

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

11/20/08  
Hendley  
VGH

DIRECT TESTIMONY

OF

DIANE MEYER BURGRAFF

On Behalf of

The Independent Oil and Gas Association of Pennsylvania

Topics Addressed

Cost Allocation/Rate Structure/Application of Rate AGS

October 8, 2008

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SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Diane Meyer Burgraff. My address is 19 Westwind Drive, Lemoyne,  
3 Pennsylvania 17043.

4 **Q. PLEASE DESCRIBE BY WHOM YOU ARE EMPLOYED AND IN WHAT**  
5 **CAPACITY.**

6 A. I am an independent consultant retained by the Independent Oil and Gas  
7 Association of Pennsylvania ("IOGA").

8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
9 **EXPERIENCE.**

10 A. Please see Attachment A to this testimony.

11 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

12 A. *The purpose of my testimony is to explain the results of my investigation of*  
13 *whether Equitable Gas Company's ("Equitable," "the Company" or "EGC")*  
14 *proposed Rate AGS-Appalachian Gathering Service comports with well*  
15 *established cost causation and cost assignment principles.*

16 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**  
17 **RECOMMENDATIONS.**

18 A. Equitable's proposed Rate AGS-Appalachian Gathering Service should be  
19 rejected. As my testimony will describe, it is my opinion that Rate AGS was  
20 originally designed and approved by the PUC for a limited purpose – to permit  
21 Equitable to recover some of the costs of operating, maintaining and improving  
22 its investment in gathering facilities acquired in 2003 from its affiliate until  
23 Equitable was able to include such costs in its base rate case. Equitable has not  
24 met its burden of proving that an expansion and continuation of Rate AGS should  
25 be approved by the PUC as just and reasonable or that producers and marketers

1 should bear virtually all of the cost responsibility for EGC's gathering system.  
2 EGC's customers, that is, system supply and transportation customers, are the  
3 beneficiaries of EGC's gathering system investment – in the form of lower natural  
4 gas costs – and they should bear the cost responsibility. EGC's own tariff  
5 provisions and Section 1307(f) reconciliation procedures, as well as its prior  
6 testimony and answers to interrogatories in this current case all confirm that  
7 system supply and transportation customers benefit from its gathering system. In  
8 light of these admissions by EGC that both its system supply and transportation  
9 customers benefit from the gathering system, EGC's rate proposal, which would  
10 shift the cost responsibility to producers and marketers is completely at odds with  
11 well accepted cost assignment principles and if implemented likely will result in  
12 end user customers losing much of the benefits of lower cost Pennsylvania  
13 production.

14 In addition, I recommend that refunds be made for certain producers who  
15 were inappropriately charged under Rate AGS. Also, in the event that the  
16 Pennsylvania Public Utility Commission rejects my recommendation to eliminate  
17 Rate AGS, based on policy considerations, I have set forth an alternative  
18 maximum Rate AGS that represents the absolute maximum cost responsibility  
19 that producers and marketers should bear. Finally, I make a recommendation  
20 regarding the funding for future gathering system investments.

#### 21 **EQUITABLE'S PROPOSAL FOR RATE "AGS"**

22 **Q. PLEASE DESCRIBE RATE AGS.**

23 **A.** Rate AGS-Appalachian Gathering Service is a rate designed to be charged to any  
24 producer who delivers gas into Equitable's gathering facilities and to any

1 marketer who transports gas through Equitable's gathering facilities. It is a  
2 "negotiated" rate with no ceiling or floor charge. In addition, Rate AGS includes  
3 a provision for charging "retainage," that is, for gas used in gathering system  
4 operations and for gas lost and unaccounted for on the gathering system. The  
5 retainage provision is also negotiable with no ceiling or floor percentage.

6 **Q. WHAT IS EQUITABLE'S PROPOSAL FOR RATE AGS IN THIS CASE?**

7 A. Equitable is not proposing to change the "subject to negotiation" portion of Rate  
8 AGS and the rate will continue to apply only to suppliers and marketers who use  
9 what Equitable characterizes as its gathering "system" to transport natural gas to  
10 Equitable delivery service customers who either use sales or transportation  
11 service. However, Equitable is claiming that 100% of its gathering facilities  
12 investment, other investments that it claims are related to the gathering facilities,  
13 and almost all of expenses related to these investments, taxes plus a profit margin,  
14 should be recovered solely from rate AGS; since rate AGS by its terms is only  
15 applicable to producers and marketers who move gas through the gathering  
16 system, Equitable would attempt to recover 100% of these costs from suppliers  
17 and marketers. If Equitable imposes rates and shrinkage that would recover its  
18 alleged total cost of service at proposed rates, the cost to a local producer could be  
19 as high as \$1.96 per Dth.

20 **HISTORY OF RATE AGS**

21 **Q. IS RATE AGS CURRENTLY IN EQUITABLE'S EXISTING TARIFF OR**  
22 **IS IT A NEW RATE BEING PROPOSED IN THIS PROCEEDING?**

1 A. Equitable's Rate AGS is part of Equitable's current tariff but was not authorized  
2 as a result of a base rate proceeding and is currently being applied differently than  
3 originally proposed.

4 **Q. HOW DID RATE AGS COME INTO EXISTENCE?**

5 A. Rate AGS, initially called "Apollo Gathering Service" not "Appalachian  
6 Gathering Service," was proposed for the first time in Equitable's 2003  
7 Application filing at Docket No. G-00031009, for approval to acquire gathering  
8 facilities in Armstrong and Indiana Counties from its affiliate, Equitable Field  
9 Services. Equitable referred to the facilities as the "PA-North Gathering System,"  
10 even though Equitable was serving end use customers from these facilities.

11 In that Application filing, Equitable offered the following explanation for  
12 the need for the acquisition to be approved:

13 Allowing a non-affiliated third party to acquire the PA-  
14 North Gathering System could place at risk, from both an  
15 operational and a cost perspective, service to the  
16 approximately 520 essential human needs residential  
17 customers presently served by EGC along the System.  
18 Exhibit DMB-1 at 2. (Application Filing)

19 Equitable also in the same Application stated that EGC was acquiring the  
20 gathering facilities "for use in the public service." Exhibit DMB-1 at 3. Finally, in  
21 the same Application, EGC explained that while the acquisition of the gathering  
22 facilities "would increase rate base and operating and depreciation expense, EGC  
23 is not proposing any increase in its existing rates by virtue of the proposed  
24 acquisition." Exhibit DMB-1 at 4.

1            Instead, Equitable proposed providing a “gathering service to those  
2            producers along the System route” (Exhibit DMB-1 at 4) that it called Rate AGS-  
3            Apollo Gathering Service.

4    **Q.    WAS RATE AGS-APOLLO GATHERING SERVICE LIMITED TO A**  
5    **SPECIFIC PORTION OF EQUITABLE’S GATHERING SYSTEM?**

6    A.    Yes. It was limited to the facilities being acquired and located in what EGC  
7           referred to in its proposed tariff as its “Apollo District.” Specifically, the proposed  
8           tariff stated that “[t]his rate schedule shall be applicable throughout the Apollo  
9           District for natural gas produced in and available for redelivery in the Apollo  
10          District.”

11   **Q.    PLEASE DESCRIBE RATE AGS-APOLLO GATHERING SERVICE AS**  
12   **IT WAS PROPOSED IN THE FILING AT DOCKET G-00031009 TO**  
13   **ACQUIRE THE PA-NORTH GATHERING SYSTEM.**

14   A.    The rate as proposed had no ceiling or floor charge and also had a completely  
15          flexible retainage provision for gas lost, unaccounted for or used in company  
16          operations on the gathering facilities. Exhibit DMB-2 (Rate AGS-Apollo  
17          Gathering Service).

18   **Q.    DID THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
19   **AUTHORIZE APPROVAL OF RATE AGS-APOLLO GATHERING**  
20   **SERVICE AS A RESULT OF THE 2003 APPLICATION FILING AT**  
21   **DOCKET NO. G-00031009?**

22   A.    Yes. In approving the acquisition by EGC of the PA-North Gathering System, the  
23          Commission also approved Rate AGS-Apollo Gathering Service.

24   **Q.    IN YOUR OPINION, WAS THE PUC’S AUTHORIZATION TO**  
25   **IMPLEMENT RATE AGS-APOLLO GATHERING SERVICE AND**  
26   **CHARGE PRODUCERS FOR THE COST TO OPERATE AND**  
27   **MAINTAIN EQUITABLE’S NEWLY ACQUIRED PA NORTH**  
28   **GATHERING SYSTEM MEANT TO BE A PERMANENT**  
29   **AUTHORIZATION?**

1 A. No, not at all. In my view the Commission was approving a temporary solution to  
2 assist Equitable in the costs of capital improvements and the costs of operating  
3 and maintaining these newly acquired facilities until its next base rate case.  
4 Equitable had acknowledged that these costs normally “would increase rate base,  
5 operation and maintenance and depreciation expense.” Exhibit DMB-1 at 4.  
6 However, Equitable was in a rate moratorium period until January, 2006, so filing  
7 a base rate case was not possible. My opinion is that the PUC wanted EGC to  
8 acquire the facilities so that it could continue to serve the 520 end use customers  
9 affected. Approval of the rate was a means to assist Equitable with the capital and  
10 operation and maintenance costs of the newly acquired facilities until its next base  
11 rate case.

12 **Q. HOW DID EQUITABLE’S RATE AGS-APOLLO GATHERING SERVICE**  
13 **EVOLVE INTO THE CURRENT RATE AGS-APPALACHIAN**  
14 **GATHERING SERVICE?**

15 A. In EGC’s 2004 Section 1307(f) case at Docket R-00049154, EGC witness Robert  
16 M. Narkevic proposed changing the name of Rate AGS-Apollo Gathering Service  
17 to “Rate AGS-Appalachian Gathering Service” and, as he stated in his Direct  
18 Testimony at Docket R-00049154, he was proposing “minor changes to the  
19 applicability and availability of the rate schedule.” Exhibit DMB-3 (Narkevic  
20 testimony).

21 **Q. WAS RATE AGS-APPALACHIAN GATHERING SERVICE APPROVED**  
22 **AS FILED IN EQUITABLE’S 2004 1307(F) CASE?**

23 A. Yes. I should note, however, that the parties affected by the change were not  
24 parties to the proceeding. The description of the change in Mr. Narkevic’s  
25 testimony would lead those parties who were involved in that case to reasonably

1 believe the changes were not substantive, and certainly not intended to expand  
2 significantly the applicability of Rate AGS.

3 **Q. WHAT WAS THE CHANGE TO THE LANGUAGE OF THE**  
4 **“APPLICABILITY” SECTION OF THE TARIFF?**

5 A. Before the change, the tariff stated that “[t]his rate schedule shall be applicable  
6 throughout the Apollo District for natural gas produced in and available for  
7 redelivery in the Apollo District.” This section was changed to state that “[t]hese  
8 rates shall be applicable throughout the territory served by the Company, i.e.,  
9 Equitable and Apollo Districts.” Exhibit DMB-2.

10 **Q. WHAT IS YOUR CONCLUSION CONCERNING THIS LANGUAGE**  
11 **CHANGE?**

12 A. The changes made to Rate AGS in 2004 that expanded the applicability of the rate  
13 beyond the Apollo District cannot be considered “minor” changes as represented  
14 by Mr. Narkevic unless it was intended to increase some relatively minor portion  
15 of the PA-North Gathering System located in the Equitable District. While the  
16 tariff language change was approved in 2004, I do not believe the Commission’s  
17 intent changed at all. Rate AGS was initially approved by the Commission in  
18 2003 during a rate moratorium as a result of an Application filing that permitted  
19 EGC to acquire the PA-North Gathering System. The purpose of the rate in my  
20 view, as I stated previously in my testimony, was to assist EGC in maintaining  
21 and improving the newly acquired PA-North Gathering System until its next base  
22 rate case and during its rate moratorium. For EGC to apply the rate in any larger  
23 context, i.e., to recover costs of investments and expenses not associated with the  
24 PA-North Gathering System, would have violated its rate moratorium. Mr.  
25 Narkevic’s own words, that the changes were “minor wording changes,” confirms

1 that EGC was not proposing to expand Rate AGS applicability. If EGC has used  
2 this rate for any other purpose than for volumes produced and redelivered  
3 through the PA-North Gathering System, then, in my view, EGC has done so  
4 without Commission authority, and is doing so in violation of this Commission's  
5 intent when it approved the 2003 Application.

6 **Q. BASED ON THIS HISTORY, WHAT IS YOUR RECOMMENDATION**  
7 **CONCERNING YOUR CONCLUSION?**

8 A. First, to the extent that EGC has charged IOGA producers under Rate AGS for  
9 production flowing through facilities other than the PA-North Gathering System  
10 or has charged producers for gas that was injected directly into distribution  
11 facilities and did not flow through a gathering pipeline at all, those producers are  
12 entitled to refunds. I recommend that as part of a compliance filing EGC be  
13 directed to provide evidence that all meters billed Rate AGS were in fact on the  
14 PA-North Gathering System and that the particular pipelines were properly  
15 classified as gathering facilities. In addition, EGC should be required to furnish  
16 maps that clearly show which specific facilities were part of the 2003 acquisition  
17 and show that the meters billed under Rate AGS were on gathering lines in the  
18 system acquired. Equitable has provided contradictory information concerning  
19 the location of Rate AGS gathering facilities on the distribution system map  
20 provided as part of its base rate filing. Exhibit DMB-4 (IOGA I-43, VI-1). Also,  
21 Equitable has refused for security and confidentiality reasons to provide IOGA  
22 producers with maps showing the gathering facilities. For any production billed  
23 Rate AGS that flowed through a meter that was not on the PA-North Gathering

1 System or was not properly classified as a gathering line on that system, refunds  
2 should be made.

3 **RATE AGS TODAY**

4 **Q. HOW IS RATE AGS USED CURRENTLY BY EQUITABLE?**

5 A. Currently there are 98 producers and marketers paying Rate AGS to move gas  
6 through Equitable's gathering system for use as system supply and for use by end  
7 user transportation customers. Exhibit DMB-4 (OTS RS 14). They pay  
8 "negotiated rates" ranging from zero to \$1.00 per Dth and pay retainage  
9 percentages ranging from zero to 7.5%. Exhibit DMB-4 (IOGA 1-3) The total  
10 revenue at present rates is \$5,326,454.

