



COMMONWEALTH OF PENNSYLVANIA

August 8, 2018

**E-FILED**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

**Re: Peoples Gas Company, LLC / Docket No. R-2018-2645296**

Dear Secretary Chiavetta:

Enclosed please find the Reply Exceptions to the Recommended Decision, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Elizabeth Rose Triscari".

Elizabeth Rose Triscari  
Deputy Small Business Advocate  
Attorney ID No. 306921

*Enclosures*

cc: Brian Kalcic  
Parties of Record

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Pennsylvania Public Utility Commission</b>	:	
	:	
<b>v.</b>	:	<b>Docket No. R-2018-2645296</b>
	:	<b>Docket No. C-2018-3000574</b>
<b>Peoples Gas Company, LLC</b>	:	

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**REPLY EXCEPTIONS  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE**

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**Elizabeth Rose Triscari  
Deputy Small Business Advocate  
Attorney ID No. 306921**

**For: John R. Evans  
Small Business Advocate**

**Office of Small Business Advocate  
300 North Second Street, Suite 202  
Harrisburg, PA 17101**

**Date: August 8, 2018**

## **I. INTRODUCTION AND PROCEDURAL HISTORY**

On March 2, 2018, pursuant to Section 1307(f) of the Public Utility Code, Peoples Gas Company, LLC (“Peoples Gas” or “Company”) 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 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 were filed on June 19, 2018, by Peoples Gas, OCA, OSBA, and PIOGA.

On June 22, 2018, Peoples Gas, OCA, and OSBA (together, "Joint Petitioners") submitted a Joint Petition for Partial Settlement ("Joint Petition"). PIOGA and Direct Energy are not signatories to, but did not oppose, the Joint Petition.

Reply Briefs were filed on June 26, 2018, by Peoples Gas, OCA, and PIOGA.

ALJ Watson's Recommended Decision ("RD"), dated July 13, 2018, was issued by Secretarial Letter on July 25, 2018, setting shortened deadlines for Exceptions and Reply Exceptions, which were later extended by agreement of the parties and the Commission's Office of Special Assistants to August 2, 2018, and August 8, 2018, respectively.

PIOGA filed Exceptions to the RD on August 2, 2018.

The OSBA submits these Reply Exceptions to certain of PIOGA's Exceptions. A lack of a reply by OSBA to any Exceptions or arguments made by PIOGA should not constitute agreement with or acceptance of those arguments.

## **II. REPLY EXCEPTIONS**

**Reply to PIOGA Exception No. 1: The ALJ was correct in concluding that Peoples' proposed producer retainage charge is just and reasonable.**

PIOGA's Exception takes issue with the RD's finding that the producer retainage charge is just and reasonable because Peoples Gas is making substantial commitments to gathering system UFG and it is not unreasonable for conventional gas producers to pay for a portion of the gathering system UFG. PIOGA concludes that because such commitment is *only* \$7.36 million over the next four years, the prospective gathering system UFG expenditures are "not substantial" as compared to distribution UFG expenditures. PIOGA Exceptions at 4. PIOGA's argument fails to recognize that Peoples Gas' expenditures on at-risk gathering versus distribution pipeline is a function of both customer safety and UFG, and since more customers are served per mile of distribution pipe than gathering pipe, one should expect Peoples Gas' expenditures to focus primarily on its distribution system.<sup>1</sup> Therefore, while distribution UFG expenditures are expectantly higher, \$7.36 million in gathering system UFG expenditures is significant and in no way not substantial, and support the ALJ's finding the producer retainage rate to be just and reasonable.

Next, PIOGA notes the ALJ's Findings of Fact Nos. 43 and 44, that conventional gas producers are the primary users and beneficiaries of the gathering system and without the gathering lines, conventional gas producers would not be able to get their gas to market. PIOGA argues in response that without these gathering lines, Peoples Gas would not have been able to serve its customers with conventional production. PIOGA Exceptions at 4. These two statements are not mutually exclusive. Both are accurate. This is precisely why Peoples Gas has not

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<sup>1</sup> See Peoples Gas Statement No. 5-R, p. 5, at Table II.

proposed that producers pay ALL of the gathering system UFG expenditures, but rather only a portion. PIOGA's argument that the gathering lines are part of an integrated system that benefits ratepayers does not negate the fact that the gathering system also benefits conventional gas producers. Both use it. Both benefit from it. Both should contribute towards UFG expenditures.

