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File #: 172185

June 22, 2018

***VIA ELECTRONIC FILING***

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

**Re: Pennsylvania Public Utility Commission, Office of Small Business Advocate &  
Office of Consumer Advocate v. Peoples Gas Company LLC  
Docket Nos. R-2018-2645296, C-2018-3000574 & C-2018-3000497**

Dear Secretary Chiavetta:

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

Respectfully submitted;

Michael W. Hassell

MWH/jl  
Enclosures

cc: Honorable Jeffrey Watson  
Certificate of Service

**CERTIFICATE OF SERVICE**

**(Docket No. R-2018-2645296)**

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

**VIA E-MAIL & FIRST CLASS MAIL**

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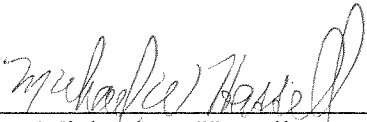
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Date: June 22, 2018

  
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Michael W. Hassell

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2018-2645296
Office of Small Business Advocate	:	C-2018-3000574
Office of Consumer Advocate	:	C-2018-3000497
	:	
v.	:	
	:	
Peoples Gas Company LLC	:	

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

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

Peoples Gas Company LLC (“Peoples Gas” or the “Company”), the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), parties to the above-captioned consolidated proceeding (hereinafter, collectively referred to as the “Joint Petitioners”), hereby file this Joint Petition for Partial Settlement of the Section 1307(f), 66 Pa.C.S. § 1307(f), Rate Investigation (“Partial Settlement”). The Joint Petitioners respectfully request that Administrative Law Judge Jeffrey A. Watson (the “ALJ”) recommend approval of, and the Commission approve, this Partial Settlement as set forth below without modification.<sup>1</sup>

As explained below, the Joint Petitioners have agreed to a settlement of most of the issues that have been raised in Peoples Gas’ 2018 Purchased Gas Cost (“PGC”) proceeding at Docket

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<sup>1</sup> The Pennsylvania Independent Oil & Gas Association (“PIOGA”) is not a party to the Partial Settlement and, while it does not oppose the settlement, it does object to the Proposed Findings of Fact, Findings and Proposed Conclusions of Law to the extent that they are inconsistent with or conflict with PIOGA’s positions on the contested producer retainage issues. Direct Energy Services, LLC (“Direct Energy”) is not a party to the Partial Settlement but has indicated that it does not object.

Nos. R-2018-2645296, C-2018-3000574, and C-2018-3000497. The issue reserved for litigation is whether a retainage charge to producers or transporters to recover gathering system unaccounted for gas (“UFG”) should be adopted in this proceeding.

Subject to the terms of the Partial Settlement and a decision on the issue reserved for litigation concerning retainage charges to recover gathering system UFG, the Joint Petitioners request that the Commission: (1) authorize Peoples Gas to file the forms of tariff supplement provided as Appendix A hereto, with rates to become effective October 1, 2018, subject to updates and tariff modifications<sup>2</sup>; and (2) make all associated findings required by Section 1307(f) and Section 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307(f), 1318. In support of this Partial Settlement, the Joint Petitioners state the following:

## **I. INTRODUCTION**

1. Peoples Gas 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 Gas is an affiliate of Peoples Natural Gas Company LLC (“Peoples”).

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

3. Because Peoples Gas’ annual operating revenues derived from providing gas service to customers in Pennsylvania exceed \$40 million, the Company’s recovery of purchased

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<sup>2</sup> The rates in Appendix A reflect the proposed gas cost rates, any quarterly rate changes that were effective March 2, 2018, and any settlement rate changes. The rates in Appendix A will be updated to reflect any changes as of October 1, 2018, when the final tariff supplements are filed.

gas costs is governed by Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code §§ 53.61-53.65, 53.68.

4. On January 31, 2018, Peoples Gas made its PGC 60-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code § 53.65.

5. On March 2, 2018, Peoples Gas made its PGC 30-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code §§ 53.64, 53.65.

6. On March 9, 2018, I&E filed a Notice of Appearance.

7. On March 15, 2018, the OCA filed a Notice of Appearance, Complaint, and Public Statement.

8. On March 20, 2018, the OSBA filed a Notice of Appearance, Complaint, Public Statement, and Verification.

9. On March 29, 2018, a Prehearing Conference Order was issued by the ALJ, directing the parties to file Prehearing Memoranda on or before 12:00 PM on April 3, 2018, and scheduling a prehearing conference to be held at 10:00 AM on April 5, 2018.

10. On April 2, 2018, Peoples Gas filed with the Commission its definitive PGC filing, including supporting information required by the Commission's regulations, Peoples Gas' direct testimony, exhibits, and Pro Forma Tariff Supplement reflecting actual and projected changes in natural gas costs and other tariff changes.

11. On April 2, 2018, PIOGA filed a Petition to Intervene.

12. On April 3, 2018, the parties submitted their prehearing memoranda.

13. The prehearing conference was held as scheduled on April 5, 2018.

14. On April 6, 2018, the ALJ issued a Prehearing Order that established the litigation schedule and consolidated the complaints of OCA and OSBA with the Commission's investigation. PIOGA's Petition to Intervene also was granted. In addition, the ALJ consolidated the Peoples Gas PGC proceeding with the PGC proceedings for Peoples Natural Gas' Peoples and Peoples-Equitable Divisions at Docket Nos. R-2018-2645278 and R-2018-3000236 for purposes of hearing.

15. On April 30, 2018, Direct Energy Business Marketing, LLC ("Direct Energy") filed a Petition to Intervene.

16. On May 3, 2018, OCA, I&E, and PIOGA served written direct testimony.

17. On May 9, 2018, the ALJ issued an Interim Order granting Direct Energy's Petition to Intervene.

18. On May 23, 2018, Peoples Gas, OSBA, and PIOGA served written rebuttal testimony.

19. On May 31, 2018, Peoples Gas, OCA, I&E, and PIOGA served written surrebuttal testimony.

20. In accordance with the Commission's Rules of Practice and Procedures, 52 Pa. Code § 5.231, the parties engaged in settlement discussions. As a result of those conferences, the Joint Petitioners were able to reach a settlement in principle of all issues, except proposed retainage charges for UFG on the gathering system.

21. A hearing was held on June 4, 2018, at which time the Joint Petitioners' pre-filed testimony and exhibits were admitted into the record, and certain witnesses were cross-examined about the issue reserved for litigation.

22. The Joint Petitioners are in full agreement that the Partial Settlement is in the best interest of Peoples Gas, the Joint Petitioners, and Peoples Gas' customers.

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

## II. SETTLEMENT TERMS

### A. LOST AND UNACCOUNTED FOR GAS

24. Peoples Gas will be subject to a gathering UFG target ("UFG target") of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021.

25. There will be no adjustment for gathering system UFG for the year ending August 31, 2017, and no gathering UFG target for the year ending August 31, 2018.

26. In evaluating whether the gathering UFG target is achieved, there will be volumetric credits for (1) actual producer retainage charges or (2) any additional gathering retainage charges approved because producer retainage charges are not approved by the Commission.

27. Exceedances of the gathering UFG target after reflection of the above credits will create a rebuttable presumption that the excess is unreasonable. That presumption may be rebutted by a demonstration that Peoples Gas has taken reasonable actions to reduce gathering UFG and/or demonstration that other factors, such as but not limited to, production on the gathering systems has declined thereby increasing the percentage of gathering UFG experienced. The overall level of Peoples Gas' UFG will also be considered.

28. Peoples Gas will aggressively implement the Peoples Companies' Combined UFG Mitigation Plan to Address Gathering Pipelines ("UFG Mitigation Plan") presented in this proceeding, including: (1) the "find-it / fix it" program under which bare steel gathering lines

will be leak surveyed on an annual basis and found leaks will be prioritized for repair, and (2) the plan to remove and replace at-risk gathering pipelines.

29. In order to ensure ongoing safe operations of all gathering facilities, Peoples Gas agrees to continue the practice of treating all non-jurisdictional (DOT) gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program. This would include damage prevention locates, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys.

**B. CALCULATION OF RETAINAGE CHARGE**

30. Peoples Gas' method of calculating its retainage charge with respect to storage losses and company-use gas will be maintained. This agreement is for purposes of settlement of the current case only and this matter may be revisited in future PGC cases.

**C. MISCELLANEOUS**

31. Except as revised by this Partial Settlement and subject to a decision on the issue reserved for litigation (*i.e.*, gathering system retainage), the proposed rates and other requested approvals contained in the Company's PGC filing should be approved.

32. 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, 2018.

33. 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 Gas Statement No. 2 and related exhibits included in the 1307(f)-2018 definitive filing.

### III. RATE IMPACT OF PARTIAL SETTLEMENT

34. In previous proceedings, the ALJ has directed the parties to set forth the following in their Joint Settlement Petitions:

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).