11 **Q. ARE THERE ANY END USE CUSTOMERS PAYING RATE AGS?**

12 A. No. System supply customers do not pay Rate AGS. Transportation customers do  
13 not pay Rate AGS. Only producers of Pennsylvania gas and marketers who inject  
14 gas into EGC's gathering facilities pay Rate AGS.

15 **Q. HAS IOGA TAKEN ANY ACTION AGAINST RATE AGS PRIOR TO**  
16 **THIS PROCEEDING?**

17 A. Yes. I understand that IOGA filed a Formal Complaint against Rate AGS in  
18 September 2006 at Docket C-20066800 and an Amended Formal Complaint in  
19 February 2008, and EGC responded with answers and new matter in October  
20 2006 and March 2008. Exhibit DMB-5 (amended complaint and answer) The  
21 complaint has been consolidated with this proceeding for hearing and  
22 investigation.

23 **RATE AGS AS PROPOSED**

1 Q. PLEASE RESTATE WHAT EQUITABLE IS PROPOSING IN THIS RATE  
2 PROCEEDING RELATIVE TO RATE AGS.

3 A. As I have noted in summary above, Equitable is proposing in this proceeding that  
4 all of the capital costs and almost all of the operation and maintenance costs  
5 associated with the gathering system and costs EGC deems are related to the  
6 gathering system plus overhead and taxes be recovered through Rate AGS. The  
7 costs are proposed to be paid for in their entirety by producers and marketers.  
8 Equitable is proposing to raise revenue to \$12,843,741, or by 141%, to the Rate  
9 AGS "customer" class.

10 Q. DO YOU AGREE WITH EGC'S PROPOSAL FOR RATE AGS?

11 A. No, and I have several reasons for my opinion which are described below.

12 **REASONS WHY RATE AGS SHOULD NOT BE APPROVED**

13 Q. PLEASE SUMMARIZE THE REASONS WHY YOU BELIEVE  
14 EQUITABLE'S RATE AGS COST RECOVERY PROPOSAL SHOULD  
15 NOT BE APPROVED.

16 A. First, the Commission has a history of allocating gathering facility costs in a  
17 manner that assigns cost responsibility to all of the customers who receive the  
18 benefit of the gathering facilities through the use of low-cost local production that  
19 it delivers to customers through EGC's transmission, distribution and gathering  
20 facilities. EGC's proposal to assign cost responsibility for the gathering facilities  
21 to suppliers and marketers is completely contrary to the Commission's long  
22 standing position.

23 Second, EGC's position is contrary to well accepted cost allocation  
24 principles which mandate that utility investment and expenses be allocated to the  
25 customers who benefit from them or cause them to be incurred by the utility. The

1 gathering facilities benefit end user customers who enjoy lower natural gas costs  
2 as a result of being able to receive Pennsylvania production through Equitable's  
3 gathering facilities. As explained above, EGC's own position as recently as 2004  
4 supports IOGA's position that customers are responsible for costs associated with  
5 the gathering facilities.

6 Third, EGC is attempting to recover the Rate AGS revenue requirement  
7 from "non customers" which is contrary to traditional ratemaking principles.

8 Fourth, approval of Equitable's Rate AGS proposal will have implications  
9 for other natural gas distribution companies ("NGDCs") with gathering facilities  
10 in the Commonwealth and could have a negative impact on availability and cost  
11 of Pennsylvania produced gas.

12 Fifth and finally Equitable's retainage proposal places cost responsibility  
13 on the wrong parties and is also inconsistent with established cost of service  
14 principles.

15 **The PUC Has A Long Standing Position On The Treatment Of Gathering**  
16 **Facilities For Ratemaking Purposes.**

17  
18 **Q. HAS THIS COMMISSION APPROVED RECOVERY OF GATHERING**  
19 **FACILITY COSTS IN UTILITY BASE RATE CASES IN THE PAST?**

20 **A.** Yes. Since the 1970's, and most likely prior to that, this Commission has  
21 approved the allocation of prudently incurred gathering facility costs to  
22 residential, commercial and industrial ratepayers, and has set rates to permit the  
23 recovery of such costs from those customer groups. EGC's witness, Mr.  
24 Feingold, in his testimony before this Commission at Docket R-832315 (a Peoples  
25 Natural Gas Company base rate in 1983), recommended that gathering facility  
26 costs be allocated only to system supply and transportation customers (then called

1 "self help" customers.) He did not allocate any costs to marketers or producers  
2 with good reason. From a cost causation standpoint, marketers and producers  
3 should not bear the costs related to gas delivery service, only the EGC customers  
4 receiving the delivery service who benefit from the facilities should.

5 I am not aware of any gas company in this state that has rates approved in  
6 a base rate case that has shifted all (or even any) of the costs of its gathering  
7 facilities onto local producers and marketers.

8 **Q. WITH SUCH A LONG COMMISSION HISTORY OF RATE**  
9 **TREATMENT FOR GATHERING FACILITY COSTS THAT ARE IN**  
10 **RATE BASE, WHAT IN YOUR OPINION HAS PROMPTED EGC TO**  
11 **ATTEMPT TO SHIFT THESE COSTS TO PRODUCERS AND**  
12 **MARKETERS AND AWAY FROM UTILITY SYSTEM SUPPLY AND**  
13 **TRANSPORTATION CUSTOMERS?**

14 A. In my view, Equitable viewed the approval in the 2004 Section 1307(f) case of its  
15 "minor wording changes" to Rate AGS-Appalachian Gathering Service, which  
16 allowed for recovery of gathering facility costs outside of a base rate case during  
17 Equitable's base rate moratorium period, as opening the door to permit Equitable  
18 to shift all gathering investment costs away from the delivery service customers  
19 who receive the benefit of EGC's gathering facilities and Pennsylvania  
20 production. Now that EGC has Rate AGS in its tariff, it makes it easier for the  
21 Company to propose its continuation and expansion, and to argue that the  
22 producers and marketers are the primary beneficiaries of EGC's gathering  
23 facilities. While IOGA does not deny that producers and marketers, like any  
24 other vendor, receive benefits when their product is purchased, they are not utility  
25 customers and are not receiving gas delivery service. It is the utility's customers

1 that receive benefit from a utility's investment in rate base, and it is those  
2 customers of the utility who should pay for those benefits.

3 **GATHERING FACILITY COSTS SHOULD BE ALLOCATED TO THE**  
4 **CUSTOMER GROUPS THAT ENJOY THE BENEFITS AND CAUSE THE**  
5 **COSTS TO BE INCURRED – SYSTEM SUPPLY AND**  
6 **TRANSPORTATION END USERS**

7 **Q. WHY DO YOU BELIEVE THAT EGC HAS IMPROPERLY ALLOCATED**  
8 **THE COSTS OF GATHERING FACILITIES AND DESIGNED RATE**  
9 **AGS TO RECOVER ALL OF THE ALLOCATED COSTS FROM LOCAL**  
10 **PRODUCERS AND MARKETERS?**

11 A. As Mr. Feingold indicates, the goal of a cost of service study is to address the  
12 question: "which customer or group of customers causes the utility to incur  
13 particular types of costs?" (R.A. Feingold Direct Testimony p. 1, R-2008-  
14 2029325) To do that, one must identify why the Company is incurring the cost or  
15 what group of customers are receiving the benefit from the cost. In terms of the  
16 gathering facilities, EGC has incurred the gathering facility costs in order to be  
17 able to provide the benefits of a lower cost natural gas supply to its system supply  
18 and transportation end use customers. Thus, all customer classes – residential,  
19 commercial and industrial – benefit from the gathering facilities as EGC readily  
20 admits. Exhibit DMB-4 ( IOGA 1-28). In addition, 3620 customers are served  
21 directly from gathering lines which clearly shows another use for these facilities  
22 by end use customers. Mr. Feingold has ignored these facts when proposing to  
23 allocate virtually all the costs of gathering facilities to Rate AGS and Mr. Quinn  
24 has completely ignored these facts when he placed the burden for the gathering  
25 system costs on producers and marketers.

1            Instead, Mr. Quinn should have eliminated Rate AGS since it had served  
2            its function between rate cases as I previously described and instructed Mr.  
3            Feingold to allocate gathering costs not to a specific gathering service but instead  
4            to allocate the gathering system costs to the customer classes who caused the  
5            costs to be incurred.

6    **Q.    PLEASE DESCRIBE SOME OF THE BENEFITS THAT SYSTEM**  
7    **SUPPLY AND TRANSPORTATION CUSTOMERS RECEIVE FROM**  
8    **THE GATHERING FACILITIES.**

9    A.    System supply customers receive the benefit of lower-cost Pennsylvania supplies  
10    that are moved from wells into EGC's gathering system. Interstate supply can  
11    cost more than twice as much as Appalachian Supply including demand charges  
12    or 25% more excluding demand charges based on 2007 gas costs information.  
13    Regarding Appalachian supply, roughly "36% of total gas supply into the  
14    Equitable system, is delivered through some portion of these gathering assets"  
15    according to Mr. Wiggers recent Direct Testimony in Equitable's 2008 Section  
16    1307(f) case. Exhibit DMB-3 (Wiggers Direct at 24, R- 2008-2021160) In  
17    addition, 3620 residential and both small and large general service customers  
18    receive service directly from EGC gathering lines. Transportation customers also  
19    receive the benefits of local gas that is moved through the gathering facilities on  
20    its way to their places of business. In testimony in the 2004 Section 1307(f) case,  
21    Equitable witnesses Rafferty and Quinn also explained in detail the benefits of  
22    bringing lower cost Pennsylvania supplies to market through gathering facility  
23    investments in the "Northern Asset Optimization Project" (NAOP) (Exhibit  
24    DMB-3), and Equitable's testimony in its subsequent Section 1307(f) cases has  
25    continued to emphasize these benefits.

1 Q. **IN LIGHT OF ALL THE BENEFITS THAT RESIDENTIAL,**  
2 **COMMERCIAL AND INDUSTRIAL CUSTOMERS RECEIVE FROM**  
3 **EGC'S GATHERING FACILITIES, SHOULDN'T THESE CUSTOMERS**  
4 **PAY FOR THE COSTS ASSIGNED AND ALLOCATED TO RATE AGS?**

5 A. Yes, absolutely. The costs were incurred for the benefit of end use system supply  
6 and transportation customers and they should bear the cost responsibility.

7 Q. **DOESN'T EGC CLAIM HOWEVER THAT PRODUCERS AND**  
8 **MARKETERS ARE THE PRIMARY BENEFICIARIES OF THE**  
9 **GATHERING FACILITIES AND SHOULD PAY FOR THE COSTS OF**  
10 **THOSE FACILITIES?**

11 A. Yes. Equitable now is making that claim, but that is a complete reversal of its  
12 prior position. As recently as 2004, EGC held the view that system supply  
13 customers should bear cost responsibility for the gathering facilities and  
14 improvements because they benefited directly from these investments. Before I  
15 expand on my answer, I will give a brief history of EGC's gathering facilities.

16 In EGC's last base rate case of 1996-97, EGC had no gathering facilities  
17 since it had in years prior transferred its gathering facilities to other Equitable  
18 affiliates. Equitable Gas began to reacquire gathering assets in 1999 with the  
19 Carnegie Gas acquisition. EGC followed with the PA-North acquisition in 2003  
20 from Equitable Field Services. The Crooked Creek gathering assets were added  
21 sometime between 2003-2006. According to Equitable's testimony in its 2008  
22 Section 1307(f) case, it added Crooked Creek gathering facilities from Equitrans,  
23 LP in 2006, but a discovery response indicates the Crooked Creek facilities were  
24 part of the PA-North acquisition in 2003. Exhibit DMB-4 (IOGA III-6).

25 In 2004, when EGC filed its Section 1307(f) case at Docket R-00049154,  
26 it had recently acquired the PA-North Gathering System and had recently  
27 received approval for its Rate AGS-Apollo Gathering Service. As previously

1 mentioned, EGC was in a base rate moratorium until January 1, 2006. In its 2004  
2 Section 1307(f) case, EGC made two proposals relative to its gathering system.  
3 One received a great amount of attention from the parties and the other did not.

4 The first of those proposals was to amortize the \$6.6 million cost of five  
5 gathering facility capital projects over 6 years and to recover those costs through  
6 the 1307(f) gas cost process from system supply customers as gas related costs.  
7 These projects all involved making capital improvements to the recently acquired  
8 PA-North Gathering System and to the Carnegie facilities acquired a few years  
9 earlier. These projects were collectively referred to as the "Northern Asset  
10 Optimization Project" or "NAOP."

11 In that 2004 filing, Mr. Rafferty, a witness for EGC, on pages 19-24 of his  
12 Direct Testimony, described the benefits that system supply customers will enjoy  
13 and gas cost savings that will accrue to system supply ratepayers as a result of the  
14 gathering facility investments. On page 24 of his Direct Testimony, Mr. Rafferty  
15 stated: "The Company believes there can be significant savings to PGC customers  
16 if these projects are completed." In his Rebuttal Testimony on page 10 in the  
17 same docket, EGC witness Mr. Quinn stated that "the vast majority of the benefits  
18 associated with the project [the NAOP] will accrue to the PGC rate customers."  
19 Exhibit DMB-3 (Direct Testimony of Rafferty, and Rebuttal Testimony of Quinn,  
20 at Docket R-00049154)

21 So in 2004, EGC's position was that the gathering facility investment  
22 benefited system supply customers and that those same customers should pay for  
23 these investments.

1           The second proposal in EGC's 2004 1307(f), the one that received no  
2 attention from the parties, was Mr. Narkevic's "minor wording changes" to Rate  
3 AGS that I addressed earlier.

4           Thus, in that 2004 case, EGC had proposed two plans for recovering  
5 gathering facility costs from customers during their rate moratorium. The first,  
6 called the NAOP proposal, was to collect capital investments in the PA-North  
7 Gathering System as a part of gas costs to be recovered from system supply  
8 customers through the 1307(f) process. The second was the Rate AGS minor  
9 language changes that made no substantive change to the rate that allowed EGC  
10 to recover some portion of PA-North Gathering System costs from producers and  
11 marketers during EGC's base rate moratorium and until its next base rate case.

12           Clearly, in 2004 it was not EGC's position that producers and marketers  
13 were the primary beneficiaries of the gathering facilities, or it would not have  
14 proposed to recover \$6.6 million in capital investments in those facilities from  
15 system supply customers. In 2004, EGC shared IOGA's view that system supply  
16 customers are beneficiaries of the gathering facilities and should pay for their  
17 cost.