**Reply to PIOGA Exception No. 2: The ALJ did not misunderstand PIOGA's argument, but rather considered and rejected it.**

PIOGA argues that the ALJ misunderstood its argument that Peoples Gas did not provide adequate explanation for why it is now changing course and proposing a producer retainage rate. PIOGA Exceptions at 7. PIOGA asserts that the ALJ simply answered the question of whether past practice prohibited such a change now. However, the ALJ explicitly accepts Peoples Gas' justification for this new proposal, namely that conventional gas producers have no incentive to reduce ever increasing UFG on the gathering system absent the producer retainage charge. RD at 66-67. With increasing levels of UFG, despite mitigation efforts, it is reasonable for the ALJ to conclude that increasing incentives to help reduce UFG is desirable and supports approval of a producer retainage charge.

**Reply to PIOGA Exception No. 3: The ALJ correctly rejected PIOGA's argument that the producer retainage charge is inconsistent with the integrated nature of the Company's distribution, transmission and gathering system.**

As the RD correctly notes, Peoples' Equitable Division already has a Commission-approved Rate AGS that charges a different rate for the gathering component of an integrated system. RD at 68. Moreover, at the interstate level, integrated systems charge separately for gathering retainage. RD at 68-69. PIOGA has offered no compelling reason to treat Peoples Gas' integrated system any differently.

**Reply to PIOGA Exception No. 4: The ALJ correctly concluded that PIOGA's alternative definitions of gathering and distribution pipelines do not support rejection of the proposed producer retainage charge.**

Even if PIOGA's alternative definitions of gathering and distribution pipelines were adopted, it does not change the fact that conventional gas producers use the Company's gathering system and clearly benefit from their connections to it. Therefore, they should pay their fair share of UFG costs and help to mitigate increases in Peoples Gas' end use retainage rate.

**Reply to PIOGA Exception No. 5: The ALJ correctly rejected PIOGA's argument that producers should not be responsible for the costs of UFG because they are not responsible for causing the losses.**

PIOGA argues that production from conventional wells is not the cause of the Company's high gathering system losses and, therefore, the cost associated with such losses should not be shifted to producers. PIOGA Exceptions at 16-17. The RD rejects this argument, correctly focusing not on who is to blame for UFG, but rather who benefits from the gathering system. RD at 72-72. Although it is technically correct that producers do not cause the Company's high gathering system losses, in the sense that gathering system losses depend upon the physical condition of pipeline segments, operating pressures, etc., rather than the fact that producers are connected to the system, the same could be also said for the Company's sales and transportation customers. Thus, PIOGA's argument that producers should not pay any portion of the costs associated with gathering system losses since producers do not cause such losses fails. If this argument against cost assignment were valid in the case of producers, it must also be valid in the case of sales and transportation customers, which would lead to the perverse conclusion


that natural gas distribution companies (“NGDCs”) should be responsible for 100% of the costs of UFG. OSBA Main Brief at 3.

PIOGA disagrees, citing its witness’s explanation of the difference in how producers and distribution customers “use” the utility’s system. Producers supply the gas, whereas customers consume it.<sup>2</sup> This is a distinction without a difference. As noted above, because producers clearly benefit from their connections to the Company’s system, they should pay their fair share of UFG costs and help to mitigate increases in Peoples Gas’ end use retainage rate.

### **III. CONCLUSION**

For all of the reasons stated above, the OSBA respectfully requests that the Commission reject PIOGA’s Exceptions and adopt the Recommended Decision approving the proposed producer retainage charge.

Respectfully submitted,

  
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Dated: August 8, 2018

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<sup>2</sup> See PIOGA Statement No. 1-SR at 2.



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DATE: August 8, 2018

  
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