of the company/customer capacity release sharing mechanism, which was approved by the Commission in last year's filing, will continue to provide a fair and balanced incentive to the Company while ensuring that ratepayers' interests are protected. (I&E Statement in Support, p. 5.)

4. OSBA's Position

Peoples initially proposed to extend the current sharing mechanism indefinitely, with the understanding that the extension would not preclude any party from challenging the sharing mechanism in future PGC proceedings. OSBA Statement No. 1, p. 4.) OSBA agreed that the sharing mechanism should be extended, but not indefinitely, in order to keep the burden of proof on the Company regarding all components of their annual PGC filing. OSBA witness Kalcic recommended that the sharing mechanism be extended for two years through September 30, 2019. (OSBA Statement No. 1, p. 4.) OSBA concludes that the agreed-upon one-year extension addresses the OSBA's concerns with an indefinite extension and that the Settlement is therefore reasonable and in the interest of the Company's Small C&I customers. OSBA Statement in Support, p. 4.)

5. PIOGA's Position

PIOGA did not express an opinion regarding this issue.

F. Analysis

Under the Company's current revenue sharing mechanism, set to expire on September 30, 2017, the margins generated from eligible capacity release transactions, off-system sales and parks/loans are shared between 1307(f) customers and the Company, with customers receiving 75% and shareholders retaining 25%. Under the Settlement, the current 75%/25% sharing mechanism will be extended for an additional one-year period through September 30, 2018. (Settlement ¶ 26.) Both Peoples and OSBA agreed that the sharing mechanism should be extended, but they disagreed on the length of that extension. Therefore, this settlement provision represents a reasonable compromise of the parties' litigation positions and should be approved without modification.

G. NP-1 Balancing Charges

1. Peoples' Position

According to Peoples, OCA proposed that a portion of the costs associated with its Dominion Transmission, Inc. (DTI) storage and firm transportation agreements should be included in the design of balancing charges for Non-Priority One (NP-1) transportation customers. (OCA Statement No. 1, pp. 3-7.) OCA alleged that the DTI agreements benefit both PGC and transportation customers because they were entered into to address a service reliability concern in the northern part of Equitable Division's service territory. (OCA Statement No. 1, p. 5.) Accordingly, OCA proposed that a portion of the DTI GSS deliverability (but not space) costs and the FT capacity costs be allocated to NP-1 transportation customers in proportion to their share of design day demands and that those costs be recovered through NP-1 balancing charges. (OCA Statement No. 1, p. 6; OCA Schedule JDM-1; Peoples Statement in Support, p. 10.)

Peoples explains that it accepted OCA's recommendation in principle but proposed some changes. (Peoples Statement No. 1-R, pp. 2-4.) First, rather than allocating the costs to NP-1 customers based on OCA's proposed method, the Company argued that the DTI storage-related costs should be incorporated into Peoples' established balancing charge calculation. (Peoples Statement No. 1, pp. 2-3.) Second, Peoples proposed to include the DTI GSS space costs in addition to the GSS deliverability costs and the FT capacity costs that were included in OCA's calculation. (Peoples Statement No. 1-R, pp. 3-4.) Third, Peoples averred that the associated maximum daily withdrawal quantity for the GSS contract should be included in the calculation. (Peoples Statement No. 1-R, p. 4.) The Company presented its proposed changes to the balancing charge calculation, as well as the resulting revised capacity charge calculation, in Peoples Exhibit No. 1-R; Peoples Statement in Support, pp. 10-11.)

2. OCA's Position

OCA explains the Settlement provides that the DTI Rate Schedule GSS deliverability and capacity costs under Contract 300196 and the DTI Rate Schedule FT capacity costs under Contract 200654 will be included in determining the NP-1 balancing charges beginning on October 1, 2017. OCA avers this will result in balancing charges for Rate Class SGS and MGS customers of \$0.3571 and for LGS customers of \$0.0920. These compare with the rates originally proposed of \$0.3113 for Rates SGS and MGS and \$0.0802 for Rate LGS. This provision is in direct response to the testimony of OCA witness Mierzwa in which he advocated for a portion of the DTI costs to be borne by transportation (specifically NP-1) customers by way of an adjustment to the Company's balancing charges. In its Rebuttal Testimony, Peoples St. No. 1-R, Peoples agreed in principle to the recovery of a portion of the DTI costs from NP-1 customers. However, it recommended an alternative method for calculating the balancing costs than the method offered by Mr. Mierzwa. That alternative method was detailed in Peoples St. No. 1-R. Upon review of the Company's alternative method, OCA is satisfied that the Settlement fairly assigns an appropriate portion of the DTI costs to NP-1 customers. OCA Statement in Support, pp. 4-5.)