18           The statutory parties in EGC's 2004 Section 1307(f) case, namely the  
19 OTS, OCA and OSBA, were all opposed to EGC's NAOP proposal to recover  
20 gathering facility investment costs through the 1307(f) gas cost process from  
21 system supply customers. Those parties did not address the Rate AGS minor  
22 wording changes most likely because those changes did not affect their

1           constituencies and because the tariff changes described by Mr. Narkevic did not  
2           appear to be substantive.

3   **Q.   WHAT WERE THE OBJECTIONS OF THE OTS, OCA AND OSBA TO**  
4   **EQUITABLE'S NAOP PROPOSAL IN EGC'S 2004 SECTION 1307(F)**  
5   **CASE ?**

6   A.   Mr. Gruber, from OTS, stated in his Direct Testimony on page 16, that "they [the  
7   NAOP costs] are not gas costs. They are costs associated with plant used for the  
8   collection and delivery of gas. Typically these costs are included as part of the  
9   Company's rate base and included in base rates. The inclusion in the PGC would  
10   send inappropriate signals as to the price of gas."

11           Mr. Kalcic of the OSBA stated in his Surrebuttal Testimony on page 3 in  
12   the same case that "if such costs were properly recovered in base rates, **both**  
13   **transportation customers and sales customers would contribute toward cost**  
14   **recovery.**" (Emphasis added).

15           Mr. Mierzwa of the OCA also advocated recovery of these costs through  
16   base rates and held the opinion that if a capital investment such as NAOP reduces  
17   gas costs, the utility should be required to pursue the project regardless of a cost  
18   recovery procedure. In his Surrebuttal Testimony, Mr. Mierzwa stated on pages  
19   15-16 when discussing the NAOP proposal that "witness Quinn fails to  
20   distinguish between PGC customers and transportation customers in his analysis.  
21   That is, he incorrectly assumes that PGC customers should bear the complete  
22   responsibility for NAOP costs. As I explained in my direct testimony,  
23   transportation customers should also bear NAOP cost responsibility." Exhibit  
24   DMB-3 (Direct Gruber at 16, Rebuttal Kalcic at 3, Surrebuttal Mierzwa at 15-16,  
25   R-00049154).

1           Thus, neither the Company – nor any other party in the 2004 proceeding  
2 suggested that these NAOP gathering facility investment costs were primarily to  
3 benefit producers and marketers or that producers and marketers should bear any  
4 of the cost responsibility.

5 **Q.   WHAT WAS EGC’S RESPONSE TO THESE OBJECTIONS?**

6 A.   Mr. Quinn, in his Rebuttal Testimony on page 5, stated regarding the \$6.6 million  
7 of gathering facilities investment: “The NAOP represents direct costs incurred for  
8 the improved deliverability of Pennsylvania produced gas to Equitable’s  
9 distribution system **which directly benefits PGC rate customers.**” Exhibit  
10 DMB-3 (Quinn Rebuttal at 5 (emphasis added) Docket R-00049154).

11 **Q.   HOW WAS EGC’S 2004 SECTION 1307(F) CASE AT DOCKET R-**  
12 **00049154 RESOLVED?**

13 A.   EGC settled the Section 1307(f) case in 2004 case and abandoned the request for  
14 NAOP cost recovery from system supply customers through its 1307(f)  
15 mechanism. However, through Rate AGS, Equitable had found a way to continue  
16 to recover gathering facilities costs outside of a base rate case during its rate  
17 moratorium period, and apparently its new view that producers and marketers  
18 should pay for the gathering facilities in its entirety started to take shape. At the  
19 end of 2004, three months after receiving approval for its newly worded Rate  
20 AGS-Appalachian Gathering Service, Equitable moved all of its gathering  
21 facilities to Non-Utility Property on its books of account.

22 **Q.   IS EQUITABLE IN THIS PROCEEDING NOW ATTEMPTING TO**  
23 **RECOVER THESE NAOP COSTS – THOSE SAME INVESTMENT**  
24 **COSTS THAT EGC INSISTED IN ITS 2004 SECTION 1307(F) CASE**  
25 **PROVIDED SIGNIFICANT BENEFITS TO SYSTEM SUPPLY**  
26 **RATEPAYERS – FROM PRODUCERS AND MARKETERS THROUGH**  
27 **RATE AGS?**

1 A. Yes, as well as other gathering facility investment. The NAOP projects are all  
2 now complete, in service and claimed in rate base. Mr. Quinn and EGC have  
3 completely changed their minds in the last four years about who are the  
4 beneficiaries of gathering facility investments and who should pay the costs. For  
5 example, on page two to its Answer to Amended Complaint With New Matter in  
6 Docket C-20066800 filed in March of 2008, Equitable states “it is appropriate that  
7 producers pay the cost of facilities installed to enable them to bring their gas to  
8 market.” Exhibit DMB-5 – Answer at 2.

9 So, EGC now insists that producers and marketers “may well be primary  
10 beneficiaries of the gathering system” when just four years ago EGC insisted that  
11 system supply customers were the primary beneficiaries. Exhibit DMB-4 ( IOGA  
12 I-13). Over the last nine years, EGC has been reacquiring gathering facilities, but  
13 its reasons for doing so are not clear. If Equitable insists that the primary  
14 beneficiaries of these facilities are now producers and marketers, why would EGC  
15 – as a public utility – want to keep acquiring these facilities and putting them in  
16 its related rate base instead of using its capital to invest in projects that primarily  
17 benefit its own customers?

18 The simple answer is the investments made by EGC in its gathering  
19 facilities are and always have been for the benefit of its own system supply and  
20 transportation customers. The gas that comes into EGC’s gathering facilities is  
21 either used for system supply or delivered to EGC transportation customers.  
22 Exhibit DMB-4 ( IOGA IV-15). EGC’s customers enjoy the gas cost savings that  
23 Pennsylvania gas provides, and EGC’s investments in projects that improve

1 deliverability of local gas should be borne by those who cause those costs to be  
2 incurred – the customers who obtain the benefits .

3 **Q. DON'T PRODUCERS AND MARKETERS RECEIVE A BENEFIT FROM**  
4 **BEING ABLE TO TRANSPORT THEIR PRODUCT THROUGH**  
5 **EQUITABLE'S GATHERING FACILITIES?**

6 A. Yes but, the benefit they receive is not as a gas delivery service customer of  
7 public utility service but as a supplier or vendor.

8 **EGC IS ATTEMPTING TO RECOVER GATHERING FACILITY**  
9 **INVESTMENTS FROM "NON CUSTOMERS"**

10 **Q. DOES EGC CONSIDER PRODUCERS AND MARKETERS TO BE**  
11 **CUSTOMERS OF EGC?**

12 A. EGC's view on the subject depends on the circumstances. EGC did not provide  
13 notice to Rate AGS "customers" of its intent to file for an increase in rates,  
14 probably because they do not view producers and marketers as "jurisdictional  
15 customers." Exhibit DMB-5 – Answer at 5. EGC's tariff also states that the  
16 customers to whom service is provided are comprised of "Residential  
17 Customers," "Commercial Customers," "Industrial Customers" and "Heating  
18 Customers." EGC Tariff, First Revised Page No. 5. Thus, it seems EGC does not  
19 treat producers and marketers as customers, except when it is time to bill them.

20 **Q. ARE THERE INSTANCES WHEN A SUPPLIER COULD BE A**  
21 **CUSTOMER OF A UTILITY?**

22 A. Utilities do provide some services to suppliers and marketers that are ancillary to  
23 the provision of gas service, such as balancing, banking and storage. These  
24 services do not involve charging suppliers for rate base investments and ongoing  
25 operation and maintenance of the utility's facilities that were installed for the  
26 benefit of the utility's sales and delivery service customers.

1 Q. IF THE PUC WERE TO ALLOW RATE AGS TO REMAIN A SERVICE  
2 IN EGC'S TARIFF, AND PERMIT EGC TO RECOVER ITS RATE BASE  
3 AND RETURN ON INVESTMENT FROM PRODUCERS AND  
4 MARKETERS, WOULD THE COMMISSION BE CHANGING THE  
5 DEFINITION OF "THE PUBLIC" REGARDING UTILITY SERVICE?

6 A. Yes, in my view. If the Commission allows Rate AGS to remain effective as  
7 proposed in this proceeding, and permits EGC to recover all the costs of its  
8 gathering facilities – including a return on its investment and overhead costs –  
9 from producers and marketers who receive no natural gas utility service from  
10 EGC and who are not considered "jurisdictional customers" even by EGC itself,  
11 then in my view, the definition of "public" in terms of utility service to the public  
12 and the definition of "rate base" in terms of "used and useful in the public  
13 service" will have been changed.

14 **APPROVAL OF RATE AGS WILL HAVE IMPLICATIONS FOR OTHER**  
15 **GAS UTILITIES THAT HAVE GATHERING FACILITIES IN THE**  
16 **COMMONWEALTH AND COULD HAVE AN ADVERSE IMPACT ON THE**  
17 **AVAILABILITY AND COST OF PENNSYLVANIA PRODUCED GAS**

18 Q. WOULD THE ALLOCATION OF GATHERING FACILITY COSTS TO  
19 PRODUCERS AND MARKETERS AND THE RECOVERY OF ALL  
20 THESE COSTS FROM PRODUCERS AND MARKETERS HAVE AN  
21 EFFECT ON THE AVAILABILITY TO EGC CUSTOMERS OF LOCAL  
22 PRODUCTION GAS?

23 A. If Rate AGS is permitted to remain effective as proposed in this proceeding,  
24 producers and marketers in Pennsylvania – instead of system supply and  
25 transportation customers – will likely be forced by all Pennsylvania utilities that  
26 have gathering investment in rate base, into paying for all of the costs of  
27 installing, operating and maintaining utility-owned gathering facilities which  
28 could have adverse consequences on the availability and cost of Pennsylvania

1 produced gas supplies. Mr. Crist and individual IOGA producers will address  
2 these issues.

3 In addition, a decision to permit recovery of gathering facility costs from  
4 producers and marketers instead of from system supply and transportation  
5 customers will achieve exactly what the statutory parties opposed in EGC's 2004  
6 1307(f) case at R-00049154, i.e., shift gathering system investment from base  
7 rates into gas costs.

8 **EQUITABLE'S RETAINAGE PROPOSAL PLACES COST RESPONSIBILITY**  
9 **ON THE WRONG PARTIES**

10 **Q. PLEASE DESCRIBE EQUITABLE'S RETAINAGE PROPOSAL UNDER**  
11 **RATE AGS.**

12 A. EGC is proposing to charge producers and marketers the costs associated with gas  
13 lost and unaccounted for on the gathering facilities and company use fuel through  
14 a "negotiated" retainage percentage.

15 **Q. DO YOU AGREE WITH THE COMPANY'S POSITION THAT**  
16 **PRODUCERS AND MARKETERS SHOULD BEAR ANY OF THE COST**  
17 **FOR GAS LOST OR UNACCOUNTED FOR ON THE GATHERING**  
18 **FACILITIES?**

19 A. No. Separate and apart from whether gathering facility investment should be  
20 allocated entirely to producers and marketers, gas lost and unaccounted for  
21 through the gathering facilities should be paid for by system supply customers and  
22 transportation customers up to a reasonable limit as a cost of operating the  
23 facilities, just as such gas costs on the distribution and transmission pipelines are  
24 recovered. Above that reasonable limit, the cost should be borne by shareholders  
25 of EGC as an incentive to keep its gathering facilities functioning properly.

1 Q. DO YOU AGREE THAT COMPANY USE FUEL SHOULD BE CHARGED  
2 TO PRODUCERS AND MARKETERS?

3 A. No I do not. The operation of compressor stations is part of the cost of delivering  
4 the gas to customers and is not a cost that should be borne by producers and  
5 marketers. In some cases, the compressor stations for which retainage under Rate  
6 AGS is being charged are not even classified as "gathering plant" on EGC's  
7 books of account. Exhibit DMB-4. (IOGA I-41). Specifically, the majority of the  
8 investments in the Creighton, Fisher, and Shoemaker compressor stations are  
9 considered transmission plant and approximately one-third of the investment in  
10 the Village station is considered transmission plant on EGC's books. EGC is  
11 assessing to producers and marketers costs of operating stations that are not even  
12 gathering investment on EGC's books. Compressor station fuel costs should be  
13 borne by system supply and transportation customers as part of the operating costs  
14 of delivering gas to them.

15 RECOMMENDATION

16 Q. MS. BURGRAFF, YOU HAVE EXPLAINED THE REASONS WHY YOU  
17 BELIEVE THAT GATHERING FACILITY INVESTMENT AND  
18 EXPENSES SHOULD BE ALLOCATED TO SALES AND DELIVERY  
19 SERVICE CUSTOMERS RATHER THAN TO LOCAL PRODUCERS  
20 AND MARKETERS THROUGH RATE AGS. HOWEVER, IF THE  
21 COMMISSION DISAGREES WITH YOUR RECOMMENDATION AND  
22 DECIDES THAT IT WANTS PRODUCERS AND MARKETERS TO  
23 CONTRIBUTE TO THE OVERALL CAPITAL, OPERATING AND  
24 MAINTENANCE COSTS OF EQUITABLE'S GATHERING FACILITIES,  
25 WHAT CHANGES TO THIS RATE DO YOU RECOMMEND?

26 A. First, Equitable should be required to prove that all of the facilities that it has  
27 allocated or assigned to Rate AGS properly belong in that classification. Second,  
28 the rates and retainage percentages are now "negotiable" with no ceiling charge,  
29 and Equitable proposes no change to this. Equitable should be required to set a

1 maximum charge for the service under the rate schedule and adhere to the  
2 Commission's "two-pronged test" for determining when discounting is acceptable  
3 because EGC's position is that there is no "discounting" of charges under Rate  
4 AGS because the rates are "negotiated." In no case should a rate above the  
5 maximum charge be charged. (Presently EGC is charging a \$1.00 per Dth  
6 gathering rate under Rate AGS to some producers and marketers which is above  
7 the cost of service at proposed rates of \$0.89 per Dth rate not including the effect  
8 of retainage) Exhibit DMB-4 (IOGA I-8).