35. Consistent with past proceedings, the requested information is set forth in the tables below:

<u>Peoples Gas</u>	Existing	As-Filed		Settlement	Annual Bill	Annual Bill
<u>Rate Schedule</u>	<u>Tariff Rates</u>	Gas Cost	Percent	Gas Cost	<u>As-Filed</u>	<u>Settlement</u>
	<u>1/</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>		
RS	\$11.5505	(\$0.5800)	-5.0%	\$0.0000	\$1,091.75	\$1,091.75
SGS	\$9.2255	(\$0.5751)	-6.2%	\$0.0000	\$2,305.08	\$2,305.08
MGS	\$9.0214	(\$0.5632)	-6.2%	\$0.0000	\$28,853.13	\$28,853.13
LGS < 100,000 Mcf/yr	\$8.0549	(\$0.5954)	-7.4%	\$0.0000	\$33,216.78	\$33,216.78

1/ PG net billing rate effective January 1, 2018.

### IV. PROPOSED FINDINGS OF FACT

36. Peoples Gas pursues its goal of least cost reliable service through a combination of local and interstate assets and supplies. The local assets consist of gas purchase agreements for Local Pennsylvania Gas produced directly into the Company's pipeline system ("Local Pennsylvania Gas") and Company-owned on-system storage fields. The Local Pennsylvania Gas

represents a significant portion of the annual supply needs of the system, while the on-system storage has limited supply capacity and is, therefore, utilized more for meeting the system's short-term peak requirements. (Peoples Gas Statement No. 2, p. 4.)

37. Peoples Gas' interstate assets consist of a portfolio of transportation and storage services that Peoples Gas has contracted for with various Federal Energy Regulatory Commission ("FERC")-regulated pipelines, including Dominion Energy Transmission, Inc. ("DETI"), Texas Eastern Transmission LP ("TETCO"), Columbia Gas Transmission, LLC ("TCO") and Equitrans L.P. ("Equitrans"). The Company also has interconnects with Tennessee Gas Pipeline Company, LLC ("TGP"), but does not currently contract for either transportation or storage services on TGP. Those assets give Peoples Gas access to a variety of locations at which it can receive gas supplies that are produced upstream of the Peoples Gas system. The interstate storage assets allow Peoples Gas to use its upstream assets more efficiently, mitigate the effects of price swings in the natural gas market and enhance the deliverability of Peoples Gas' interstate natural gas supplies during periods of peak demand. Peoples Gas' interstate supplies are gas that it purchases from suppliers upstream of the Peoples Gas system for delivery into various receipt points of the interstate pipelines. (Peoples Gas Statement No. 2, pp. 4-5.)

38. Over the 1307(f)-2018 reconciliation period, Peoples Gas' interstate capacity portfolio included: (1) interstate pipeline transportation and storage services from Equitrans; (2) interstate pipeline transportation and storage services from DETI; (3) interstate pipeline transportation service from TETCO; and (4) interstate pipeline transportation and storage services from TCO. (Peoples Gas Statement No. 2, p. 16.)

39. On December 10, 2013, as set forth in the application proceeding at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651 and approved by Order entered

November 14, 2013 (“Equitable Acquisition”), the Company entered into a firm storage agreement under Equitrans Rate Schedule 60SS and a no-notice firm transportation agreement under Equitrans Rate Schedule NOFT. The rates for both the storage and firm transportation service are negotiated rates that are less than the Equitrans recourse rates for the services and less than the current cost for this same capacity under the existing TCO and DETI agreements. Through the Commission Order referenced above, Peoples Gas received approval of the Equitrans storage and transportation agreements pursuant to Section 2204(e)(4) of the Public Utility Code, 66 Pa.C.S. § 2204(e)(4). (Peoples Gas Statement No. 2, pp. 17-18.)

40. The Equitrans contracts provided peak demand period daily deliverability of 27,500 Dth and storage capacity of 1,500,000 Dth for the storage withdrawal period of November 1, 2014, through March 31, 2015. The deliverability under these contracts increased to 33,917 Dth and storage capacity increased to 1,850,000 Dth for the withdrawal period of November 1, 2015, through March 31, 2016. Effective April 1, 2018, the daily deliverability under these contracts increased to 44,917 Dth and storage capacity increased to 2,450,000 Dth. Effective April 1, 2022, the daily deliverability under these contracts will increase to 72,417 Dth and storage capacity will increase to 4,000,000 Dth. (Peoples Gas Statement No. 2, p. 18.)

41. Peoples Gas is proposing for the projected period to assign to Peoples Natural Gas via capacity release 10,000 Dth/day of Equitrans services for a one-year period. These services would be a portion of the storage and related firm transportation services that Peoples Gas currently has under contract with Equitrans, and the assignment would consist of 545,455 Dth of storage capacity under Rate GSS which has a maximum daily withdrawal quantity of 10,000 Dth/day, and 10,000 Dth/day of firm transportation under Rate FTS. Peoples Gas would release this capacity to Peoples Natural Gas at the same rates that Peoples Gas pays for the services.

Proceeds from this release would not be included in Peoples Gas' capacity release sharing mechanism. (Peoples Gas Statement No. 2, p. 19.)

42. For the 1307(f)-2018 reconciliation period, Peoples Gas had 10,000 Dth/day of FT firm transportation service, 35,000 Dth/day of FT-GSS firm transportation service, and 45,000 Dth/day of GSS firm storage service under contract from DETI. (Peoples Gas Statement No. 2, p. 21.)

43. Peoples Gas largely intends to use the same DETI services during the projected period. However, 10,000 Dth/day of DETI GSS firm deliverability capacity and 600,000 Dth of related storage capacity expired on March 31, 2018. Also, Peoples Gas is not proposing for the projected period to release 10,000 Dth/day of DETI services for a one year period as it did last year. (Peoples Gas Statement No. 2, p. 22.)

44. TETCO provides Peoples Gas with firm transportation service of 10,000 Dths/day under Rate Schedule FT-1. Peoples Gas purchases gas on TETCO's market zone M-2 and moves it over TETCO's facilities to an interconnection at Delmont, Westmoreland County, which is also in market zone M-2. This negotiated rate agreement which commenced on November 1, 2015, and expires on October 31, 2030, allows the Company to purchase gas in a very liquid and competitively low-priced commodity market and deliver it to the southern part of the Peoples Gas system to support service to the Allegheny Valley. (Peoples Gas Statement No. 2, p. 23.)

45. For the 1307(f)-2018 reconciliation period, TCO provided Peoples Gas firm transportation service under Rate FTS of up to 3,257 Dth/day. TCO also provided firm storage service under Rate GSS and related firm transportation service under Rate SST of up to 10,807 Dth/day with a total storage capacity of 609,827 Dth. (Peoples Gas Statement No. 2, p. 24.)

46. Peoples Gas currently owns and operates four storage fields which have 567,000 Mcf of combined storage capacity and 19,800 Mcf of maximum daily withdrawal capacity. (Peoples Gas Statement No. 2, p. 26.)

47. Peoples Natural Gas and Peoples Gas have a gas exchange agreement that provides for an exchange of equivalent volumes between Peoples Natural Gas and Peoples Gas 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 Gas receives gas from Peoples Natural Gas at interconnections located in Mars, PA and Indiana, PA. In exchange, Peoples Natural Gas receives equivalent volumes of gas from Peoples Gas at various interconnections. (Peoples Gas Statement No. 2, pp. 28-29.)

48. Peoples Gas has traditionally used gas produced locally in Pennsylvania as the source of supply for base system supply requirements. This is due in large part to the operating characteristics of the Peoples Gas system, where gas produced from shallow conventional gas wells, located primarily on the eastern side of the pipeline system, is transported across the Peoples Gas system at a relatively constant flow into the distribution facilities serving ratepayers. The delivery of shallow gas is then supplemented during periods of peak demand by interstate pipeline gas that is delivered into the Company's Large Volume Pipelines and delivered to the same distribution facilities. (Peoples Gas Statement No. 2, pp. 30-31.)

49. Peoples Gas 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. Two years ago, Peoples Gas, through analysis, modeling and remediation, identified Punxsutawney as the area on its system where supplemental, locally-produced gas

could most benefit operational reliability. Peoples Gas continues to work with producers in the Punxsutawney area to increase the availability to Peoples Gas of local, conventionally-produced supplies. (Peoples Gas Statement No. 2, p. 34.)

50. Along with its local gas supplies, spot market purchases are the supplies that Peoples Gas uses to meet the demands of those customers who continue to buy their supplies from Peoples Gas. These are also the supplies that Peoples Gas uses its various interstate pipeline assets to transport and store. (Peoples Gas Statement No. 2, pp. 34-35.)

51. 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. (I&E Statement No. 1, p. 3.)

52. For the period ending August 31, 2017, the overall Peoples Gas system loss was 1.7 Bcf, which results in an overall system loss rate of 6.8%. Applying the blending gathering loss rate to all local production areas, the remaining loss for distribution only systems was found to be 590 MMCF/year or 2.47%. (Peoples Gas Statement No. 1, p. 12.)