3. I&E's Position

I&E supports the balancing charges as enumerated in the Joint Petition as in the public interest and a fair compromise of the parties. (I&E Statement in Support, p. 5.)

4. OSBA's Position

OSBA did not express an opinion regarding this issue.

5. PIOGA's Position

PIOGA did not express an opinion regarding this issue.

H. Analysis

The Settlement provides that the DTI Rate Schedule GSS deliverability and capacity costs under Contract No. 300196 and the DTI Rate Schedule FT capacity costs under Contract 200654 will be included in determining the NP-1 balancing charges commencing October 1, 2017, resulting in balancing charges of \$0.3571 for SGS and MGS customers and \$0.0920 for LGS customers, as opposed to the rates originally proposed by Peoples of \$0.3113 and \$0.0802, respectively. (Settlement ¶ 27.) Accordingly, the Settlement reflects a reasonable compromise of the parties' litigation positions regarding the NP-1 balancing charges and, therefore, should be approved without modification.

I. Actual Gas Cost Reporting

1. Peoples' Position

During this proceeding, an issue arose concerning the manner in which the Company reports actual gas costs. Section 53.64(i)(5)(i) of the Commission's regulations requires the quarterly PGC filings to be based upon a recalculation and reconciliation of gas

costs for a quarterly period commencing four months prior to the filing date. 52 Pa.Code § 53.64(i)(5)(i). In letters accompanying its previous quarterly filings, Peoples had requested, to the extent necessary, limited waivers of Section 53.64(i)(5)(i) to provide a reconciliation only for the two earliest months of the quarterly period because the processing and booking of some of the actual gas cost data for the third month was not available in time to be included in the quarterly filing. *See, e.g.*, Peoples Natural Gas Company LLC – Supplement No. 77 to Tariff Gas – PA PUC No. 45, Quarterly Recalculation of Purchased Gas Cost Rates, Docket No. R-2016-2528562 (Dec. 30, 2016); Peoples Natural Gas Company LLC – Equitable Division – Supplement No. 46 to Tariff Gas – PA PUC No. 46, Quarterly Recalculation of Purchased Gas Cost Rates, Docket No. R-2016-2529260 (Dec. 30, 2016). (Peoples Statement in Support, pp. 11-12.).

2. OCA's Position

OCA explains that the parties agree that, to eliminate the request for waivers in connection with Peoples' quarterly and annual gas cost filings, only actual gas costs will be reported in the final month of any filing. If an actual gas cost is not known and the estimated cost is below 1% of the monthly gas costs, the Company will not record an estimated cost but will record the cost as zero. Peoples will then provide the actual gas cost in the next quarterly or annual gas cost filing. OCA agrees that this will improve the accuracy of the Company's reports and eliminate the need for repeated waivers. (OCA Statement in Support, p. 5.)

3. I&E's Position

I&E strongly supports this provision of the Settlement, averring it will help to eliminate a repeated waiver to filing requirements and bring Peoples towards compliance with 52 Pa.Code § 53.64(i)(5)(i). (I&E Statement in Support, pp. 5-6.)

4. OSBA's Position

OSBA did not express an opinion regarding this issue

5. PIOGA's Position

PIOGA did not express an opinion regarding this issue

J. Analysis

As a part of the Settlement, Peoples agrees that it shall attempt to eliminate its continued request for waivers pertaining to the usage of estimates in its filings instead of actual gas costs. This will be done by reporting only actual gas costs in the final month of any filing. If the actual cost is not known and the estimate is less than a percent of the monthly gas costs, the Company will record this cost as zero and will provide actual gas costs in the next quarterly or annual gas filing when the actual numbers are available.

The Settlement reflects a reasonable compromise regarding the Company's reporting of actual gas cost data. Under the Settlement, Peoples will only report actual gas costs in any quarterly or annual gas cost filings and will not include estimated gas costs for items that are not yet final. (Settlement ¶ 28.) The Company will record the cost as zero if an actual gas cost for an item is not known and the estimated gas cost is less than 1% of the monthly gas costs. (Settlement ¶ 28.) If that is the case, the Company will provide actual gas costs in the next quarterly or annual gas cost filing after the actual gas costs become available. (Settlement ¶ 28.) This settlement provision addresses I&E's concerns about reporting estimated gas costs and should be adopted.