9 **Q. WITH RESPECT TO THE FIRST ISSUE, WHAT SPECIFIC FACILITIES**  
10 **ARE YOU QUESTIONING AS TO WHETHER THEY SHOULD BE**  
11 **ALLOCATED OR ASSIGNED TO RATE AGS?**

12 A. First, certain compressor facilities that are shown on Equitable's books as  
13 transmission compressor stations have been charged to Rate AGS, including the  
14 fuel used in those stations. Those stations were mentioned previously in my  
15 testimony. Equitable should be required to demonstrate why the capital and  
16 operating costs of these stations are included in Rate AGS.

17 Regarding the gathering lines themselves, many of these lines were  
18 formerly part of the Carnegie and Apollo systems, and they were used to directly  
19 serve customers. Now even though there are over 3600 customers served directly  
20 from these lines, Equitable has classified these lines as gathering lines and is  
21 charging producers and marketers for these pipeline costs instead of the customers  
22 who are served from them. Equitable should be required to clearly show which  
23 facilities are gathering and which are distribution, and why they are properly  
24 classified as such.

1 **Q. DO YOU HAVE ANY OBSERVATIONS CONCERNING THE**  
2 **“NEGOTIATED RATE” PROVISIONS OF RATE AGS?**

3 A. Yes. EGC is currently permitted to “negotiate” the transportation rate component  
4 of Rate AGS with producers and marketers and also “negotiate” the retainage  
5 percentage component. IOGA has attempted through discovery to find out the  
6 reasons why Equitable charges at time less than the highest rate of \$1.00 per Dth  
7 that it is currently charging for gathering transportation component. Equitable did  
8 not make clear in its response to IOGA I-3 (Exhibit DMB-4 ) if it was just  
9 ignoring part of the question on this subject or claiming confidentiality. IOGA  
10 asked again in IOGA III-5 (Exhibit DMB-4) and was told by Mr. Wiggers that the  
11 reason for the charging less than their highest gathering rate that they currently  
12 are charging of \$1.00 per Dth was that the rate was “negotiable.” There is no  
13 ceiling or floor charge for Rate AGS currently – it is completely at EGC’s  
14 discretion for producers that have no viable economic alternatives. Equitable is  
15 unwilling to disclose the reasons why they are charging the wide variety of rates  
16 and retainage percentages that they are charging to producers and marketers.

17 In response to discovery and as previously mentioned, the rate needed to  
18 recover gathering allocated costs from suppliers and marketers under EGC’s cost  
19 study at proposed rates, without retainage, is \$0.89 per Dth. Exhibit DMB-4  
20 (IOGA I-8). EGC is estimating to add 730,000 Dth of additional gathering  
21 throughput in the future test year at \$1.00 per Dth rate. Also, EGC plans to  
22 “negotiate” higher rates under existing agreements resulting in an additional  
23 \$391,921 of revenue in the future test year. Exhibit DMB-4 (IOGA IV-3 and IV-

1 4). EGC's ability to raise its rates at will for recovery of rate base and expenses  
2 should not be allowed.

3 I recommend that EGC be required to set maximum gathering rates that  
4 may be charged and be required to adhere to the Commission's policies  
5 concerning when the discounting of rates is an acceptable practice. The current  
6 ability of EGC to charge whatever it wants or can extract based on "negotiation"  
7 is completely unfair when the other party to the negotiation (namely the producer)  
8 has no leverage because EGC is the only economically viable pipeline alternative  
9 available for gathering the producer's gas. EGC's proposal to continue a  
10 completely negotiable rate amount should be rejected.

11 **Q. DO YOU BELIEVE RATE AGS COSTS SHOULD BE SHARED BY BOTH**  
12 **UTILITY SERVICE CUSTOMERS AND PRODUCERS AND**  
13 **MARKETERS WHO USE THE GATHERING FACILITIES BY WAY OF**  
14 **A RATE AGS CHARGE?**

15 A. No. IOGA's position is that the costs of EGC's gathering facilities should be  
16 borne by the utility service customers of the utility. As noted, IOGA's position  
17 was shared by Mr. Feingold when he testified before this Commission in the base  
18 rate case previously referenced and has been the position of this Commission for  
19 well over thirty years.

20 However, if this Commission now feels that it is time to depart from its  
21 long held view, and require producers and marketers – who are not customers of  
22 the utility – as a matter of policy to share the costs of gathering facility rate base,  
23 expenses and overhead, then producers and marketers should only be required to  
24 pay a share of gathering facility costs, but certainly not all of them. Other classes

1 of customers are the primary if not sole beneficiaries of these facilities and should  
2 be required at the very least to pay the bulk of the costs.

3 If the Commission wants to make this policy decision to require producers  
4 and marketers to share in the costs that a public utility incurs for investment in  
5 and maintenance of a gathering system, then the most that should be charged  
6 under Rate AGS to producers and marketers is 27 cents, based on proposed rates.  
7 This charge was derived by taking 30% of the cost-of-service rate at proposed  
8 rates of 89 cents for Rate AGS as computed by EGC in response to IOGA  
9 discovery as shown in Exhibit DMB-4 (IOGA 1-8). 30% represents the  
10 relationship of gathering throughput to total deliveries which is a reasonable  
11 approach in my view for apportioning some of the costs of the existing gathering  
12 system if this policy decision is made. I should note, however, that if the revenue  
13 requirement at proposed rates is reduced in the final outcome of this proceeding,  
14 then the 27 cent rate that I have recommended under this alternative should be  
15 reduced proportionately using the calculation I have described.

16 I want to emphasize that my strong recommendation is that producers and  
17 marketers should not be required to pay for gathering system facilities that are in  
18 rate base and installed for use in the public service.

### 19 IMPACT ON RATES

20 **Q. IF YOUR RECOMMENDATION TO CANCEL RATE AGS IS**  
21 **APPROVED, WHAT IS THE IMPACT ON CUSTOMERS OF EGC?**

22 **A.** As I have previously stated, I recommend that all of the costs of Equitable's  
23 gathering facilities and other non-gathering costs that have been allocated to Rate  
24 AGS be recovered from EGC's residential, commercial and industrial customers.



1 project that EGC would not need to do anyway as part of its obligation to procure  
2 least cost supply for its ratepayers and to maintain system safety and reliability.

3 IOGA would favor a collaborative approach to developing such a program  
4 after this proceeding to be filed at a future date with the Commission. Such a  
5 program could be a “win” for all parties if such a program encouraged investment  
6 by EGC that it would not otherwise need to make and provide more local  
7 production for Pennsylvania ratepayers while providing benefit to IOGA  
8 members by enabling them to get more gas to market.

9 **Q. IF EGC COULD DEMONSTRATE THAT IT HAD A CAPITAL**  
10 **INVESTMENT PROJECT INCLUDED IN THIS FILING THAT FELL**  
11 **INTO THE CATEGORY THAT YOU HAVE JUST DESCRIBED (THAT**  
12 **IS A PROJECT THAT BENEFITS NOT ONLY SYSTEM SUPPLY**  
13 **CUSTOMERS AND TRANSPORTATION CUSTOMERS, BUT ALSO**  
14 **PRODUCERS AND/OR MARKETERS AND WOULD BE A PROJECT**  
15 **THAT EGC WOULD NOT NEED TO DO AS PART OF ITS**  
16 **OBLIGATION TO ACQUIRE LEAST COST SUPPLY) WOULD YOU**  
17 **SUPPORT A CHARGE IN THIS PROCEEDING TO PRODUCERS**  
18 **AND/OR MARKETERS FOR SUCH A PROJECT?**

19 A. Yes. While this project may not have not gotten significant producer input in  
20 advance of its development, EGC’s future test year project (I believe it is called  
21 the “Limestone Project”) for \$13.8 million for the installation of a 10,000 feet 8  
22 inch mainline and the construction of a new compressor station with a  
23 dehydration unit to the new Eshbaugh interconnection with Dominion  
24 Transmission may be such a project. Without additional information, I am not  
25 sure if it is the type of project that I am envisioning in my proposal. If this project  
26 enables EGC to reduce its interstate pipeline contracts for the benefit of system  
27 supply customers or provides some other significant benefit to system supply  
28 customers and also enables producers to get incremental gas supplies to market –

1 and in addition if this project would not be cost-effective for system supply and  
2 transportation customers without producer contributions to the cost – then it may  
3 be type of project that I am envisioning where producer contributions may be  
4 appropriate. EGC would need to demonstrate clearly what benefits accrue to  
5 system supply and transportation customers from the project and what benefits  
6 accrue to producers from the project. EGC would need to demonstrate that this  
7 project would either not need to be done anyway as part of its obligation to  
8 acquire least cost supply or could not be done cost effectively for its system  
9 supply and transportation ratepayers absent producer contributions.

10 **Q. ASSUMING EGC CAN MAKE THESE DEMONSTRATIONS THAT YOU**  
11 **HAVE JUST OUTLINED, COULD CHARGING PRODUCERS BE**  
12 **APPROPRIATE FOR THIS PROJECT?**

13 A. Yes. It could be appropriate to have producers voluntarily agree to contribute a  
14 portion of the cost of the specific project if producers could receive significant  
15 benefits from the project and the project met the conditions I outlined in my  
16 previous answer.

17 **Q. DO YOU KNOW IF EGC HAS ALREADY TAKEN STEPS TO OBTAIN**  
18 **PRODUCER COMMITMENT TO PAY AN INCREMENTAL**  
19 **GATHERING CHARGE RELATED SPECIFICALLY TO THE**  
20 **LIMESTONE 2008 CAPITAL PROJECT?**

21 A. By letter-agreement dated May 1, 2007 from Mr. Rafferty to producers, EGC  
22 explained its intent to collect an incremental \$0.25 per Dth from producers who  
23 flow more volumes because of the project. Exhibit DMB-6 (Rafferty letter) It is  
24 my understanding that revenues related to the Limestone Project are reflected in  
25 the future test year revenues in this filing. These contributions by producers were  
26 not treated as contributions-in-aid-of construction (“CIAC), but instead as other

1 operating revenue. Of course, EGC has not yet provided any demonstration that  
2 this project should not be done anyway without any producer contributions as part  
3 of its obligation to acquire least cost gas supplies. Until that demonstration is  
4 made, producer contributions – whether as revenue or CIAC – are premature and  
5 inappropriate. If EGC has begun collecting contributions relative to this project,  
6 they should be refunded until EGC clearly demonstrates that this proposal should  
7 not be done without producer contributions under its obligation to acquire least  
8 cost supplies for its customers.

9 **Q. TO CONCLUDE, COULD YOU PLEASE RESTATE YOUR**  
10 **RECOMMENDATIONS IN THIS PROCEEDING.**

11 A. I recommend that:

12 (1) Rate AGS be eliminated from Equitable tariff. It has served its  
13 purpose, that is, to permit EGC to recover a portion of the costs of the PA North  
14 Gathering System that acquired in 2003 until its next base rate case.

15 (2) Refunds be made to producers who were inappropriately charged  
16 Rate AGS who have meters that were either not on the PA North Gathering  
17 system at all or connected to distribution facilities and not to gathering facilities  
18 of EGC.

19 (3) EGC collaborate with producers to develop a cost-sharing program  
20 to be filed with the Commission that encourages gathering investments when  
21 those investments can benefit not only EGC's customers but also producers.  
22 These investments would be those that would bring more Pennsylvania supplies  
23 to customers of EGC but would not need to be done by EGC anyway as part of its  
24 obligation to acquire least cost supply or for safety and/or reliability reasons.

1           (4)     Finally, I recommend that EGC refund any amounts collected from  
2     producers relative to the Limestone project until EGC can demonstrate that the  
3     project would not need to be done without producer contributions as part of its  
4     obligation to acquire least cost gas supply.

5     **Q.     ARE THERE ANY OTHER ISSUES THAT YOU WOULD LIKE TO**  
6     **ADDRESS IN YOUR DIRECT TESTIMONY?**

7     A.     Yes, to the extent that there is outstanding discovery or discovery received within  
8     the last day or two that is still in need of review and was past due when received, I  
9     reserve the right to amend or supplement my direct testimony.

10    **Q.     DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

11    A.     Yes it does.

## Attachment A

Diane Meyer Burgraff received her B.S. from West Virginia University with a major in mathematics and received her M.B.A. from the University of Pittsburgh. She also graduated from a six-week full time executive education program from the University of Pittsburgh. She was employed for almost twenty-five years with the Peoples Natural Gas Company in Pittsburgh, PA. There the former Mrs. Meyer, held positions of increasing responsibility beginning as a Cost Analyst working on rate cases and budget project analyses. She was promoted to Assistant Director of Rates from 1981-1984, and then to Director of Rates from 1984-1990. She was elected Vice President of Financial and Rates from 1991 until a corporate realignment in 1997 when many financial responsibilities moved to CNG Corporate. After 1997 until her departure from Peoples Gas in 1999, she was Vice President of Rates and Regulatory Affairs. As Financial Vice President, Mrs. Burgraff was responsible for Accounting, Treasury, Rates and Budget functions. For two years she also was also responsible for the Information Technology area.

At Peoples Gas, Mrs. Meyer testified in every base rate case from 1981-1999, almost every gas cost proceeding during that time frame, and many other complaint cases and other cases involving her former employer in various courts.

Since leaving Peoples Gas, Diane Meyer Burgraff has worked as an independent consultant and has testified for the PA Office of Consumer Advocate and the WV Consumer Advocate Division of the Public Service Commission. She has also submitted testimony in R-00049783, a case involving Columbia Gas. She has also worked as a consultant for Gannett Fleming, Inc. on water, wastewater and natural gas matters.

**Exhibit DMB-1**

Equitable's Application  
(April 1, 2003)

ORIGINAL

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CHARLES E. THOMAS  
(1913 - 1998)

April 1, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P. O. Box 3265  
Harrisburg, PA 17105-3265

In re: Docket No.  
Application of Equitable Gas Company for Such Approvals as Are Necessary in  
Connection with Its Acquisition of the PA-North Gathering System from Its Affiliate,  
Equitable Field Services, LLC, and Its Proposed Gathering Service Rate Schedule

Dear Secretary McNulty:

Enclosed for filing on behalf of the Equitable Gas Company Division of Equitable Resources, Inc are an original and three (3) copies of the Company's application for such approvals as are necessary in connection with its acquisition of the PA-North Gathering System from its affiliate, Equitable Field Services, LLC, and its proposed gathering service rate schedule.