53. For the first time since the Commission required UFG reporting in 2014, the 2017 UFG report for Peoples Gas has segmented the loss of the gathering pipelines from the other functional pipeline systems. Through segmentation and other identification initiatives, Peoples Gas isolated the loss on gathering. (Peoples Gas Statement No. 1, p. 12.)

54. The Company agreed with the parties in the Company's 2017 PGC settlement to "provide to Joint Petitioners by April 2, 2018, a report from its UFG team providing an analysis and recommendations to mitigate UFG." (Peoples Gas Statement No. 1, pp. 12-13)

55. In this proceeding, the Peoples Companies submitted their UFG Mitigation Plan, in which they have identified additional UFG mitigation measures that especially focus on reductions in the gathering systems. (Peoples Gas Statement No. 1, p. 13; Peoples Gas Exhibit No. 2)

56. Peoples Gas monitors and participates in various proceedings before the FERC. Peoples Gas undertakes legal action as necessary to protect the interests of its ratepayers. (Peoples Gas Exhibit No. 15; Peoples Gas Statement No. 3, pp. 3-4.)

## **V. STANDARDS, FINDINGS, AND PROPOSED CONCLUSIONS OF LAW**

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

58. With respect to Peoples Gas' gas purchases and gas purchasing practices during the 12-month historical reconciliation period ended January 31, 2018, it is requested that the ALJ and the Commission find that Peoples Gas has met the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that during the 12 months ended January 31, 2018:

- a. Peoples Gas met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate, and reliable service to its customers; and
- b. All gas exchanges by Peoples Gas 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.

59. Peoples Gas has fully and vigorously represented the interests of its 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).

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

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

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

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

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

65. During the eight-month interim period beginning February 1, 2018, and the projected 12-month period beginning October 1, 2018, when rates contained in this Partial

Settlement will be in effect,<sup>3</sup> it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning Peoples Gas' projected purchases and purchasing policies, that the rates to be adopted by the Commission result from Peoples Gas' compliance with the provisions of Section 1318 of the Public Utility Code, including subsections (a)(1)-(4) and (b)(1)-(3). 66 Pa. C.S. § 1318(a)(1)-(4), (b)(1)-(3). It is expressly understood and agreed that this finding is made solely for the purpose of setting prospective rates that shall continue to be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, and to further review in an appropriate future proceeding. This provision is not intended to limit or prevent the parties from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether Peoples Gas' gas purchases and gas purchasing practices complied with Section 1318. If in an appropriate future proceeding Peoples Gas' gas purchases and gas purchasing practices from February 1, 2018, through September 30, 2019, 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, 2018, and the 12-month application period commencing October 1, 2018, and ending September 30, 2019.

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

## **VI. PROPOSED ORDERING PARAGRAPHS**

67. That the Partial Settlement among Peoples Gas Company LLC, the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer

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<sup>3</sup> The proposed tariff rates effective October 1, 2018, will be updated to reflect actual and projected over/undercollections through September 30, 2018, as stated in Paragraph 32 of this Partial Settlement.

Advocate, and the Office of Small Business Advocate in the above-captioned case is hereby approved and adopted.

68. That Peoples Gas shall file a tariff supplement to become effective on October 1, 2018, on not less than one-day's notice of the final Commission order approving the Partial Settlement, containing changes in rates to provide for the recovery of its costs of purchased gas, consistent with the terms and conditions of the Partial Settlement and the resolution of the issue reserved for litigation.

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

70. That upon Peoples Gas Company LLC's filing of a tariff supplement acceptable to the Commission as conforming with this order and the Partial Settlement and the Commission's approval thereof, the purchased gas rates established therein shall become effective for service rendered on and after October 1, 2018.

71. That the complaint filed by the Office of Small Business Advocate in this proceeding at Docket No. C-2018-3000574 be marked closed.

72. That the complaint filed by the Office of Consumer Advocate in this proceeding at Docket No. C-2018-3000497 be marked closed.

73. That the investigation at Docket No. R-2018-2645296 be marked closed.

## **VII. THE PUBLIC INTEREST**

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

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

76. The Partial 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.

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

## **VIII. CONDITIONS OF PARTIAL SETTLEMENT**

78. This Partial Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Partial Settlement without modification. This Partial Settlement shall become effective on the date on which the Commission enters a final order that adopts the terms and conditions of this Partial Settlement. If the Commission enters a final order that approves this Partial Settlement, but with one or more modifications, this Partial Settlement shall nonetheless become effective unless one or more of the Joint Petitioners elects to withdraw from the Partial 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 Partial Settlement. In such event, the Partial Settlement shall be void and of no effect.

79. The Joint Petitioners acknowledge and agree that this Partial 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.

80. This Partial Settlement is proposed by the Joint Petitioners to settle all of their issues in the instant proceeding, with the exception of the issue reserved for litigation. If the Commission does not approve the Partial 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 Partial 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.

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

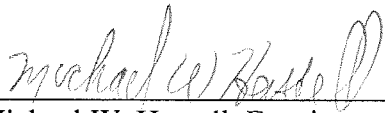
82. This Partial Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Partial Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without 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 Partial Settlement. This Partial 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.

**IX. CONCLUSION**

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

Respectfully submitted,

  
\_\_\_\_\_  
Michael W. Hassell, Esquire  
Devin T. Ryan, Esquire  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601

Date: June 22, 2018

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

*For Peoples Gas Company LLC*

David T. Evrard

Date: 6/22/18

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*For Office of Consumer Advocate*

Gina L. Miller

Date: JUNE 22, 2018

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*For Bureau of Investigation and Enforcement*

Elizabeth Rose Triscari

Date: June 22, 2018

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300 North Second Street, Suite 1102  
Harrisburg, PA 17101

*For Office of Small Business Advocate*

# Appendix A

PEOPLES GAS COMPANY LLC

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RATES, RULES AND REGULATIONS  
FOR NATURAL GAS SERVICE  
IN TERRITORY DESCRIBED HEREIN

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

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

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1307(f)-2018 Annual Gas Cost Filing

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ISSUED BY:

LYNDA W. PETRICHEVICH  
VICE PRESIDENT – REGULATORY AFFAIRS  
PEOPLES GAS COMPANY LLC  
205 NORTH MAIN STREET  
BUTLER, PENNSYLVANIA 16001

**LIST OF CHANGES MADE BY THIS TARIFF**

	<u>Current</u>	<u>Proposed</u>	<u>Increase/ (Decrease)</u>
<b>Rider PGC</b>			
<b><u>Rate RS, SGS, MGS, LGS, NGPV</u></b>			
Capacity Charge			
RS	\$1.0119	\$0.8547	(\$0.1572)
SGS	\$1.0161	\$0.8547	(\$0.1614)
MGS	\$1.0065	\$0.8547	(\$0.1518)
LGS	\$1.0387	\$0.8547	(\$0.1840)
Gas Cost Adjustment Charge	\$0.5648	\$0.0924	(\$0.4724)
Natural Gas Supply Charge	\$2.5585	\$2.6195	\$0.0610
<b><u>Rider MFC – Merchant Function Charge</u></b>			
Rate RS	\$0.0827	\$0.0713	(\$0.0114)
Rate SGS	\$0.0169	\$0.0146	(\$0.0023)
<b><u>Balancing Charges</u></b>			
SGS	\$0.2833	\$0.3847	\$0.1014
MGS	\$0.1964	\$0.2955	\$0.0991
LGS	\$0.1760	\$0.2490	\$0.0730