K. Miscellaneous

1. Peoples' Position

Peoples explains 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 ¶ 29.) Further, the proposed rates will be updated in the Company's compliance

filing to reflect actual and projected over/undercollections through September 30, 2017. (Settlement ¶ 30.) Lastly, the parties have agreed that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Statement No. 2 and related exhibits included in the definitive filing. (Settlement ¶ 31; Peoples Statement in Support, p. 12.)

2. OCA's Position

OCA notes that the Settlement at paragraph 30 provides that the Company's compliance filing in this proceeding will reflect updated actual and projected over and undercollections through September 30, 2017.

OCA further asserts that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples TWP's Statement No. 2 and related exhibits. (OCA Statement in Support, p. 5.)

3. I&E's Position

I&E explains that it supports the Settlement and believes that all issues have been satisfactorily resolved through discovery and discussions with the Peoples. (I&E Statement in Support, p. 6.)

4. OSBA's Position

OSBA did not express an opinion regarding this issue.

5. PIOGA's Position

PIOGA did not express an opinion regarding this issue.

L. Analysis

Peoples points out that the PGC and balancing rates that Peoples proposes to place into effect on October 1, 2017, 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. 1-R; Peoples Statement in Support, p.13.) Accordingly, these settlement provisions concerning Peoples' proposed PGC and balancing rates are just and reasonable and should be approved without modification.

M. Disposition of Non-Settling Parties' Interests

1. Formal Complaint of Daniel Killmeyer

On March 27, 2017, a formal complaint was filed by Daniel Killmeyer at Docket No. C-2017-2596020, opposing Peoples' proposed rate filing. Mr. Killmeyer averred that Peoples had a rate increase in the past year and that the cost of gas is lower now than in previous years. As relief, Mr. Killmeyer requests that the Commission reject what he characterized as a rate increase. Mr. Killmeyer was provided a copy of the Settlement Petition. In addition, an interim order was entered on June 28, 2017, which directed Daniel Killmeyer to file any objections to the proposed Settlement in writing and serve copies upon the undersigned presiding officer and the parties named on the service list, not later than 3:00 p.m. on Wednesday, July 5, 2017. The interim order apprised him of his opportunity to file objections to the Settlement Petition. By providing Mr. Killmeyer an opportunity to be heard, his due process rights have been fully protected. *Schneider v. Pa. Pub. Util. Comm'n*, 83 Pa.Cmwlth. 306, 479 A. 2d 10 (1984). Mr. Killmeyer did not file or serve the undersigned presiding officer with any objection to the Settlement Petition.

Section 703(a) of the Code, 66 Pa.C.S.A. § 703, provides for the dismissal of any complaint without a hearing, if in the Commission's opinion, a hearing is not necessary in the

public interest. Here, Mr. Killmeyer failed to respond to the proposed Settlement Petition by July 5, 2017, as instructed by the Interim Order dated June 28, 2017. Therefore, a hearing on his formal complaint is not necessary in the public interest.

2. Formal Complaint of Robert Redinger, Jr.

On April 28, 2017, a complaint was filed by Robert Redinger, Jr., and docketed at number C-2017-2603594, opposing Peoples' proposed rate filing. Mr. Redinger averred that the utility companies consistently and constantly want to arbitrarily raise rates even though the government reports indicate an inflation rate of 2-3 percent. He indicated that the middle class cannot afford such constant and unjustifiable rate increases. As relief, Mr. Redinger requests that the proposed rate hike be rejected. Mr. Redinger did not join in the Settlement. Mr. Redinger was provided a copy of the Settlement Petition on June 27, 2017. In addition, an Interim Order was entered on June 28, 2017, which directed Robert Redinger, Jr., to file any objections to the proposed Settlement in writing and serve copies upon the undersigned presiding officer and the parties named on the service list, not later than 3:00 p.m. on Wednesday, July 5, 2017. The Interim Order apprised him of his opportunity to file objections to the Settlement Petition. By providing Mr. Redinger an opportunity to be heard, his due process rights have been fully protected. *Schneider v. Pa. Pub. Util. Comm'n*, 83 Pa.Cmwlth. 306, 479 A. 2d 10 (1984). Mr. Redinger did not file or serve the undersigned presiding officer with any objection to the Settlement Petition.

Section 703(a) of the Code, 66 Pa.C.S.A. § 703, provides for the dismissal of any complaint without a hearing, if in the Commission's opinion, a hearing is not necessary in the public interest. Here, Mr. Redinger failed to respond to the proposed Settlement Petition by July 5, 2017, as instructed by the Interim Order dated June 28, 2017. Therefore, a hearing on his formal complaint is not necessary in the public interest.