If the Commission should have any questions or need any additional information, please contact Daniel L. Frutchey, the Company's Senior Vice President and General Counsel, at 412-395-3202 or the undersigned at 717-255-7615.

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By

  
Charles E. Thomas, Jr.

Encl.

- cc: Office of Trial Staff (w/encl.)
- Office of Consumer Advocate (w/encl.)
- Office of Small Business Advocate (w/encl.)
- Daniel L. Frutchey (w/encl.)
- Stephen C. Rafferty (w/encl.)

Handwritten initials or mark, possibly "CF".

# ORIGINAL

Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Equitable Gas Company :  
 for Such Approvals as Are Necessary :  
 in Connection with Its Acquisition of :  
 the PA - North Gathering System from : Docket No.  
 Its Affiliate, Equitable Field Services, :  
 LLC, and Its Proposed Gathering :  
 Service Rate Schedule :  
 :

**TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:**

AND NOW, comes Equitable Gas Company ("EGC"), a division of Equitable Resources, Inc., by its attorneys, and applies to the Pennsylvania Public Utility Commission ("Commission") for such approvals as are necessary in connection with its acquisition of the PA - North Gathering System from its affiliate, Equitable Field Services, LLC ("EFS") and its proposed gathering service rate schedule. In support of this Application, EGC represents as follows:

**BACKGROUND**

1. EGC is the regulated utility division of Equitable Resources, Inc. EGC is engaged in the purchase, distribution, sale and transportation of natural gas and serves over 259,000 residential, commercial and industrial customers in the City of Pittsburgh and adjacent territories in Allegheny, Armstrong, Butler, Clarion, Fayette, Greene, Indiana, Jefferson, Washington and Westmoreland Counties in Southwestern Pennsylvania

2. EFS is a Delaware Limited Liability Company. EFS is engaged in the provision of gathering and gas purchases from field lines and owns approximately 107 miles of gathering pipeline in Armstrong and Indiana Counties which EFS refers to as its PA - North Gathering System. EGC provides retail natural gas service to approximately 520 essential human needs residential customers along the PA - North Gathering System.

3. EGC and EFS propose to enter into a Bill of Sale and Assignment pursuant to which EGC will acquire the PA - North Gathering System from EFS.

**APPROVAL OF BILL OF SALE AND ASSIGNMENT WITH AFFILIATE**

4. Section 2102(a) of the Public Utility Code, 66 Pa. C.S. §2102(a), provides that no contract or arrangement for the purchase, sale or exchange of any property between a public utility and any affiliated interest shall be valid or effective unless and until such contract has received the written approval of the Commission.

5. Section 2102(b) of the Public Utility Code, 66 Pa. C.S. §2102(b), provides that it shall be the duty of every public utility to file with the Commission a verified copy of contracts with affiliated interests and that the Commission shall approve such contracts only if it shall clearly appear and be established upon investigation that the contract in question is reasonable and consistent with the public interest.

6. Section 2102(b) further provides that no contract with affiliated interests shall receive the Commission's approval unless satisfactory proof is submitted to the Commission of the cost to the affiliated interest of furnishing the property and that no proof shall be satisfactory unless it includes the original or verified copies of the relevant cost records of the affiliated interest. The Commission may, however, where reasonable, approve or disapprove such contracts without the submission of such cost records.

7. Allowing a non-affiliated third party to acquire the PA - North Gathering System could place at risk, from both an operational and a cost perspective, service to the approximately 520 essential human needs residential customers presently served by EGC along the System.

8. A form of the Bill of Sale and Assignment between EGC and its affiliate, EFS, is attached hereto as Attachment A. An accounting exhibit showing the net book value of the PA - North Gathering System, estimated to be roughly \$500,000, will be filed

with the Commission within the next two weeks. EGC submits that the proposed assignment is reasonable and consistent with the public interest pursuant to Chapter 21 of the Public Utility Code.

**APPROVALS, IF ANY, PURSUANT TO CHAPTER 11 OF THE  
PUBLIC UTILITY CODE**

9. Section 1102 of the Public Utility Code, 66 Pa. C.S. §1102, identifies those acts that require the approval of the Commission evidenced by the issuance of a certificate of public convenience. Section 1102(a)(3), 66 Pa. C.S. §1102(a)(3), requires the issuance of a certificate of public convenience for a public utility to acquire the title to any tangible property used or useful in the public service. An acquisition is, however, exempt from the certification requirement if the property to be acquired is to be installed new as a part of or consumed in the operation of the used and useful property of the public utility. 66 Pa. C.S. §1102(a)(3)(iii).

10 EGC's acquisition of the PA - North Gathering System would seem to fall within the exemption noted in Section 1102(a)(3)(iii). While the System is tangible property that EGC is acquiring for use in the public service, it will be consumed in the operation of EGC's existing used and useful property. EGC submits that its acquisition of the PA - North Gathering System is, therefore, exempt from the certification requirements of Chapter 11 of the Public Utility Code but, if it is not exempt, then EGC respectfully requests that the Commission issue a Certificate of Public Convenience authorizing its proposed acquisition of the PA - North Gathering System from EFS.

APPROVAL OF PROPOSED GATHERING SERVICE RATE SCHEDULE

11. Although acquisition of the PA - North Gathering System would increase rate base and operating and depreciation expense, EGC is not proposing any increase in its existing rates by virtue of the proposed acquisition. At the same time, in connection with the acquisition of the PA - North Gathering System, EGC would begin providing a gathering service to those producers with facilities along the System route. Consequently, a proposed gathering service rate schedule is attached hereto as Attachment B. The rate for the service will be negotiated between EGC and the producer. EGC respectfully requests that the Commission allow the proposed gathering rate schedule to go into effect on less than 60 days notice, immediately following the Commission's approval of this Application and the submission of EGC's compliance filing.

WHEREFORE, Equitable Gas Company prays that the Public Utility Commission issue such approvals as are necessary in connection with its acquisition of the PA - North Gathering System from its affiliate, Equitable Field Services, LLC, and its proposed gathering service rate schedule.

Respectfully submitted,

By



Charles E. Thomas, Jr., Esquire  
Thomas T. Niesen, Esquire  
THOMAS, THOMAS, ARMSTRONG & NIESEN  
212 Locust Street, Suite 500  
P.O. Box 9500  
Harrisburg, PA 17108-9500

Daniel L. Frutchey  
Senior Vice President and General Counsel  
EQUITABLE GAS COMPANY  
200 Allegheny Center  
Pittsburgh, PA 15212

Attorneys for Equitable Gas Company,  
a Division of Equitable Resources, Inc.

**ATTACHMENT A**

## BILL OF SALE AND ASSIGNMENT

**THIS BILL OF SALE AND ASSIGNMENT** is made and entered into to be effective as of the \_\_\_ day of \_\_\_\_\_, 2002 by and between Equitable Field Services, LLC, a Delaware limited liability company, with an office at Four Allegheny Center, 9<sup>th</sup> Floor, Pittsburgh, PA 15212, hereinafter referred to as "EFS" and Equitable Gas Company, a division of Equitable Resources, Inc., a Pennsylvania corporation, with an office at 200 Allegheny Center Mall, Pittsburgh, PA 15212 hereinafter referred to as "Equitable Gas".

**WHEREAS**, EFS is the owner of certain gathering systems and facilities as described in an Order Authorizing Abandonment and Determining Jurisdictional Status of Facilities entered on February 14, 2002 by the Federal Energy Regulatory Commission ("FERC") and in an Assignment dated effective February 14, 2002 by and between Equitrans, LP and EFS;

**WHEREAS**, EFS desires to bargain, sell, assign, transfer and convey all of its right, title and interest in and to certain of those pipelines, properties and facilities unto Equitable Gas including all of its right, title and interest in all leases, deeds, easements, road grants, licenses, permits, rights of way agreements, or other interests in property and facilities relating thereto to the extent the same are necessary or convenient to the continued operation of the pipelines and appurtenant facilities;

**WHEREAS**, Equitable Gas wishes to accept such assignment and conveyance of all right, title and interest of EFS in and to the property more particularly identified and described below.

**NOW THEREFORE**, for and in consideration of the premises and the mutual promises and covenants made by the parties hereto, and further for and in consideration of Ten Dollars (\$10.00) cash in hand and other good and valuable consideration not recited herein, paid unto EFS by Equitable Gas, the receipt and sufficiency of which is hereby acknowledged, EFS does hereby **GRANT, BARGAIN, SELL, ASSIGN, CONVEY** and **TRANSFER** unto Equitable Gas, its successors and assigns, all of its right, title and interest in and to:

- I. Certain of those pipelines and facilities owned by EFS and referred to as Pennsylvania Gathering – North ("Pa-North") located in Armstrong and Indiana Counties, Pennsylvania known as the Atwood, Crooked Creek and Kelly gathering sections and generally described as follows:
  - (a) The Atwood section consists of approximately 18.7 miles of pipeline varying in size from two inches to 6.625 inches in diameter and ranging in length from six feet to 5.6 miles. The 45 lines that comprise this section for two primary backbone structures, lines F-175 and F-167, serve to gather the gas and deliver it directly to the Atwood

compressor station. The Atwood section includes a 340 horsepower (HP) compressor.

- (b) The Crooked Creek section consists of approximately 87 miles of pipeline varying in size from 1 inch to 20 inches in diameter and ranging in length from 2 feet to 11.1 miles. The 147 lines that comprise this section form both a backbone and web-like structure. The backbone configuration is comprised of Lines F-184, F-187, F-189, F-190 and F-200 gather the gas received from smaller pipelines and deliver it to the Crooked Creek compressor station.
- (c) The Kelly section consists of approximately 1.7 miles of pipeline varying in size from 2 inches to 8 inches in diameter and ranging in length from 1547 feet to 3,222 feet. The four lines that comprise this section form a web-like structure and gather gas for delivery to Equitrans' transmission line H-114.

and being more specifically described and identified in the Abbreviated Application for an Order Permitting and Approving Abandonment and Determining Non-Jurisdictional Gathering Status of Facilities and Service filed July 2, 2001 by Equitrans LP ("Application") and in the Order Authorizing Abandonment and Determining Jurisdictional Status of Facilities issued by FERC on February 14, 2002 ("Order") in FERC Docket No. CP01-396-000 and all leases, deeds, easements, road grants, licenses, permits, right of way agreements or other interest in property and facilities relating thereto to the extent the same are necessary or convenient to the continued operation of the pipelines and appurtenant facilities;

- 2. All attendant meters and all pressure control devices and other appurtenant equipment, rights and privileges, including associated easements, rights of way, or other interests in property and facilities which EFS possesses to the extent the same are necessary or convenient to the continued operation of the pipelines and facilities; and
- 3. All contracts and agreements relating primarily to or otherwise affecting the pipelines, meters, compressor stations and facilities transferred hereunder which are not otherwise described above.

TO HAVE AND TO HOLD the forgoing unto Equitable Gas, its successors and assigns.

This instrument is signed by EFS and Equitable Gas as of the date of acknowledgement of their signatures below, but is effective for all other purposes as of the Effective Date of \_\_\_ \_\_ stated above.

IN WITNESS WHEREOF, the parties hereto have executed this Bill of Sale and Assignment by their respective officers, duly hereunto authorized.

**Assignor**  
**Equitable Field Services, LLC**

**Assignee**  
**Equitable Gas Company,**  
**A division of Equitable Resources, Inc.**

\_\_\_\_\_  
By:  
Its:

\_\_\_\_\_  
By:  
Its:

**ACKNOWLEDGEMENTS**

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, a Notary Public in and for said County and State, do certify that the foregoing **BILL OF SALE AND ASSIGNMENT** was this day produced to me in said County and State aforesaid and duly acknowledged before me by \_\_\_\_\_, known to me to be the \_\_\_\_\_ of **EQUITABLE FELD SERVICES, LLC.**

Witness my hand this \_\_\_\_ day of \_\_\_\_\_, 2003.

My commission expires \_\_\_\_\_.

(OFFICIAL SEAL)

\_\_\_\_\_  
Notary Public

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, a Notary Public in and for said County and State, do certify that the foregoing **BILL OF SALE AND ASSIGNMENT** was this day produced to me in said County and State aforesaid and duly acknowledged before me by \_\_\_\_\_, known to me to be the \_\_\_\_\_ of **EQUITABLE GAS COMPANY, a division of Equitable Resources, Inc.**

Witness my hand this \_\_\_\_ day of \_\_\_\_\_, 2003.

My commission expires \_\_\_\_\_.

(OFFICIAL SEAL)

\_\_\_\_\_  
Notary Public

**ATTACHMENT B**

---

---

RATE AGS - APOLLO GATHERING SERVICE (C)

APPLICABILITY

This rate schedule shall be applicable throughout the Apollo District for natural gas produced in and available for redelivery in the Apollo District.

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system for redelivery into the Company's Apollo District provided that there exists: (1) a gas purchase agreement with the Company; or, a gas purchase agreement with a third-party having service under a Company transportation Rate Schedule has been executed; and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATE

The applicable rate for this service shall be determined by negotiation. The Company shall retain a separate quantity of gas for fuel, loss and unaccounted for gas required to provide this gathering service.

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

CHARACTER OF SERVICE

Equitable's only obligation under this Rate Schedule shall be to receive gas from any Appalachian receipt point and to permit that gas to flow against the existing pressure in Equitable's facilities. Equitable shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 11.13 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit Equitable's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

---

---

(C) Indicates Change.

ISSUED:

R. L. CRAWFORD  
PRESIDENT

EFFECTIVE:

VERIFICATION

I, STEPHEN C. RAFFERTY, Director - Gas Acquisition and Management of Equitable Gas Company, a Division of Equitable Resources, Inc., hereby state that the facts set forth in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: March 31, 2003

  
STEPHEN C. RAFFERTY

RECEIVED  
MARCH 31 2003  
STATE OF PENNSYLVANIA  
DEPARTMENT OF REVENUE

*Thomas, Thomas, Armstrong & Niesen*  
*Attorneys and Counsellors at Law*

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212 LOCUST STREET  
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121100  
121100

CHARLES E. THOMAS  
(1913 - 1998)

April 28, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P. O. Box 3265  
Harrisburg, PA 17105-3265

SECRETARY'S BUREAU  
OFFICE 717-1000

In re: Docket No.  
Application of Equitable Gas Company for Such Approvals as Are Necessary in  
Connection with Its Acquisition of the PA-North Gathering System from Its Affiliate,  
Equitable Field Services, LLC, and Its Proposed Gathering Service Rate Schedule

Dear Secretary McNulty:

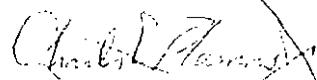
On April 1, 2003, we filed the above referenced Application on behalf of the Equitable Gas Company Division ("Equitable" or "Company") of Equitable Resources, Inc. In Paragraph 8 of the Application Equitable stated that it would be submitting an Accounting Exhibit to the Public Utility Commission which would show the net book value of the PA - North Gathering System. Four copies of the Accounting Exhibit are enclosed. Please include the Exhibit with the original Application.