PEOPLES GAS COMPANY LLC

SUPPLEMENT NO. \_\_\_ TO GAS—PA PUC NO. 8  
 CANCELLING \_\_\_\_\_ REVISED PAGE NO. 12  
 \_\_\_\_\_ REVISED PAGE NO. 12

	Rider PGC - Gas Cost Charges	Base Rate	Rider STA	Rider MFC	Rider USP	Rider GPC	Rider ARC	Rider Supplier	Rider DSIC	Bill Display
	GCA (2)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	Total Rate
	(3)									(12=SUM 1 to 11)
<b>Residential - Sales</b>										
Customer Charge		\$ 15.7500					\$ (0.6944)	0.0445		\$ 15.1001
Demand/Capacity										
PTC - Commodity Charge	\$ 0.8547		\$ 0.0171							\$ 0.8718
Delivery Charge	\$ 0.0924	\$ 2.6195	\$ 0.0542	\$ 0.1400						\$ 2.9061
Total per MCF	\$ 0.9471	\$ 2.6366	\$ 0.0685	\$ 0.1400			\$ (0.2731)			\$ 2.9061
<b>SGS - Sales</b>										
Customer Charge		\$ 35.0000					\$ (0.8243)	0.0445		\$ 34.2202
0 to 499 MCF/Yr		\$ 65.0000					\$ (0.8243)	0.0445		\$ 64.2202
500 to 999 MCF/Yr										
Demand/Capacity 1/	\$ 0.3847									\$ 0.3847
Price-to-Compare Charge 1/	\$ 0.4700	\$ 0.0924	\$ 2.6195	\$ 0.0146		\$ 0.1400				\$ 3.3365
Delivery Charge		\$ 5.1008	\$ 0.0029	\$ (0.1745)						\$ 4.9292
Total per MCF	\$ 0.8547	\$ 7.8127	\$ 2.6344	\$ 0.0146		\$ 0.1400	\$ (0.1745)			\$ 8.6504
<b>MGS - Sales</b>										
Customer Charge		\$ 75.0000					\$ (2.1273)			\$ 72.8727
1,000 to 2,499 MCF/Yr		\$ 175.0000					\$ (2.1273)			\$ 172.8727
2,500 to 24,999 MCF/Yr										
Demand/Capacity 1/	\$ 0.2955									\$ 0.2955
Price-to-Compare Charge 1/	\$ 0.5592	\$ 0.0924	\$ 2.6195			\$ 0.1400				\$ 3.4111
Delivery Charge		\$ 4.8604	\$ 0.0029	\$ (0.1117)						\$ 4.7516
Total per MCF	\$ 0.8547	\$ 7.5723	\$ 2.6224	\$ 0.0029			\$ (0.1117)			\$ 8.4582
<b>LGS - Sales &lt; 100,000 Mcf/Yr</b>										
Customer Charge		\$ 800.0000								\$ 800.0000
25,000 to 49,999 MCF/Yr		\$ 1,500.0000								\$ 1,500.0000
50,000 to 99,999 MCF/Yr										
Demand/Capacity 1/	\$ 0.2490									\$ 0.2490
Price-to-Compare Charge 1/	\$ 0.6057	\$ 0.0924	\$ 2.6195			\$ 0.1400				\$ 3.4576
Delivery Charge		\$ 3.7500	\$ 0.0029							\$ 3.7529
Total per MCF	\$ 0.8547	\$ 6.6923	\$ 2.6224							\$ 7.4595
<b>LGS - Sales &gt; 100,000 Mcf/Yr</b>										
Customer Charge		\$ 5,000.0000								\$ 5,000.0000
100,000 to 199,999 MCF/Yr		\$ 7,500.0000								\$ 7,500.0000
Over 200,000 MCF/Yr										
Demand/Capacity 1/	\$ 0.2490									\$ 0.2490
Price-to-Compare Charge 1/	\$ 0.6057	\$ 0.0924	\$ 2.6195			\$ 0.1400				\$ 3.4576
Delivery Charge		\$ 0.9988	\$ 0.0029							\$ 1.0017
Total per MCF	\$ 0.8547	\$ 4.7490	\$ 2.6224							\$ 4.7083

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

ISSUED:

EFFECTIVE:

Retainage Charge
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	Base Rate Charges (1)	Rider STA (2)	Rider USR (3)	Rider Capacity (4)	BB&A (5)	Rider ARC Rate Credit (6)	Rider Supplier Choice (7)	Rider DSIC (8)	Bill Display Total Rate (9=SUM 1 to 8)
<b>Rate RS-T (Transportation Service)</b>									
Customer Charge	\$ 15.7500					\$ (0.6944)	\$ 0.0445	\$ -	\$ 15.1001
Demand/Capacity				\$ 0.8547					\$ 0.8547
Delivery Charge	\$ 6.7743	\$ 0.0029	\$ 0.6885		\$ (0.2731)				\$ 7.1926
Total per MCF									\$ 8.0473
<b>Rate SGS-T (Transportation Service)</b>									
Customer Charge									
0 to 499 MCF/Yr	\$ 35.0000				\$ (0.8243)	\$ 0.0445			\$ 34.2202
500 to 999 MCF/Yr	\$ 65.0000				\$ (0.8243)	\$ 0.0445			\$ 64.2202
BB&A 1/				\$ 0.3847					\$ 0.3847
Delivery Charge	\$ 5.1008	\$ 0.0029			\$ (0.1745)				\$ 4.9292
Total per MCF									\$ 5.3139
<b>Rate MGS-T (Transportation Service)</b>									
Customer Charge									
1,000 to 2,499 MCF/Yr	\$ 75.0000				\$ (2.1273)				\$ 72.8727
2,500 to 24,999 MCF/Yr	\$ 175.0000				\$ (2.1273)				\$ 172.8727
BB&A 1/				\$ 0.2955					\$ 0.2955
Delivery Charge	\$ 4.8604	\$ 0.0029			\$ (0.1117)				\$ 4.7516
Total per MCF									\$ 5.0471
<b>Rate LGS-T (Transportation Service)</b>									
Customer Charge									
25,000 to 49,999 MCF/Yr	\$ 800.0000								\$ 800.0000
50,000 to 99,999 MCF/Yr	\$ 1,500.0000								\$ 1,500.0000
BB&A 1/				\$ 0.2490					\$ 0.2490
Delivery Charge	\$ 3.7500	\$ 0.0029							\$ 3.7529
Total per MCF									\$ 4.0019
<b>Rate LGS-T (Transportation Service)</b>									
Customer Charge									
100,000 to 199,999 MCF/Yr	\$ 5,000.0000								\$ 5,000.0000
Over 200,000 MCF/Yr	\$ 7,500.0000								\$ 7,500.0000
BB&A				\$ 0.2490					\$ 0.2490
Delivery Charge	\$ 0.9988	\$ 0.0029							\$ 1.0017
Total per MCF									\$ 1.2507

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

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

# Appendix B

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2018-2645296
Office of Small Business Advocate	:	C-2018-3000574
Office of Consumer Advocate	:	C-2018-3000497
	:	
v.	:	
	:	
Peoples Gas Company LLC	:	

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**PEOPLES GAS COMPANY LLC'S  
STATEMENT IN SUPPORT OF THE  
JOINT PETITION FOR PARTIAL SETTLEMENT**

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**I. INTRODUCTION**

Peoples Gas Company LLC (“Peoples Gas” or the “Company”) submits this Statement in Support of the Joint Petition for Partial Settlement (“Partial Settlement”) in the above-captioned proceeding.

**II. THE PARTIAL SETTLEMENT**

**A. LOST AND UNACCOUNTED FOR GAS**

1. The principal issue in this proceeding is Unaccounted For Gas (“UFG”) sometimes referred to as Lost and Unaccounted For Gas (“LUFG”). As part of its filing in this proceeding, and as provided in the 2017 Purchased Gas Cost (“PGC”) settlements, Peoples Gas and Peoples Natural Gas Company LLC (“Peoples Natural Gas”) (collectively the “Peoples Companies”) submitted a detailed Combined UFG Mitigation (“UFG Mitigation Plan”) in their respective PGC proceedings. (See Peoples Gas Exhibit No. 2) The Company explained that UFG on the Peoples Companies’ distribution systems had been reduced to 2.42% for Peoples Natural Gas and 2.4% for Peoples Gas, both well below the Pennsylvania Public Utility Commission (“Commission”) standard of 3.5%. (Peoples Gas Statement No. 5-R, p. 9, lines 20-

23). Therefore, the UFG Mitigation Plan was focused on the Peoples Companies' extensive gathering systems that collected conventional or shallow gas to serve their customers.

2. Peoples Gas also proposed a charge to conventional gas producers that is designed to recover some of the gas lost on the gathering system. (Peoples Gas Statement No. 1, p. 13, lines 23-24) This charge is referred to as a producer retainage charge and is the subject of the remaining litigation in this proceeding. This charge, if adopted, would reduce the amounts charged to customers for gas lost on the gathering systems.<sup>1</sup> (Peoples Gas Statement No. 3, p. 3, lines 11-17)

3. The Commission's Bureau of Investigation and Enforcement ("I&E") proposed that a cap of 8% be applied to the amount of lost gas on the gathering system and that this cap be reduced over time. (I&E Statement No. 1, p. 11, line 12 to p. 12, line 13) The Company opposed this cap, noting, among other things, its focus on distribution system repairs to maximize the safety of customers. (Peoples Gas Statement No. 1-R, p. 3, line 1 to p. 14, line 15; Peoples Gas Statement No. 5-R, p. 4, line 5 to p. 19, line 22)

4. In this regard, under current ownership, the Peoples Companies have significantly increased capital spending on the distribution systems. Specifically, for the five years prior to the acquisitions of the Peoples Companies' and the current five-year period of 2014-2018, Peoples Natural Gas increased its capital spending from \$201.1 million to \$465.2 million (131% increase), Peoples-Equitable Division increased its capital spending from \$165.5 million to \$297.3 million (80% increase), and Peoples Gas increased its capital spending from \$49.3 million to \$102.6 million (108% increase). (Peoples Gas Statement No. 5-R, p. 5, line 25 to p. 7, line 1) These expenditures, along with additional maintenance expenditures, have substantially

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<sup>1</sup> The Office of Consumer Advocate ("OCA") supports the Company's producer retainage charge. (OCA Statement No. 1, p. 10, lines 9-11) If the Company's proposal is not adopted, the OCA recommends that increased retainage charges to transportation customers be adopted. (OCA Statement No. 1, p. 11, lines 2-16)

reduced UFG on the Peoples Companies' distribution systems and improved the safety of these systems. (Peoples Gas Statement No. 5-R, p. 5, line 21 to p. 9, line 23)

5. Further, the Peoples Companies are proposing an additional \$21.5 million of capital expenditures on the gathering systems over the next four years and further study of the various segments on these systems to determine the best plan for UFG reductions on the gathering systems. (Peoples Gas Statement No. 1-R, p. 3, lines 10-12; Peoples Gas Exhibit No. 2)

6. Based on this exchange of testimony and settlement discussions, the Parties were able to develop a settlement that is designed to further reduce UFG on the Company's gathering system. The settlement of these issues is contained in Section II.A. of the Partial Settlement, Paragraphs 24 through 29, and is repeated here for convenience of the Administrative Law Judge and the Commission:

24. Peoples Gas will be subject to a gathering UFG target ("UFG target") of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021.