N. Summary

The Settling Parties explain 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 (including accompanying exhibits) by the Settling Parties. In addition to informal discovery, Peoples responded to numerous formal discovery requests (many of which had multiple subparts). The active parties served testimony and accompanying exhibits supporting their respective positions, which testimony and exhibits were subsequently admitted into the record at the evidentiary hearing held on June 5, 2017.

The Settling Parties assert the Settlement is just and reasonable and Peoples' 2017 1307(f) filings, for its Peoples Division and its Peoples-Equitable Division, as modified by the Settlement, should be approved.

O. The Public Interest

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 testimony and exhibits by the Settling Parties. Acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings.

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.

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.

Commission policy promotes settlements. 52 Pa.Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time

conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa.Code § 69.401. The focus of inquiry for determining whether a proposed settlement should be recommended for approval is not a “burden of proof” standard, as is utilized for contested matters. *Pa. Pub. Util. Comm’n, et al. v. City of Lancaster – Bureau of Water*, Docket Nos. R-2010-2179103, *et al.*, Opinion and Order (entered July 14, 2011) (Lancaster). Instead, the benchmark for determining the acceptability of a settlement or partial settlement is whether the proposed terms and conditions are in the public interest. *Id.*; *citing, Warner v. GTE North, Inc.*, Docket No. C-00902815, Opinion and Order (entered April 1, 1996) (Warner); *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767 (1991).

This Recommended Decision has examined whether the Settlement is in the public interest, satisfies applicable statutes and regulations for 1307(f) filings and is supported by substantial evidence and therefore should be adopted.

In the Joint Petition, the Settling 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 Settling Parties.

The Settling Parties point out that acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings.

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 recommend that it should be approved in its entirety without modification.

Finally, as with most settlements, this Settlement is also 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 their resources, the costs of which will ultimately be borne by customers.

As such, 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 and consistent with applicable statutes governing 1307(f) filings. While none of these provisions individually is substantial, the standard to judge the Settlement is only that the Settlement be in the public interest. As a whole, the Settlement is in the public interest. The continuation and/or further refinement of certain issues is reasonable and in the public interest sufficient to support approving the Settlement without modification. In addition, the issues raised by the parties in this proceeding were extensively discussed in pre-served testimony that was admitted into the record of this proceeding. The Settlement is, therefore, also supported by substantial evidence.

V. CONCLUSION

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in the Statements in Support of Settlement filed by the Settling Parties, the proposed Settlement is in the public interest and supported by substantial evidence. The Settlement addresses all of the statutory requirements and is therefore recommended for approval in its entirety, without modification.

VI. CONCLUSIONS OF LAW

The Settling Parties have stipulated to the following Conclusions of Law, which are adopted below, without modification.

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

2. 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, 2017, 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. In addition, during the 12 months ended January 31, 2017:

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.

3. 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).

4. 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).

5. 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).

6. 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).

7. 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).

8. 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).

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

10. The Commission should approve the Joint Petition for Settlement of the Section 1307(f) Rate Investigation that Peoples Division, Peoples-Equitable Division, I&E, OCA, OSBA and PIOGA have submitted at this docket, as in the public interest.

VII. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. 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.

2. That Peoples Natural Gas Company LLC shall file tariff supplements, on behalf of its Peoples Division and Peoples-Equitable Division, to become effective on October 1, 2017, 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.

3. That Peoples Natural Gas Company LLC, including 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 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.

4. 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, 2017.

5. That the complaints filed by the Office of Small Business Advocate in these proceedings at Docket Nos. C-2017-2593177 and C-2017-2593515 be marked closed.

6. That the complaints filed by the Office of Consumer Advocate in these proceedings at Docket Nos. C-2017-2595998 and C-2017-2596006 be marked closed.

7. That the complaint filed by Daniel Killmeyer at Docket No. C-2017-2596020 is hereby dismissed and shall be marked closed.

8. That the complaint filed by Robert Redinger, Jr., at Docket No. C-2017-2603594 is hereby dismissed and shall be marked closed.

9. That upon acceptance and approval by the Commission to the tariff supplement and supporting data filed by Peoples as being consistent with this Recommended Order and the Settlement Petition, the inquiry and investigations at Docket Nos. R-2017-2586310 and R-2017-2586318 shall be terminated and the dockets marked closed.

Date: July 10, 2017

/s/
Jeffrey A. Watson
Administrative Law Judge