If the Commission should have any questions or need any additional information, please contact Daniel L. Frutchey, the Company's Senior Vice President and General Counsel, at 412-395-3202 or the undersigned at 717-255-7615

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By

  
Charles E. Thomas, Jr.

Encl.

cc: Office of Trial Staff (w/encl.)  
Office of Consumer Advocate (w/encl.)  
Office of Small Business Advocate (w/encl.)  
Daniel L. Frutchey (w/encl.)  
Stephen C. Rafferty (w/encl.)  
H. Edwin Rodrock (w/encl.)

G - 000 31069

SECRETARIAT'S BUREAU  
03 MAR 28 PM 11:01

# ACCOUNTING EXHIBIT

**Equitable Gas Company**  
**Original Cost and Net Book Value**  
**PA - North Gathering System**  
**At February 28, 2003**

<u>Plant</u>	<u>Original Cost</u>	<u>Net Book Value</u>
General	\$ 3,096	\$ 522
Production and Gathering	<u>1,156,925</u>	<u>670,376</u>
Total	<u>\$ 1,160,021</u>	<u>\$ 670,898</u>

SECRETARY'S BUREAU  
 FEB 28 2003 PM 14:01

## **Exhibit DMB-2**

Rate AGS - Apollo Gathering Service

Rate AGS - Appalachian Gathering Service

RATE AGN - APOLLO GATHERING SERVICE (C)

APPLICABILITY

This rate schedule shall be applicable throughout the Apollo District for natural gas produced in and available for redelivery in the Apollo District.

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system for redelivery into the Company's Apollo District provided that there exists: (1) a gas purchase agreement with the Company; or, a gas purchase agreement with a third-party; and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATE

The applicable rate for this service shall be determined by negotiation. The Company shall retain a separate quantity of gas for fuel, loss and unaccounted for gas required to provide this gathering service.

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

CHARACTER OF SERVICE

Equitable's only obligation under this Rate Schedule shall be to receive gas from any Appalachian receipt point and to permit that gas to flow against the existing pressure in Equitable's facilities. Equitable shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 11.13 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit Equitable's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

CANCELLED  
BY  
310 Revised Page No. 98  
EFFECTIVE  
10.1.04

(C) Indicates Change.

ISSUED: November 25, 2003

EFFECTIVE: November 26, 2003

R. L. CRAWFORD  
PRESIDENT

RATE AGS - APPALACHIAN GATHERING SERVICE

R-00049454

APPLICABILITY

These rates shall be applicable throughout the territory served by the Company, i.e., Equitable and Apollo Districts. (C)

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system for redelivery into the Company's service territory i.e., Equitable and Apollo Districts, provided that there exists: (1) a gas purchase agreement with the Company; or, a gas purchase agreement with a third-party, and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff. (C)

RATE

The applicable rate for this service shall be determined by negotiation. The Company shall retain a separate quantity of gas for fuel, loss and unaccounted for gas required to provide this gathering service.

OFFICIALLY FILED TARIFF

TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

CHARACTER OF SERVICE

Equitable's only obligation under this Rate Schedule shall be to receive gas from any Appalachian receipt point and to permit that gas to flow against the existing pressure in Equitable's facilities. Equitable shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 11.13 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit Equitable's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

(C) Indicates Change

ISSUED: September 30, 2004

EFFECTIVE: October 1, 2004

D. L. FRUTCHEY  
SENIOR VICE PRESIDENT

## **Exhibit DMB-3**

Testimony in:

Docket No. R-00049154

(Relevant Page(s) Only)

EGC Witness Robert M. Narkevic (Direct)

EGC Witness Stephen C. Rafferty (Direct)

EGC Witness John M. Quinn (Rebuttal)

OSBA Witness Brian Kalcic (Surrebuttal)

OCA Witness Jerome D. Mierzwa (Surrebuttal)

OTS Witness Michael J. Gruber (Direct)

Docket No. R-2008-2021160

Relevant Page(s) Only)

Thomas P. Wiggers (Direct)

**DOCKETED**

JUN 22 2004

Equitable Statement No. 1

Docket No. R-00049154

Witness: Robert M. Narkevic

Date: 6/15/04 Hlg TX

**DOCUMENT**

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RECEIVED

EQUITABLE GAS COMPANY

Prepared Direct Testimony of  
Robert M. Narkevic  
(Prepared April 2004)

1 indicating changes to the current Rate AGS - Apollo Gathering Service, discussed  
2 below. At the time an FSS offering is made, the Company will submit for approval  
3 a change to the Migration Rider B tariff page so as to display separate Demand and  
4 Commodity components of the E-factor.

#### 6 **IV. Rate Schedule AGS – Apollo Gathering Service**

7 Q. WHAT IS RATE SCHEDULE AGS – APOLLO GATHERING SERVICE?

8 A. Rate Schedule AGS – Apollo Gathering Service -- is a negotiated rate for  
9 gathering natural gas in the Company's Pa-North (Crooked Creek) gathering system,  
10 primarily in Armstrong and Indiana Counties, and in the Company's Apollo District.

11  
12 Q. WHAT CHANGES IS THE COMPANY PROPOSING TO RATE SCHEDULE  
13 AGS - APOLLO GATHERING SERVICE?

14 A. The Company is proposing to rename Rate Schedule AGS - Apollo  
15 Gathering Service as Rate Schedule AGS - Appalachian Gathering Service. The  
16 Company is also proposing minor changes to the applicability and availability  
17 sections of this Rate Schedule. The changes can be found in the Proposed Tariff  
18 Page included in the definitive filing.

19  
20 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

21 A. Yes.

Equitable Statement No. 2    *EXH SER-1*  
Docket No. R-00049154  
Witness: Stephen C. Rafferty  
Date: *6/15/04* *126g*

**DOCUMENT**

EQUITABLE GAS COMPANY

Prepared Direct Testimony of

Stephen C. Rafferty

(Prepared April 2004)

**DOCKETED**  
JUN 22 2004

1 PUBLIC UTILITY CODE PRIOR TO THE COMPANY ENTERING INTO THIS  
CONTRACT WITH NFGS?

3 A. Yes. The Company posted a notice on its corporate website on March 1, 2003,  
4 requesting proposals for firm replacement capacity. This notice was presented to  
5 encourage interested parties to submit capacity alternatives if any existed.

6 Q. DID THE COMPANY RECEIVE COMMENTS OR PROPOSALS FOR  
7 ALTERNATIVE CAPACITY?

8 A. No. To date, Equitable has not received any replacement proposals which has  
9 been the case with all capacity postings since the enactment of Section 2204 of the Public  
10 Utility Code.

11 Q. DID EQUITABLE FILE A PETITION WITH THE COMMISSION SEEKING  
AUTHORIZATION TO ENTER INTO THESE NFGS CONTRACTS PURSUANT TO  
13 SECTION 2204(e)(4), OF THE PUBLIC UTILITY CODE?

14 A. Yes. Petitions were filed on March 31, 2004 and copies were served upon the  
15 Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business  
16 Advocate.

17  
18 **NORTHERN ASSET OPTIMIZATION PROGRAM**

19 Q. PLEASE DESCRIBE THE COMPANY'S NORTHERN ASSET OPTIMIZATION  
20 PROGRAM.

21 A. The Company's Northern Asset Optimization Program consists of five (5)  
22 projects designed to increase pipeline capacity, lower pressures on the gathering system

1 and ultimately increase local Appalachian production on the Equitable distribution  
2 system. These projects are specific to the assets formerly associated with the Apollo and  
3 Carnegie Gas Companies. Some of the benefits associated with completing these projects  
4 include: obtaining a low-cost source of supply; reducing dependency on interstate  
5 pipelines; reducing interstate pipeline demand costs; lowering PGC Rates; and, reducing  
6 unit/operating costs, e.g., compression.

7 Q. WOULD YOU DESCRIBE THE FORMER APOLLO AND CARNEGIE GAS  
8 COMPANIES.

9 A. Yes. The former Apollo and Carnegie Gas Companies were operated as an  
10 integrated natural gas pipeline system consisting of gathering lines, pipelines and local  
11 distribution facilities located in West Virginia and Pennsylvania. These gathering systems  
12 feed natural gas into field compressors which, in turn, deliver this gas into feeder lines  
13 that eventually transport the gas through subsequent compressor stations to the  
14 metropolitan Pittsburgh area. The projects mentioned above are specific to these feeder  
15 lines and compressor stations. Carnegie Natural Gas Company and its affiliated  
16 subsidiaries were sold by USX-Marathon Group to Equitable Resources on December 15,  
17 1999. Consistent with the settlement reached with the Office of Consumer Advocate in  
18 the Carnegie merger proceeding at Docket No. A-121100 F0004, F0005 and A-120600  
19 F2000, these Companies are now merged for ratemaking purposes with Equitable Gas  
20 Company.

21 Q. WOULD YOU DISCUSS THE PROJECTS MENTIONED ABOVE IN MORE  
22 DETAIL.

1 A. Yes. Listed below is a brief description and estimated costs for each project in the  
Company's Northern Asset Optimization Program:

3 (1) Port Perry, North Versailles, Allegheny County, PA, requires the installation  
4 of an interconnection between the D383 (10" steel) and the M81 (16" steel) mainlines  
5 to facilitate the bi-directional movement of gas (\$652,520 est.).

6 (2) Penn Hills Township, Allegheny County, PA, requires the installation of an  
7 interconnection between the H153 (16" steel) and the M81 (16" steel) mainlines to  
8 facilitate the bi-directional movement of gas (\$351,200 est.).

9 (3) Creighton Township, Allegheny County, PA, requires the upgrade and  
10 automation of two existing engines, compressors and controls at the Creighton  
11 Compressor Station to facilitate the movement of local Appalachian gas (\$1,413,434  
12 est.).

13 (4) Various townships, Allegheny, Armstrong and Butler Counties, PA, require  
14 that we renew approximately 19,000 feet of the M67 (12" steel) and upgrade the  
15 entire M67 pipeline between the Creighton Compressor Station and the Shoemaker  
16 Compressor Station. This project will facilitate higher pressures on the M67 pipeline  
17 and lower pressures on the gathering system upstream of the Shoemaker Compressor  
18 Station (\$3,059,305 est.).

19 (5) Bethel Township, Armstrong County, PA, requires the replacement of the  
20 Shoemaker Compressor Station dehydration plant and the installation of valve  
21 automation to facilitate the movement of local Appalachian supplies and ensure gas  
22 quality (\$1,100,000 est.).

1           The Company estimates that the completion of these projects will facilitate the  
2 movement of an average incremental volume of 10,000 dth/day at a total cost of  
3 approximately \$6,576,459.

4 Q.       CAN YOU QUANTIFY SOME OF THE BENEFITS MENTIONED PREVIOUSLY.

5 A.       Yes. As I mentioned previously, the Company believes that by completing these  
6 projects it will have the ability to obtain additional low-cost sources of supply and also  
7 reduce its dependency on upstream interstate pipelines. Attached to my testimony as  
8 Exhibit SCR-1 is a schedule that identifies potential gas cost savings. I will discuss these  
9 savings in more detail below. Basically, these gas cost savings are a result of avoiding  
10 variable charges on the upstream interstate pipelines.

11 Q.       WHAT CHARGES COULD BE AVOIDED?

12 A.       Whenever gas is transported across an interstate pipeline there are two types of  
13 variable charges that the interstate pipeline assesses; a transportation or usage fee and a  
14 retainage fee. These fees may change on a seasonal basis. Ignoring occasional basis  
15 differentials, it typically costs more to purchase and transport gas from the Gulf Coast  
16 area than it does to purchase local direct feed Appalachian supplies.

17 Q.       WHAT DOES EXHIBIT SCR-1 INDICATE?

18 A.       Exhibit SCR-1 indicates the variable charges incurred to transport gas on Texas  
19 Eastern Transmission from the East Louisiana Zone ("Ela") into Equitrans and then  
20 across Equitrans to the Company's citygate. I have adjusted the variable charges to reflect  
21 the seasonal differentials. For example, during January 2004, the Inside FERC Texas  
22 Eastern Ela Index price was \$6.12/dth. The variable charges assessed at that time would

1 equal \$0.731/dth resulting in a total delivered citygate rate equal to \$6.851/dth (\$6.12 +  
2 \$0.731). If Equitable were to purchase local direct-feed Appalachian supply at an  
3 estimated cost equal to the average of the Inside FERC Dominion-Appalachian and  
4 Columbia-Appalachia Indexes, the price for January 2004 would equal \$6.44/dth.  
5 Therefore, the net savings during that month would equal \$0.411/dth (\$6.851 - \$6.44).  
6 This methodology is also employed for a summer month as well to reflect the seasonal  
7 differences in the transportation and retainage fees. The estimated savings during a  
8 summer month, such as June 2003, would equal \$0.25/dth. I have assumed the  
9 completion of these projects would facilitate the movement of an average incremental  
10 10,000 dth/day. Under these assumptions, the Company would expect to save  
11 approximately \$1,156,135 annually. If the volumes were increased from 10,000 dth/day  
12 to 15,000 dth/day, these savings would increase to \$1,734,203 annually.

13 Q. WHAT OTHER SAVINGS COULD POTENTIALLY OCCUR IF THESE PROJECTS  
14 ARE COMPLETED?

15 A. As previously mentioned, the Company has a significant number of its firm  
16 transportation and firm storage contracts expiring March 31, 2005. Provided operational  
17 and reliability matters are alleviated, the potential exists to reduce the annual demand  
18 charges associated with some of these interstate pipelines thereby providing additional  
19 savings to PGC customers. However, absent the completion of these projects, the  
20 Company may not have this option.