25. There will be no adjustment for gathering system UFG for the year ending August 31, 2017, and no gathering UFG target for the year ending August 31, 2018.

26. In evaluating whether the gathering UFG target is achieved, there will be volumetric credits for (1) actual producer retainage charges or (2) any additional gathering retainage charges approved because producer retainage charges are not approved by the Commission.

27. Exceedances of the gathering UFG target after reflection of the above credits will create a rebuttable presumption that the excess is unreasonable. That presumption may be rebutted by a demonstration that Peoples Gas has taken reasonable actions to reduce gathering UFG and/or demonstration that other factors, such as but not limited to, production on the gathering systems has declined thereby increasing the percentage of gathering UFG

experienced. The overall level of Peoples Gas' UFG will also be considered.

28. Peoples Gas will aggressively implement the Peoples Companies' Combined UFG Mitigation Plan to Address Gathering Pipelines ("UFG Mitigation Plan") presented in this proceeding, including: (1) the "find-it / fix it" program under which bare steel gathering lines will be leak surveyed on an annual basis and found leaks will be prioritized for repair, and (2) the plan to remove and replace at-risk gathering pipelines.

29. In order to ensure ongoing safe operations of all gathering facilities, Peoples Gas agrees to continue the practice of treating all non-jurisdictional (DOT) gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program. This would include damage prevention locates, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys.

7. The Company fully supports these settlement provisions. The issues concerning UFG on the gathering system are complex. The Peoples Companies' gathering systems comprise approximately 2,100 miles of pipelines. (Peoples Gas Exhibit No. 2, pp. 1-2) There is declining production on the Company's gathering system, but the gas produced is the lowest cost of gas available for Peoples Gas' customers. (Peoples Gas Statement No. 5-R, p. 13, line 20 to p. 14, line 2; p. 23, line 17 to p. 24, line 3; Peoples Gas Statement No. 1-R, p. 10, lines 4-7; Peoples Gas Exhibit No. 5-R) The declining production, by itself, tends to increase the percentage of gas lost. (Peoples Gas Statement No. 1-R, p. 9, lines 1-12)

8. Moreover, as explained in the UFG Mitigation Plan, replacing all yellow category at-risk gathering pipe is estimated to cost in excess of \$738 million. (Peoples Gas Statement No. 5-R, p. 16, lines 13-14) By comparison, the current net book value of all the Peoples Companies' tangible plant is \$1.8 billion, and the Companies are projected to spend approximately \$822.5 million on replacement of distribution mains and services over the five-

year term of the Combined Distribution Long-Term Infrastructure Improvement Plan (“LTIIP”). (Peoples Gas Statement No. 5-R, p. 16, lines 14-18)

9. The UFG Mitigation Plan is designed to find solutions to reducing UFG on the Peoples Companies’ gathering systems, while maintaining service, to the extent possible, to customers served from those systems. The settlement provisions, which create a UFG target commencing with the year starting September 1, 2018, will require accelerated action by the Company. Although some UFG reductions may be achieved by replacing gathering lines and repairing leaks, it is simply uneconomic to replace or repair all the gathering lines. It is likely that some gathering lines will have to be transferred to producers or abandoned to achieve these targets.<sup>2</sup> The Company is committed to take these actions to attempt to achieve the targets contained in the Partial Settlement.

#### **B. CALCULATION OF RETAINAGE CHARGE**

10. The Company’s retainage rate calculation includes a component for compressor fuel and storage losses. (Peoples Gas Statement No. 1-R, p. 2, lines 2-8) The amount of compressor fuel and storage losses allocated to retainage is adjusted to recognize that transportation customers use less than a pro rata portion of storage to meet balancing needs. (Peoples Gas Statement No. 1-R, p. 2, lines 2-8)

11. An issue arose in this proceeding concerning the allocation of compressor fuel and storage losses. OCA argued in favor of a substantial increase to the allocation. (OCA Statement No. 1, p. 9, lines 4-8) The Company supported its methodology with a small

---

<sup>2</sup> Transferring a gathering line to producer or producers would place all responsibility for UFG on the line to a producer or producers, thereby reducing the Company’s UFG. Although the Peoples Companies do not currently plan to transfer gathering lines to which customers are attached, the Peoples Companies would only transfer such lines after obtaining Commission approval.

correction to update the allocation percentage. (Peoples Gas Statement No. 3-R, p. 1, line 20 to p. 3, line 2)

12. To resolve the issue, the Parties have agreed to continue to use the Company's methodology for allocating compressor fuel and storage losses in this case. (Partial Settlement ¶ 30) The Parties reserve the right to examine the issue in future PGC cases. (Partial Settlement ¶ 30)

### **III. PUBLIC INTEREST**

13. Peoples Gas believes that the Partial Settlement is in the public interest for several reasons.

14. The Partial Settlement resolves difficult issues with regard to UFG on the gathering systems. It provides a basis for monitoring the progress of the Peoples Companies over the three years ending August 31, 2021, as the Companies implement their UFG Mitigation Plan.

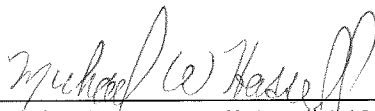
15. The Partial Settlement also resolves the issue with the allocation of compressor fuel and storage losses in the calculation of the Company's retainage rate.

16. The Partial Settlement avoids hearings and briefing on the settled issues, thereby preventing the incurrence of additional time and expense by the Commission and the Parties.

**IV. CONCLUSION**

17. For the reasons set forth above, the Partial Settlement is just and reasonable and is in the public interest. Therefore, Peoples Gas Company LLC requests that the presiding Administrative Law Judge and the Pennsylvania Public Utility Commission approve it.

Respectfully submitted,



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gas.com

Date: June 22, 2018

Counsel for Peoples Gas Company LLC

# Appendix C

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2018-2645296
Office of Small Business Advocate	:	C-2018-3000574
Office of Consumer Advocate	:	C-2018-3000497
	:	
v.	:	
	:	
Peoples Gas Company LLC	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF THE  
JOINT PETITION FOR PARTIAL SETTLEMENT OF  
THE SECTION 1307(f) RATE INVESTIGATION

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I. INTRODUCTION

The Office of Consumer Advocate (OCA) submits this Statement in Support of the Joint Petition for Partial Settlement in the above-captioned proceeding and states as follows:

On March 2, 2018, Peoples Gas Company LLC (PG or Company) submitted the pre-filing information and data required in connection with its annual purchased gas cost (PGC) filing under § 1307(f) of the Public Utility Code (66 Pa.C.S. § 1307(f)) and the Public Utility Commission's (Commission) regulations at 52 Pa. Code §§ 53.64(c) and 53.65. On April 2, 2018, the Company submitted its formal 2018 PGC filing, pursuant to which, the Company proposed a reduction in its residential PGC rate from \$4.1352 per Mcf (the rate in effect on January 1, 2018) to \$3.5667, which would take effect on October 1, 2018.

On March 15, 2018, the OCA filed a Formal Complaint against the Company's proposed rates, seeking to ensure that the rates were not excessive, discriminatory, or otherwise contrary to Commission regulation or policy. On March 20, 2018, the Office of Small Business Advocate (OSBA) also filed a Formal Complaint against the proposed rates. On March 9, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in the case. On April 2, 2018, the Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Petition to Intervene in the proceedings, which was subsequently granted. On April 30, 2018, Direct Energy filed a Petition to Intervene, which was also granted. All parties engaged in discovery regarding the proposed rates.