21 Q. IS THE COMPANY PROPOSING TO RECOVER THE COSTS ASSOCIATED WITH  
22 THESE PROJECTS IN THIS PROCEEDING?

1 A. Yes. The Company believes there can be significant savings to PGC customers if  
these projects are completed. In return, the Company is requesting approval to recover  
3 the costs associated with these projects. Please see the Direct Testimony of John Quinn  
4 for additional information regarding the recovery of these costs.

5 Q. WHAT OTHER OPERATIONAL CONSIDERATIONS ARE ASSOCIATED WITH  
6 THESE PROJECTS?

7 A. The Btu content or heat value can be significantly higher with local Appalachian  
8 supply than gas that is transported and delivered on an interstate pipeline. Typically,  
9 interstate pipeline gas has a heat content slightly higher than 1,000 btu's per cubic foot.  
10 Appalachian supplies usually have a heat content equal to 1,050 - 1,080 btu's per cubic  
11 foot. The reason for this difference is that interstate pipeline supplies are processed at  
12 extraction plants and the higher btu natural gas hydrocarbons, e.g., hexanes, propanes,  
13 butanes, are removed. This process does not occur with local direct feed Appalachian  
14 supplies because the costs to do so are prohibitive. This high btu Appalachian supply  
15 impacts the PGC customers and the Company in several ways.

16  
17 **HIGH BTU APPALACHIAN SUPPLY**

18 Q. WHAT IMPACT DOES THE HIGH BTU APPALACHIAN SUPPLY HAVE ON THE  
19 COMPANY OR THE PGC CUSTOMERS?

20 A. The high btu Appalachian supply impacts both the Company and the PGC  
21 customers. The heat content associated with this Appalachian supply is significantly  
22 higher than interstate pipeline supply, which results in the PGC customers using less gas.

1 In other words, the customers consume less gas because the higher btu gas burns "hotter".  
2 Since the customers consume less gas, the Company delivers less gas and subsequently  
3 experiences decreased delivery revenues.

4 Q. WOULD YOU DISCUSS THE IMPACT TO PGC CUSTOMERS IN MORE DETAIL?

5 A. PGC customers benefit from higher btu gas because they consume less gas than  
6 they otherwise would. The Company purchases gas supply on a dth basis. The Company  
7 bills consumers on a mcf basis. If the purchases were on a mcf basis the heat content and  
8 associated btu's would be irrelevant. As an example, assume a customer used 100 mcf  
9 annually and the associated heat content was equal to 1,010 btu's per cubic foot. The  
10 dth's that the Company purchased would equal 101 dth ( $100 * (1,010/1,000)$ ). Now  
11 assume the heat content was increased to 1,060 btu's per cubic foot. If everything on the  
12 customer side remained the same, i.e., the thermostat was not changed, cooking patterns  
13 were identical, etc., this customer would consume 95 mcf, not 100 mcf ( $101 \text{ dth} /$   
14  $(1,060/1,000)$ ).

15 Q. WOULD YOU DISCUSS THE IMPACT TO THE COMPANY IN MORE DETAIL?

16 A. The Company's current residential delivery rate is \$2.523/mcf. If the customer  
17 described above uses 100 mcf annually, the Company would receive \$252.30 in delivery  
18 revenues ( $100 * \$2.523$ ). If the btu content increases and this customer only uses 95 mcf  
19 annually, the delivery revenues would be \$239.68 ( $95 * \$2.523$ ) or a decrease of \$12.62  
20 ( $\$252.30 - \$239.68$ ). Multiply this scenario by 250,000 customers and this phenomenon is  
21 significant.

22 Q. HAS THE COMPANY ACTUALLY EXPERIENCED THIS PHENOMENON?

1 A. Yes. During the Company's last general rate case in 1997 the average system heat  
content utilized was 1,045 btu's per cubic foot. During last year's 1307(f) proceeding, the  
3 Company utilized an average system heat content equal to 1,060 btu's per cubic foot. The  
4 Company's annual PGC sales in mcf during 1997 and 2003 were 30,123,375 and  
5 26,268,776, respectively. Over this time period, the Company has experienced a  
6 noticeable decrease in the mcf consumed per customer. Part of this decrease is attributed  
7 to the higher heat content of the gas purchases.

8 Q. ARE THERE ANY SIGNIFICANT EVENTS THAT HAVE CONTRIBUTED TO THE  
9 INCREASE IN THE COMPANY'S AVERAGE SYSTEM HEAT CONTENT?

10 A. Yes. As I previously mentioned in my testimony, Equitable purchased the  
11 Carnegie Natural Gas Company and its affiliated subsidiaries from USX-Marathon Group  
12 in December 1999. This purchase provided Equitable with significantly more access to  
13 local Appalachian production. During 1997, the Company purchased approximately 3.2  
14 Bcf of local Appalachian production. By 2003, the local Appalachian production  
15 purchases more than doubled to 8.4 Bcf.

16 Q. DOES THE COMPANY HAVE A RECOMMENDATION TO ADDRESS THE HIGH  
17 BTU APPALACHIAN SUPPLY?

18 A. Yes. Please see the Direct Testimony of John Quinn for additional information  
19 regarding the recovery of these costs.  
20  
21  
22

Equitable Statement No. 3-1

Docket No. R-00049154

Witness: John M. Quinn

6/15/04 Hly TX

DOCUMENT

EQUITABLE GAS COMPANY

Prepared Rebuttal Testimony of

John M. Quinn

(Prepared May 2004)

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DOCKETED  
JUN 22 2004

1 PREPARED REBUTTAL TESTIMONY OF JOHN M. QUINN

2  
3 **I. Witness Background**

4 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE  
5 RECORD.

6 A. My name is John M. Quinn. My business address is 200 Allegheny Center,  
7 Pittsburgh, PA 15212.

8  
9 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

10 A. I am employed by Equitable Gas Company ("Equitable" or "Company"), a  
11 division of Equitable Resources, Inc., as Director of Rates.

12  
13 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS  
14 PROCEEDING?

15 A. Yes, I submitted direct testimony that has been marked as Equitable  
16 Statement No. 3.

17  
18 **II. Purpose of Testimony**

19  
20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS  
21 PROCEEDING?

22 A. My rebuttal testimony will respond to proposals made in the direct testimony  
23 of Office of Consumer Advocate ("OCA") witness Jerome D. Mierzwa, Office of

1 Small Business Advocate ("OSBA") witness Brian Kalcic, and Office of Trial Staff  
2 ("OTS") witness Michael Gruber. Specifically, I will respond to issues raised  
3 concerning the Company's proposal to recover expenses associated with the  
4 Northern Asset Optimization Program, natural gas heating value, and issues related  
5 to the flexing of fuel retainage to meet competition.

### 7 **III. Northern Asset Optimization Program**

8  
9 Q. WHAT IS THE NORTHERN ASSET OPTIMIZATION PROGRAM?

10 A. A complete description of The Northern Asset Optimization Program  
11 (NAOP) was provided in Equitable's Statement No. 2, containing the direct  
12 testimony of Equitable witness Stephen C. Rafferty. In summary, Equitable has  
13 identified specific projects which upgrade or modify existing facilities acquired by  
14 the Company through the acquisition of the Carnegie Natural Gas Company,  
15 including its Apollo Division, in 1999. The NAOP, estimated to cost \$6.6 million,  
16 is for the sole purpose of increasing Pennsylvania-produced natural gas volumes  
17 into Equitable's distribution system. Benefits associated with the increased  
18 Pennsylvania production will accrue primarily to Purchased Gas Cost ("PGC") rate  
19 customers, the state of Pennsylvania, and the various companies which purchase the  
20 Pennsylvania-produced gas in lieu of natural gas produced elsewhere and  
21 transported into Equitable's service territory. In his direct testimony, Mr. Rafferty  
22 estimated the annual PGC savings associated with the NAOP to be between \$1.2  
23 and \$1.7 million. No witnesses in this proceeding have contested Mr. Rafferty's

1 annual savings projections. In fact, OTS witness Mr. Gruber and OCA witness  
2 Mierzwa specifically agree in their direct testimony that the Company should  
3 undertake the NAOP.

4  
5 Q. WHAT IS EQUITABLE'S PROPOSAL RELATED TO THE NAOP?

6 A. As was the case with a similar proposal accepted by the Commission and  
7 detailed in Equitable's Restructuring Proceeding at Docket No. R-00994784 and the  
8 Company's Year 2000 Section 1307(f) proceeding at Docket No. R-00005067, the  
9 Net Present Value (NPV) generated from the NAOP will be extremely positive and  
10 economically beneficial to the Company's customers. Consistent with the  
11 settlements in those proceedings, Equitable is proposing to recover the cost of the  
12 NAOP as a purchased gas demand cost through each annual 1307(f) filing over the  
13 next six-year period, and to account for the recovery as a contribution in aid of  
14 construction.

15  
16 Q. IS EQUITABLE PROPOSING TO RECOVER CARRYING CHARGES ON THE  
17 \$6.6 MILLION INVESTMENT?

18 A. No. Again, consistent with the previous settlement in Docket Nos. R-  
19 00994784 and R-00005067, recoveries associated with the NAOP would be  
20 classified as a contribution in aid of construction. As a result, under Equitable's  
21 proposal, the entire \$6.6 million would not be included in rate base in the  
22 Company's next base rate filing and the Company would not earn a return on this  
23 investment through rates.

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Q. WHAT IS THE PRIMARY ISSUE REGARDING THE COMPANY'S NAOP PROPOSAL?

A. No parties to this proceeding oppose the Company's strategy to invest in the NAOP. The primary contested issue related to the Company's NOAP proposal is how, or if, the cost of the investment should be reflected in rates.

The OTS, OCA, and OSBA object to Equitable's proposal to recover the NAOP expenses through the PGC rate. In essence, their objections relate to the definition of gas costs and what gas cost expenses are appropriate for inclusion in the calculation of the PGC rate. All three opposition parties suggest that the cost of the NAOP should be addressed in a base rate case.

Q. DO THE OCA, OSBA, OR OTS REFERENCE ANY COMMISSION REGULATION(S) TO SUPPORT THEIR OPINION OF WHAT SHOULD OR SHOULD NOT BE CONSIDERED A GAS COST?

A. No. The OTS did propound an interrogatory to Equitable requesting that the Company provide all statutes and regulations that authorize the recovery of the costs of a capital project in a 1307(f) proceeding. Interestingly, OTS witness Gruber did not attach the Company's response to his testimony.

I have attached the Company's response to my rebuttal testimony as Attachment JMQ-1. As indicated in the response, the Company believes that the costs associated with the NAOP are consistent with the Commission's least cost fuel procurement regulations and the Commission's definition of gas costs contained in

1 Section 1307(h) of the Public Utility Code. The NAOP represents direct costs  
2 incurred for the improved deliverability of Pennsylvania-produced gas to  
3 Equitable's distribution system which directly benefits PGC rate customers. Again,  
4 I do not believe that any party disputes this proposition.

5  
6 Q. DO YOU INTERPRET THE OTS'S TESTIMONY TO IMPLY THAT THE  
7 COSTS OF THE NAOP MAY BE OPPOSED FOR INCLUSION IN RATE BASE  
8 IN EQUITABLE'S NEXT BASE RATE PROCEEDING?

9 A. Yes. When Equitable files its next base rate case, the Company is concerned  
10 that the OTS, or other intervenors may object to the inclusion of the NAOP  
11 investment in rate base. Mr. Gruber has carefully worded his first answer on page  
12 16 of his direct testimony, stating that "Typically these costs are included as part of  
13 the Company's rate base...". The Company does not perceive this statement as a  
14 ringing endorsement that the OTS will support inclusion in rate base of the NAOP  
15 investment. As described in the direct testimony of Equitable witness Rafferty, the  
16 NAOP costs are not typical gas distribution plant additions. A portion of the  
17 investment may ultimately be classified as Natural Gas Production and Gathering  
18 Plant. Based on Mr. Gruber's testimony, the OTS may oppose recovering the costs  
19 of the NAOP investment in distribution rates.

20  
21 Q. THE OCA AND OTS WITNESSES BELIEVE THAT THE SIX-YEAR  
22 RECOVERY PERIOD FOR THE NAOP PROPOSED BY THE COMPANY IS  
23 UNREASONABLE. DO YOU HAVE ANY COMMENTS?

1 A. Yes. The six-year amortization period was selected as a reasonable period to  
2 recover the NAOP costs because it approximates the breakeven point between the  
3 annual savings generated from the program, conservatively estimated to be between  
4 \$1.2 to \$1.7 million annually, and one-sixth of the cost of the program (\$6.6 million  
5 / 6 years = \$1.1 million). Therefore, during the six-year period, there is no adverse  
6 impact to PGC rate customers. The annual savings will equal the amortization of the  
7 costs. Because there is no financial impact to PGC rate customers, the OTS's  
8 concern that the recovery of NAOP costs through the PGC rate would send  
9 "inappropriate price signals as to the price of gas" is unfounded.

10

11 Q. IF THE NAOP COSTS WERE INCLUDED IN RATE BASE, COULD PGC  
12 RATE CUSTOMERS BE WORSE OFF?

13 A. For comparison purposes, I have prepared Attachment JMQ-2 that compares  
14 the differences between the Company's recommendation and the OCA, OSBA, and  
15 OTS positions. If Equitable's recommendation is accepted, the Company will  
16 recover \$6.6 million over six years and PGC rate customers will save a similar  
17 amount. However, if the cost of the NAOP is included in rate base in Equitable's  
18 next base rate case, the Company will be afforded the opportunity to recover  
19 incremental income taxes, property taxes, depreciation expense, and a fair rate of  
20 return on the NOAP investment. If the new rates were to become effective in  
21 January 2006, the interval between base rate cases would be almost ten (10) years. If  
22 there were a similar interval between future rate cases, the Company will recover

1 nearly twice the cost of the original NAOP investment. Clearly, Equitable's  
2 proposal is more economically advantageous to PGC rate customers.

3  
4 Q. DO YOU BELIEVE THAT THE COMPANY IS OBLIGATED BY THE  
5 COMMISSION'S LEAST COST FUEL PROCUREMENT PROVISIONS TO  
6 INVEST IN PROJECTS SUCH AS THE NAOP AS SUGGESTED BY THE  
7 OCA?