A prehearing conference was held on April 5, 2018, at which a procedural schedule was established. Pursuant to that schedule, on May 3, 2018, the OCA submitted the Direct Testimony of its expert witness, Jerome D. Mierzwa. Mr. Mierzwa's testimony recommended, among other things, that the Company's method for calculating its retainage rate for lost and unaccounted for gas be modified, specifically as it relates to losses on PG's storage system as well as the amount of gas used by the Company. The Company opposed, in part, Mr. Mierzwa's recommendation in Rebuttal Testimony filed on May 23, 2018. Mr. Mierzwa then defended his recommendation in Surrebuttal Testimony submitted on May 31, 2018.

Prior to the submission of Surrebuttal Testimony, the Company initiated settlement discussions with the parties, and those discussions have produced the instant Joint Petition for Partial Settlement, which addresses various issues in the case but reserves for litigation the key issue of imposing a retainage charge on conventional gas producers for gas gathered into the Company's system. For the reasons set forth below, the OCA submits that the Partial Settlement is in the public interest and should be adopted by the Commission.

## II. PROPOSED PARTIAL SETTLEMENT

The Settlement addresses the following issues:

### A. Lost and Unaccounted For Gas (Settlement ¶¶ 24–29)

The Partial Settlement establishes Unaccounted For Gas (UFG) targets for PG’s gathering system for three consecutive years beginning with the PGC year ending August 31, 2019. For that year the target will be 9.0%. For the year ending August 31, 2020, the target will be 8.5% and for the year ending August 31, 2021, it will be 7.5%. ¶ 24. There will be no target for the year ending August 31, 2018 and there will be no retroactive adjustment for gathering system UFG for the year ending August 31, 2017. ¶ 25.

In evaluating whether the UFG target is achieved in a given year, volumetric credits will be given to reflect the actual producer retainage charge or, if the producer retainage charge is not approved by the Commission, any other gathering retainage charges approved by the Commission. ¶ 26.

If in a given year gathering system UFG exceeds the established target, a rebuttable presumption will be created that the excess is unreasonable. The presumption may be rebutted by PG demonstrating that it has taken reasonable steps to reduce gathering UFG and/or demonstrating that other factors, such as production on the gathering systems has declined thereby increasing the percentage of gathering UFG experienced. PG’s overall level of UFG will also be considered. ¶ 27.

The Partial Settlement further provides that PG will commit to aggressively pursuing the “Peoples Companies’ Combined UFG Mitigation Plan to Address Gathering Pipelines” that was presented by PG as an exhibit in this proceeding. This will include the “find it/fix it” program under which bare steel gathering lines will be surveyed for leaks on an annual basis and if leaks

are found, they will be prioritized for repair. It will also include the removal and replacement of at-risk gathering pipelines. ¶ 28.

The Partial Settlement requires PG to continue the practice of treating all non-jurisdictional (DOT) gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program. This would include One Call locations to prevent line damage, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys. ¶ 30.

Paragraphs 24 through 29 represent a resolution between the Company and I&E on the issue of whether a cap should be set on gathering system UFG and whether PG should be prevented from recovering the costs of UFG volumes that are in excess of the cap. Through its testimony in this case, I&E proposed setting an initial cap of 8% on gathering system UFG and stepping the cap down to 5% over three years. In addition, because the UFG rate on PG's gathering system is 9.5%, I&E recommended a disallowance of gathering system UFG volumes in excess of its proposed initial 8% cap. As discussed above, the Partial Settlement establishes a gathering system UFG cap of 9% beginning in 2019 and lowers that cap to 7.5% by 2021. Further, it employs the device of a rebuttable presumption to allow PG to offer a reasonable explanation for why the cap was exceeded in a given year. In addition, it calls for aggressive implementation of PG's UFG Mitigation Plan.

Although the OCA did not, in this proceeding, take a position on the specific issue of gathering system UFG caps and the consequences of failing to meet them, it has, in this and previous PG PGC cases, expressed concern over the relatively high level of UFG on the Company's gathering system. Accordingly, the OCA supports the compromise reached in this

Partial Settlement, submits that it is both reasonable and in the public interest and should be approved by the Commission.

B. Calculation of Retainage Charge (Settlement ¶ 30)

As noted above, OCA witness Mierzwa recommended that modifications be made to the Company's method of calculating its retainage rate for lost and unaccounted for gas. In particular, Mr. Mierzwa proposed changes to more accurately reflect the actual level of losses on the Company's storage system and the level of gas used by the Company. In addition, Mr. Mierzwa proposed that the percentage of storage losses and company-use gas allocated to the retainage rate be doubled to account for the fact that transportation customers (upon whom retainage rates are imposed) represent approximately 50 percent of the throughput on PG's system.

In its Rebuttal Testimony, the Company agreed with Mr. Mierzwa's proposal to update the level of storage losses and company-use gas included in the retainage calculation to reflect current levels. The Company did not agree, however, that the percentage of storage losses and company-use gas included in the retainage calculation should be doubled to reflect transportation customer throughput of 50 percent.

In the interest of settlement, the OCA agreed to allow the Company's current method of calculating retainage to be continued. However, the OCA and the Company also agreed that this would apply only to the current case and that this issue may be taken up in future PGC cases. As the Partial Settlement preserves the right of the OCA to revisit the issue in the future, allowing the current retainage calculation method to be used for this year seemed a reasonable compromise to reach settlement on this issue.

C. Miscellaneous (Settlement ¶¶ 31-33)

Paragraph 31 of the Partial Settlement provides that except as revised by the Settlement and subject to a Commission decision on the litigated issue of the producer retainage charge, the rates proposed and other requested approvals contained in the Company's filing should be approved.

Paragraph 32 provides that the Company's compliance filing in this proceeding will reflect updated actual and projected over and undercollections through September 30, 2018.

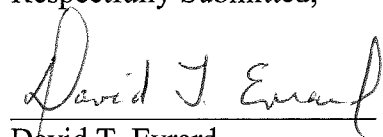
Paragraph 33 provides that the parties agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in PG's Statement No. 2 and related exhibits included in the Company's definitive filing.

The OCA has no objection to these provisions of the Settlement.

III. CONCLUSION

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

Respectfully Submitted,



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June 22, 2018

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## Appendix D

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, et al.	:	
	⋮	
v.	⋮	Docket No. R-2018-2645296, et al.
	⋮	
Peoples Gas Company, LLC 1307(f)	⋮	
	⋮	

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF JOINT PETITION FOR  
PARTIAL SETTLEMENT OF PEOPLES GAS COMPANY’S  
2018-2019 GCR PROCEEDING**

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

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutors, Gina L. Miller and John M. Coogan, hereby respectfully submit that the terms and conditions of the foregoing *Joint Petition for Partial Settlement of the Section 1307(f) Rate Investigation* (“Joint Petition” or “Partial Settlement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interests of Peoples Gas Company LLC (“Peoples Gas”) and its customers. In support of this position, I&E offers the following comments:

**I. INTRODUCTION**

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public

interest held before the Commission.<sup>1</sup> Consequently, in all contested proceedings, including those resolved through negotiated settlements, I&E must ensure that the public interest is served and comment on how the resolution of any such proceeding will benefit the public interest. The request for approval of this Joint Petition is based on I&E's conclusion that the Partial Settlement meets all the legal and regulatory standards necessary for approval. "The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest."<sup>2</sup> I&E concludes that the Joint Petition meets this standard.

2. Pursuant to the Public Utility Code and Commission regulations, on January 31, 2018, Peoples Gas submitted its 60-day pre-filing information regarding its 2018-2019 Gas Cost Rate ("GCR") filing, and on March 2, 2018, Peoples Gas submitted its 30-day pre-filing information regarding its 2018-2019 GCR filing.<sup>3</sup>

3. On April 2, 2018, Peoples Gas submitted its annual GCR filing to become effective for services rendered on or after October 1, 2018. Peoples Gas also filed its prepared Direct Testimony, accompanying exhibits, and proposed updated tariff supplement.<sup>4</sup>

4. I&E entered its appearance in this matter on March 9, 2018. Additionally, the Office of the Consumer Advocate ("OCA") filed a Notice of Appearance, Formal

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<sup>1</sup> 66 Pa. C.S. § 308.2(a)(11); Docket No. M-2008-2071852, Final Procedural Order entered on August 11, 2011, p. 10.

<sup>2</sup> *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

<sup>3</sup> 66 Pa. C.S. 1307(f); 52 Pa. Code 53.64 and 53.65.

<sup>4</sup> PG St. No. 1, pp. 3-4.

Complaint<sup>5</sup> and Public Statement on March 15, 2018; the Office of the Small Business Advocate (“OSBA”) filed a Notice of Appearance, Complaint<sup>6</sup> and Public Statement on March 20, 2018; the Pennsylvania Independent Oil and Gas Association (“PIOGA”) filed a Petition to Intervene on April 2, 2018; and Direct Energy Business Marketing, LLC (“Direct Energy”) filed a Petition to Intervene on April 30, 2018.

5. A Prehearing Conference Order was entered on March 29, 2018, and the Order scheduled a telephonic prehearing conference for April 5, 2018.

6. Counsel for the following parties participated in the Prehearing Conference on April 5, 2018: Peoples Gas, I&E, the OCA, the OSBA, and PIOGA. Administrative Law Judge (“ALJ”) Jeffrey Watson presided, and during the Conference, the parties established a procedural schedule for this proceeding.

7. On April 6, 2018, a Prehearing Order was entered, and it memorialized the procedural schedule and other terms governing the conduct of this proceeding.<sup>7</sup>

8. After the prehearing conference, the parties continued to engage in the discovery process.

9. I&E served the following testimony and exhibits upon the parties in accordance with the procedural schedule and corresponding due dates:

- I&E Statement No. 1: Direct Testimony of Ethan H. Cline;
- I&E Exhibit No. 1: Exhibit accompanying Mr. Cline’s Direct Testimony;

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<sup>5</sup> Pa. PUC Docket Number C-2018-3000494.

<sup>6</sup> Pa. PUC Docket Number C-2018-3000567.

<sup>7</sup> On June 1, 2018, ALJ Watson issued an Interim Order granting Direct Energy’s Petition to Intervene.

- I&E Statement No. 2: Direct Testimony of Anthony Spadaccio;
- I&E Exhibit No. 2: Exhibit accompanying Mr. Spadaccio’s Direct Testimony;
- I&E Statement No. 1-SR: Surrebuttal Testimony of Ethan H. Cline;
- I&E Exhibit No. 1-SR: Exhibit accompanying Mr. Cline’s Surrebuttal Testimony;
- I&E Testimony No. 2-SR: Surrebuttal Testimony of Anthony Spadaccio.

10. In accordance with the Commission’s policy favoring settlements over costly and time-consuming litigation<sup>8</sup> and in evaluation of the parties’ respective litigation positions, Peoples Gas, I&E, the OCA, and OSBA (“Joint Petitioners”) were successful in achieving a partial settlement of all issues except one: proposed retainage charges for unaccounted for gas (“UFG”). Settlement of all other issues was achieved by reviewing both discovery and testimony and by engaging in the settlement negotiation process.

11. An evidentiary hearing was held on June 4, 2018. At the hearing, the parties informed ALJ Watson of the Partial Settlement. Additionally, during the hearing, the Joint Petitioners’ pre-served testimony was admitted into the record.

12. I&E submits that the proposed Partial Settlement resolves all issues that I&E raised in this proceeding, is in the public interest and should be approved by the ALJ and the Commission for the following reasons:

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<sup>8</sup> 52 Pa. Code § 5.231.

## II. PARTIAL SETTLEMENT

### A. LOST AND UNACCOUNTED FOR GAS

#### Background

UFG includes, among other things, leakage or other actual losses due to line losses associated with corroding and leaking systems.<sup>9</sup> Although Peoples Gas reported a distribution system UFG loss of 2.47% for the year ended August 31, 2017, Peoples Gas reported a gathering system UFG loss of 9.50% for 2017.

The Commission has expressed concern regarding Peoples Gas'<sup>10</sup> UFG and appropriate mitigation efforts since 2010.<sup>11</sup> As expressed by Vice Chairman Place in Peoples Gas' 2017 PGC proceeding, if Peoples Gas did not immediately reduce UFG and reflect improvements before the 2018 PGC proceeding, disallowance of certain costs might be necessary.<sup>12</sup> I&E similarly asserted that if Peoples Gas did not show improvement in UFG in 2018, I&E would recommend an adjustment to disallow certain recovery.<sup>13</sup>

Commission regulations set maximum percent UFG levels for distribution systems only.<sup>14</sup> These regulations provide for a step-down of UFG by 0.5% per year, starting at 5% and ending at 3%. Although the 2.47% distribution system UFG was a decrease from the 3.95% reported in 2016, and below the proscribed fourth-year metric of 3.5%, 2017

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<sup>9</sup> I&E St. No. 1, p. 3.

<sup>10</sup> F/k/a T. W. Phillips Gas and Oil Co. and Peoples TWP LLC.

<sup>11</sup> See Pa. PUC Docket No. R-2017-2586317, *Pa. PUC, et al. v. Peoples TWP LLC*, Statement of Vice Chairman Andrew G. Place, at 1 (August 31, 2017).

<sup>12</sup> *Id.* at 5.

<sup>13</sup> I&E St. No. 1, p. 3.

<sup>14</sup> 52 Pa. Code § 59.111. I&E acknowledges that Peoples Gas' 2.47% distribution system UFG is below the fourth-year target of 3.5%. I&E St. No. 1, p. 5.

was the first year Peoples Gas separately reported gathering system UFG volume. Accordingly, I&E expressed concern with a high 9.5% gathering system UFG, which Peoples Gas also indicated was unsatisfactory.<sup>15</sup>

I&E's testimony recommended that Peoples Gas' gathering system be subject to an 8% maximum UFG for the historic period and stepped down by 1% each year, until a 5% maximum is reached.<sup>16</sup> I&E recommended disallowing recovery of 179,489 Mcf for the historic period, representing the volumes of UFG reported in excess of an 8% maximum.<sup>17</sup> I&E's recommendations were consistent with I&E testimony in previous 1307(f) proceedings.<sup>18</sup> I&E did not recommend the same standards for gathering as distribution systems because, as I&E previously recognized, gathering systems have a different design and function, and will maintain a higher level of UFG.<sup>19</sup>

#### UFG Settlement Terms

Peoples Gas opposed I&E's recommendations in rebuttal testimony, and I&E responded with surrebuttal testimony, maintaining I&E's core recommendations.<sup>20</sup> After continued discussion, I&E reached acceptable resolution of its issues with Peoples Gas, reflected in the Partial Settlement terms.<sup>21</sup> The terms provide that Peoples Gas will be

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<sup>15</sup> PG St. No. 1-R, p. 8 ("In no way am I [Lynda Petrichevich] asserting that Peoples Gas, the Commission, customers, or interested parties should be satisfied with a gathering system UFG level of 9.5%").

<sup>16</sup> I&E St. No. 1, pp. 11-12.

<sup>17</sup> I&E St. No. 1, p. 16. Such adjustment would result in a \$131,055 adjustment to Peoples Gas' over/(under) collection calculation. I&E St. No. 1-SR, p. 3.

<sup>18</sup> I&E St. No. 1, pp. 11.

<sup>19</sup> I&E St. No. 1, pp. 10-11.

<sup>20</sup> I&E St. No. 1-SR, p. 21.

<sup>21</sup> Joint Petition, ¶¶ 24-29.

subject to a gathering UFG target of 9.0% for the year ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year ending August 31, 2021.

Exceedances of the gathering UFG target after reflection of credits (described below) will create a rebuttable presumption that the excess is unreasonable. That presumption may be rebutted by a demonstration that Peoples Gas has taken reasonable actions to reduce gathering UFG and/or demonstration that other factors, such as but not limited to, production on the gathering systems has declined thereby increasing the percentage of gathering UFG experienced. The overall level of Peoples Gas' UFG will also be considered.

In evaluating whether the gathering UFG target is achieved, there will be volumetric credits for (1) actual producer retainage charges or (2) any additional gathering retainage charges approved because producer retainage charges are not approved by the Commission.

There will be no adjustment for gathering system UFG for the year ending August 31, 2017, and no gathering UFG target for the year ending August 31, 2018.

Peoples Gas will aggressively implement the Peoples Companies' Combined UFG Mitigation Plan to Address Gathering Pipelines ("UFG Mitigation Plan") presented in this proceeding, including: (1) the "find-it / fix it" program under which bare steel gathering lines will be leak surveyed on an annual basis and found leaks will be prioritized for repair, and (2) the plan to remove and replace at-risk gathering pipelines.

In order to ensure ongoing safe operations of all gathering facilities, Peoples Gas agrees to continue the practice of treating all non-jurisdictional (DOT) gathering lines (which

account for 92% of all gathering lines) as part of its normal distribution compliance program. This would include damage prevention locates, corrosion prevention, leak surveys, placement of line markers, and atmospheric corrosion surveys.

### I&E Position

The above terms are critical to I&E's participation in this Partial Settlement because they resolve I&E's core issue of creating measurable standards for UFG on the Peoples Gas gathering system. The same concerns regarding safety and costs apply to UFG for gathering systems as for distribution systems.<sup>22</sup> Although Peoples Gas' UFG Mitigation Plan outlined a number of steps to improve its gathering system, it did not set forth any quantifiable commitment to adhere to a percent standard. Through this Partial Settlement, Peoples Gas now agrees to be held to a standard for UFG on its gathering system, similar to UFG for its distribution system.

I&E also believes it is reasonable that Peoples Gas be allowed to demonstrate that exceedances of the gathering UFG target is reasonable. A similar rebuttable presumption is reflected in the Commission regulations for distribution system UFG standards at 52 Pa. Code § 59.111(c)(3).

I&E supports credits to gathering system UFG from (1) actual producer retainage charges or (2) any additional gathering retainage charges approved because producer retainage charges are not approved by the Commission. However, these retainage charges are in dispute, not agreed to as part of this Partial Settlement, and subject to the outcome

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<sup>22</sup> I&E St. No. 1, p. 9. Peoples Gas serves 1,928 customers (109 commercial customers + 1,819 residential customers) directly from its gathering systems. *Id.*

of litigation.<sup>23</sup> I&E only acknowledges that these proposed retainage charges could be used as credits if these charges are approved by the Commission. I&E expresses no position as to the appropriateness of recovering costs for excess UFG either from Peoples Gas or through producer or additional gathering retainage charges.

Finally, I&E believes it is reasonable that Peoples Gas not be subject to an annual UFG target until August 31, 2019. This will allow Peoples Gas sufficient time to produce results from its aggressive implementation of its UFG Mitigation Plan, in addition to other safety measures.

## **B. CALCULATION OF RETAINAGE CHARGE**

### Calculation of Retainage Charge Settlement Terms

The terms of the Partial Settlement provide that Peoples Gas method of calculating its retainage charge with respect to storage losses and company-use gas will be maintained.<sup>24</sup> This agreement is for purposes of settlement of the current case only and this matter may be revisited in future PGC cases.

### I&E Position

I&E does not oppose inclusion of these terms in the Partial Settlement.

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<sup>23</sup> As reflected in their Main Briefs, Peoples Gas supports a producer retainage charge; the OCA suggests additional gathering or customer retainage charges may be appropriate if a producer retainage charge is not approved; PIOGA opposes a producer retainage charge but supports the OCA's additional gathering or customer retainage charges; and the OSBA supports a producer retainage charge, and an additional customer retainage charge if the producer retainage charge is not approved. I&E notes that the terms of the Partial Settlement do not include credits for any additional customer retainage charges.

<sup>24</sup> Joint Petition, ¶ 30.

## C. MISCELLANEOUS

### Miscellaneous Settlement Terms

The terms of the Partial Settlement provide that the proposed rates and other requested approvals contained in the Company's PGC filing should be approved, except as revised by this Partial Settlement and subject to a decision on the issue reserved for litigation (i.e., gathering system retainage).<sup>25</sup>

Additionally, and 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, 2018. 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 Gas Statement No. 2 and related exhibits included in the 1307(f)-2018 definitive filing.

### I&E Position

I&E supports these miscellaneous terms, including that the requested approvals in the Company's PGC filing should be granted, except as revised by this Partial Settlement and subject to a decision on the one issue reserved for litigation, gathering system retainage.<sup>26</sup>

While Peoples Gas costs are subject to review in a future GCR proceeding, I&E maintains that ratepayers are protected in that Peoples Gas gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies. As

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<sup>25</sup> Joint Petition, ¶¶ 31-33.

<sup>26</sup> As explained in II.A. above, I&E expresses no position regarding this disputed issue.

provided for in the Public Utility Code, “[n]o rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy....”<sup>27</sup> I&E confirms that the Partial Settlement provides that natural gas costs will be based on adherence to a least cost reliable service fuel procurement policy.<sup>28</sup> A least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its PGC customers.

### **III. CONCLUSION**

13. The Partial Settlement provides that Peoples Gas may place into effect the natural gas supply rates as proposed and identified in the appendix attached to the Joint Petition. The proposed rates will be updated to reflect any changes as of October 1, 2018, when the final tariff supplements are filed, and are subject to quarterly updates, with limited exceptions, as required by the Commission’s Regulations. The I&E review and analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. As such, I&E opines that these rates are in the public interest and should be approved.

14. I&E is in agreement that Peoples Gas will adhere to the purchasing plan as established by the data and calculations provided in People Gas’ testimony and associated exhibits, as modified by the Partial Settlement. The purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements

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<sup>27</sup>66 Pa. C.S. § 1318.

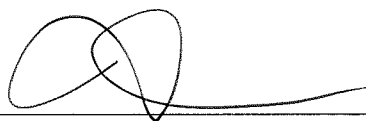
<sup>28</sup>Joint Petition, ¶ 36.

in acquiring supplies for its customers. People Gas' projections and plans are reasonable and are in the public interest. Therefore, they should be adopted as presented.

15. Although I&E did serve Direct Testimony and Surrebuttal Testimony in this proceeding, I&E fully supports the Partial Settlement. The concerns raised in testimony have been resolved through discovery and discussions with Peoples Gas and are incorporated in the Partial Settlement. Accordingly, I&E asserts this proposed Partial Settlement is in the public interest. Line by line identification of the ultimate resolution of every averment is not necessary, as I&E represents that the Partial Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this filing complete.

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

Respectfully Submitted,



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Prosecutor  
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Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission

John M. Coogan  
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Dated: June 22, 2018

# Appendix E

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
v.	:	<b>DOCKET NO. R-2018-2645296</b>
	:	
<b>PEOPLES GAS COMPANY LLC</b>	:	

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

**I. INTRODUCTION**

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

**II. PROCEDURAL BACKGROUND**

On March 2, 2018, pursuant to Section 1307(f) of the Public Utility Code, Peoples Gas submitted pre-filed supporting information concerning its annual Purchased Gas Cost (“PGC”) Rate filing.

The Commission's Bureau of Investigation and Enforcement (I&E) entered a Notice of Appearance on March 9, 2018.

On March 15, 2018, the Office of Consumer Advocate ("OCA") filed Complaint, Public Statement, and Notice of Appearance.

The Office of Small Business Advocate ("OSBA") filed a Complaint, Public Statement, and Notice of Appearance on March 20, 2018.

On April 2, 2018, the Pennsylvania Independent Oil and Gas Association ("PIOGA") filed a Petition to Intervene.

Also on April 2, 2018, Peoples Gas submitted its annual PGC rate filing.

A Prehearing Conference on this case was held on April 5, 2018, before presiding officer Administrative Law Judge ("ALJ") Jeffrey A. Watson, at which time a procedural schedule and discovery modifications were established, PIOGA's Petition to Intervene was granted, and OSBA's and OCA's Complaints were consolidated with the Commission's investigation.

On April 30, 2018, Direct Energy Business Marketing, LLC ("Direct Energy") filed a Petition to Intervene.

OCA, I&E, and PIOGA served written direct testimony on May 3, 2018.

On May 9, 2018, the ALJ issued an Interim Order granting Direct Energy's Petition to Intervene.

On May 23, 2018, Peoples Gas, OSBA, and PIOGA served written rebuttal testimony.

Peoples Gas, OCA, I&E, and PIOGA served written surrebuttal testimony on May 31, 2018.

The parties engaged in settlement discussions and were successful at resolving all but one issue in this proceeding, prior to the scheduled evidentiary hearings. The issue reserved for

litigation is Peoples Gas' proposal to charge producers a retainage charge of 2.9% to contribute toward the costs associated with lost and unaccounted for gas ("UFG") on the Company's gathering system.

An evidentiary hearing was held on June 4, 2018, at which time the parties' pre-served testimony and exhibits were admitted into the record, and certain witnesses were cross-examined with respect to the issue reserved for litigation.

Main briefs on this issue were filed by OSBA, OCA, Peoples Gas, and PIOGA on June 19, 2018. Reply briefs are due on June 25, 2018.

The OSBA actively participated in the negotiations that led to the proposed partial settlement, and is a signatory to the Joint Petition For Partial Settlement of the Section 1307(f) Rate Investigation ("Joint Petition"). The OSBA submits this statement in support of the Joint Petition.

### **III. STATEMENT IN SUPPORT OF JOINT PETITION**

Upon further review of the Company's PGC filings and subsequent discovery, the OSBA determined that the issues initially outlined in its prehearing memorandum had been adequately addressed, including, whether the Company is appropriately mitigating unaccounted-for gas levels on its system. Thus, the OSBA did not submit direct testimony.

Although the OSBA did not submit testimony with respect to Peoples Gas' UFG, it does support the continued mitigation efforts outlined in the settlement. In Section II.A of the Joint Petition, Peoples Gas commits to continue efforts to reduce distribution and gathering system UFG, including: (1) submitting to annual UFG targets over the next three years, with a rebuttable

presumption that any levels over such targets is unreasonable; (2) aggressive implementation of the UFG Mitigation Plan; and (3) continuing the practice of treating all non-jurisdictional (DOT) gathering lines (which account for 92% of all gathering lines) as part of its normal distribution compliance program.

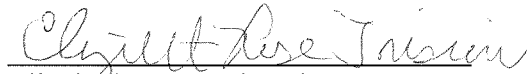
The OSBA determines that Peoples Gas' UFG levels have been addressed satisfactorily in Section II.A of the Joint Petition, and that the settlement is therefore reasonable and in the interest of the Company's Small C&I customers.

#### **IV. CONCLUSION**

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

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

Respectfully submitted,



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Deputy Small Business Advocate  
Attorney ID No. 306921

For:

John R. Evans  
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Dated: June 22, 2018