8 A. No, the Company does not believe that these types of projects are mandatory  
9 as suggested by the OCA. The OCA is asking the Commission to accept the  
10 premise that if a capital project reduces gas costs, an NGDC should pursue the  
11 project regardless of the cost recovery procedure. If this were true, then all  
12 Pennsylvania NGDCs would be required to build pipelines to Appalachian  
13 production areas within Pennsylvania or better yet, to other low cost gas supply  
14 sources such as the Gulf of Mexico, and, if they failed to do so, the OCA would be  
15 recommending the disallowance of gas costs in NGDC's 1307(f) proceedings.

16  
17 Q. DOES EQUITABLE, OR ANY OTHER PENNSYLVANIA NGDC, HAVE  
18 OPPORTUNITIES SUCH AS THE NAOP?

19 A. Possibly. However we are not aware of any other NGDCs having proposed  
20 something similar to the NAOP. This proposal is a unique strategic initiative  
21 designed to maximize opportunities created as a result of the acquisition of the  
22 Apollo and Carnegie Systems. Equitable believes that the Commission should  
23 encourage this type of innovation, especially considering today's natural gas prices

1 and the many projects that compete for limited capital dollars. Equitable's NAOP  
2 proposal correlates with the creation\generation of gas cost savings for PGC rate  
3 customers. Attempts by other NGDCs to replicate Equitable's proposal should be  
4 held to the same gas cost savings standard.

5  
6 Q. THE OSBA STATES THAT SINCE THE LAST BASE RATE CASE  
7 EQUITABLE HAS SPENT APPROXIMATELY \$170 MILLION RELATED TO  
8 CAPITAL PROJECTS THAT HAVE AFFECTED GAS COSTS. DO YOU  
9 HAVE ANY COMMENT?

10 A. Yes. In a response to an OTS interrogatory, Equitable identified in excess of  
11 \$170 million in capital expenditures spent on literally hundreds of projects by the  
12 Company since its last base rate case that have had some effect on gas costs. In  
13 total, Equitable has invested over \$200 million in capital projects since its last base  
14 rate case. With the exception of the pipeline interconnection project considered at  
15 Docket Nos. R-00994784 and R-00005067, these projects were not for the purpose  
16 of securing new and lower cost gas supplies. If anything, the magnitude of the  
17 Company's capital expenditures should emphasize the uniqueness of the NAOP and  
18 the previous pipeline interconnection proposal. As it did for the earlier pipeline  
19 interconnection proposal, the Company is seeking recovery of capital expended on a  
20 project that produces significant gas cost savings for PGC rate customers. As in the  
21 case of the earlier project, the savings generated from the NAOP will prove to be far  
22 in excess of the capital required to fund the project.

23

1 Q. IS EQUITABLE TRYING TO BY-PASS THE REGULATORY PROCESS?

2 A. No, it is not. We have not sought expedited recovery of the over \$200  
3 million spent on capital projects since the Company's last base rate proceeding, nor  
4 is Mr. Gruber correct when he asserts that Equitable is proposing recovery of these  
5 costs in the 1307(f) proceeding due to the base rate moratorium currently in place.  
6 As I have stated previously, Equitable has spent over \$200 million on capital  
7 projects since its last base rate proceeding. None of that plant is currently earning a  
8 return and Equitable is not seeking a return on that plant in this proceeding. Neither  
9 is Equitable proposing what has been described as "single issue ratemaking" to  
10 attempt to recover these costs. The NAOP costs are different. They are not  
11 distribution plant improvements. No customers will be served from the NAOP  
12 investment, nor will it generate a revenue stream independently. The NAOP  
13 involves the replacement of a high-pressure pipeline, a compressor station upgrade,  
14 and a dehydration facility. These are all gas supply facilities, and their costs should  
15 properly be recovered in a 1307(f) proceeding.

16  
17 Q. DO YOU AGREE WITH THE OSBA AND OCA THAT TRANSPORTATION  
18 CUSTOMERS WILL ALSO BENEFIT FROM THE NAOP?

19 A. They will to some extent. Transportation customers may benefit from the  
20 NAOP if they can secure gas supplies from a producer attached to the NAOP and  
21 deliver the gas to Equitable. If this occurs, Equitable is not opposed to charging  
22 transportation customers a fee to compensate for the benefits of the NAOP.



1 Q. WHY HAS THE COMPANY PROPOSED AN ADJUSTMENT TO REFLECT  
2 THE IMPACT OF HIGHER BTU GAS IN THIS PROCEEDING?

3 A. The purchase of higher Btu gas for PGC supply has a direct impact on the  
4 Company, and since it is related to the purchase of gas supply, it is an appropriate  
5 issue to be addressed in this 1307(f) proceeding.

6

7 Q. HAS EQUITABLE PROVIDED ANY ANALYSIS THAT SUPPORTS ITS  
8 POSITION ON THE DECLINE IN USAGE PER CUSTOMER?

9 A. Yes. In response to OTS Interrogatory OTS-105, the Company calculated  
10 the weather normalized average use per residential customers. The Company's  
11 response is attached to my rebuttal testimony as Attachment JMQ-3. The analysis  
12 supports Equitable's contention that the decline in the average use per customer  
13 coincides with the acquisition of the Apollo and Carnegie Systems in 1999. No  
14 intervenor has contested this fact.

15

16 Q. WHAT HAVE THE OCA, OSBA, AND OTS PROPOSED ON THIS ISSUE?

17 A. They oppose the Company's adjustment. Their opposition is premised on  
18 the argument that the Btu adjustment is not a gas cost, and therefore should not be  
19 included in the PGC rate determination. Unfortunately, the OCA, OSBA, and OTS  
20 would have the Commission ignore the adverse impact on the Company as a direct  
21 result of its acquiring additional Appalachian produced gas. The Btu's directly affect  
22 gas a customer's costs. The savings in gas costs from incremental volumes cannot  
23 be considered in a vacuum. They are a product of the higher Btu gas. The

1 Commission cannot look at only the benefits to customers without considering the  
2 related impact on the Company.

3  
4 **V. Discounting of Fuel Retention Charges**

5  
6 Q. HAVE YOU REVIEWED THE OTS DIRECT TESTIMONY RELATED TO THE  
7 ISSUE OF "FLEXING"?

8 A. Yes I have.

9  
10 Q. DO YOU HAVE ANY COMMENTS?

11 A. Yes. Generally, Equitable supports the concept that delivery service  
12 competition among NGDCs is ruinous and should be examined closely by the  
13 Commission. However, Mr. Gruber's testimony on this issue contains several errors,  
14 misstatements, and inaccuracies that require clarification in order to develop an  
15 accurate record in this proceeding. Also, OTS witness Mr. Gruber attempts to  
16 establish Commission policy without the benefit of an administrative hearing in  
17 which all parties can participate.

18  
19 Q. ON PAGE 20 OF MR. GRUBER'S DIRECT TESTIMONY, THE OTS HAS  
20 ATTEMPTED TO LIST EQUITABLE'S TARIFF PROVISIONS THAT PERMIT  
21 RATE DISCOUNTING. IS THIS A COMPLETE LIST?

1 A. No, it is not. In addition to the OTS partial list, all other delivery charges  
2 and monthly service charges, with the exception of Rate RS, GSS and GSL, are  
3 subject to negotiation between the Company and the Customer.

4  
5 Q. ON PAGE 21 OF MR. GRUBER'S DIRECT TESTIMONY, THE OTS STATES  
6 THAT TYPICALLY ONLY TRANSPORTATION CUSTOMERS BENEFIT  
7 FROM THE RATE FLEXING. DO YOU AGREE WITH THIS STATEMENT?

8 A. No I do not. Equitable's underlying ratemaking goal in negotiating rates  
9 with competitive customers is to maximize the level of revenue recovered. The  
10 revenue recovered from competitive customers and non-competitive customers  
11 contributes toward Equitable's overall cost of providing distribution service.  
12 Therefore, contributions from competitive transportation customers assist in  
13 lowering the overall revenue needed to recover Equitable's cost of service. As a  
14 result, all customers benefit from Equitable's rate maximization strategy.

15  
16 Q. ON PAGE 21 OF MR. GRUBER'S DIRECT TESTIMONY, THE OTS STATES  
17 THAT IN THE CASE OF BALANCING, FLEXING BY THE COMPANY  
18 TRANSFERS A PORTION OF THE COST TO SERVE A TRANSPORTATION  
19 CUSTOMER TO THE PGC RATE CUSTOMERS. DO YOU AGREE WITH  
20 THIS STATEMENT?

21 A. No I do not. Interestingly, on page 12 and 13 of Mr. Gruber's direct  
22 testimony, the OTS accurately described previous rate settlements related to the  
23 design of Equitable's balancing service and charges. However, his interpretation of

ORIGINAL

OSBA Statement No. 2

6/15/04 Hbg JK

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :  
COMMISSION :  
v. :  
EQUITABLE GAS COMPANY :

DOCUMENT

DOCKET NO. R-00049154

Surrebuttal Testimony of  
BRIAN KALCIC

DOCKETED  
JUN 22 2004

On Behalf of the  
Office of Small Business Advocate

Date Served: June 11, 2004

Date Submitted for the Record: \_\_\_\_\_

the results of PBR Design No. 2 since its inception. I believe that the fact that the Company chose not to do so is telling.

**Q. On page 27 of his rebuttal testimony, Mr. Rafferty characterizes the Company's Btu adjustment proposal as simply an attempt to be "kept whole" with respect to reduced delivery margins that would follow from the completion of the NAOP project. Do you agree?**

A. No. As I discussed on page 4 of my direct testimony, the proposed Btu adjustment would true-up margins dating back to the benchmark 1,045 Btu level establishing in the Company's last base rate proceeding. If the intent of the proposal were to keep the Company whole for *NAOP-related* margin losses only, the adjustment mechanism would have to employ a baseline heat content of 1,060 Btu's, i.e., the heat value identified in Equitable's last 1307(f) proceeding.

**Q. On page 29 of his rebuttal testimony, Mr. Rafferty offers a modification to the Company's Btu adjustment proposal that would *credit* customers for margin gains in the event that system average Btu content falls below 1,045 Btu's per cubic foot. Is that a meaningful concession to PGC customers?**

A. Not at all. Ignoring the fact that the 1,045 Btu baseline is inappropriate, the chance that the system average Btu content would fall below that baseline is *de minimis*.<sup>2</sup>

**Company Witness Quinn**

**Q. On page 4 of his rebuttal testimony, Mr. Quinn references Section 1307(h) of the Public Utility Code, and repeats the Company's position that Section 1307(h) authorizes the recovery of the costs of a capital project in a 1307(f) proceeding. Do you have any comment?**

A. Yes. While the OSBA obviously does not agree with Equitable on this point, counsel informs me that a proper interpretation of Section 1307(h) calls for a legal opinion, which the OSBA will provide in its Main Brief.

---

<sup>2</sup> See the response to OTS-104.

1  
2 **Q. On page 6 of his rebuttal testimony, Mr. Quinn discusses Attachment**  
3 **JMQ-2, which purports to compare the total cost to ratepayers**  
4 **associated with the Company's NAOP cost recovery proposal to that**  
5 **which would be produced in a base rate proceeding. What is your**  
6 **response?**

7 A. I believe that Mr. Quinn's analysis provides a perfect example of single-issue  
8 ratemaking. In essence, looking at the revenue requirement impact of a single  
9 investment project, like the NAOP, outside the context of a full base rate  
10 proceeding is misleading. Even if one were to assume that all the  
11 assumptions utilized by Mr. Quinn to compute his base rate case result were  
12 appropriate, his analysis ignores the fact that a base rate case would look at  
13 all components of the Company's revenue requirement. While the NAOP  
14 would have a positive impact on Equitable's revenue requirement, other  
15 components which were previously included in base rates could provide an  
16 offsetting effect. The final impact of a base rate case on ratepayers remains  
17 uncertain until all revenue requirement components are examined and  
18 quantified. Indeed, this is exactly why the Commission does not permit  
19 utilities to engage in single-issue ratemaking.

20 **Q. Beginning on page 11 of his rebuttal testimony, Mr. Quinn argues that**  
21 **the savings in gas costs arising from higher Btu gas should not be**  
22 **considered in a vacuum, i.e., the Commission should not ignore the**  
23 **adverse impact of higher Btu gas on the Company. Do you have any**  
24 **comments?**

25 A. Yes. If Equitable wishes to have the Commission examine the impact of  
26 rising system average Btu content on the Company's margins, it should file a  
27 base rate proceeding. In no event should the Commission simply allow the  
28 Company to implement its proposed Btu adjustment mechanism. As  
29 previously discussed, the mechanism would compensate Equitable for Btu  
30 impacts that have nothing to do with the NAOP and, if approved, would allow  
31 the Company to *retroactively* recover margins dating back to the time that  
32 base rates were last set. Counsel informs me such an outcome would  
33 constitute retroactive ratemaking, which is prohibited by statute.  
34

DOCUMENT

OTS Statement No. 1  
Witness: Michael J. Gruber  
Date: May 17, 2004  
6/15/04 ABg RK

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

EQUITABLE GAS COMPANY

DOCKETED

Docket No. R-00049154

JUN 22 2004

Division 1  
Section 1  
Office of Trial Staff

Direct Testimony

of

Michael J. Gruber

Office of Trial Staff

Concerning:

- Cash-in/Cash-out Pricing
- Balancing Tolerances
- Northern Assets Optimization Program Amortization
- Performance Based Rates: PBR 1 - Off-System Sales and Capacity Release  
and PBR 2 - No Notice Service
- Natural Gas Heating Value
- Flexing of Tariff Charges for Competition
- Hedging

1 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE**  
2 **COMPANY'S PBR 2 PROPOSAL.?**

3 A. It is my recommendation that the Commission deny the Company's  
4 proposal to extend the expiration date of its PBR Plan No. 2. Furthermore,  
5 the Company should be ordered to file schedules which show the  
6 comparable monthly and annual levels of costs and revenue, versus the  
7 guaranteed credit, for each of the previous two 1307(f) periods, before an  
8 extension of the expiration date is considered.

9

10 **NORTHERN ASSETS OPTIMIZATION**

11 **Q. WHAT IS THE NORTHERN ASSETS OPTIMIZATION**  
12 **PROGRAM?**

13 A. The Northern Assets Optimization Program is a capital investment program  
14 consisting of five projects designed to increase pipeline capacity, lower  
15 pressures on the gathering system, and increase local Appalachian  
16 production on the Company's system.

17 The projects are described on pages 21 and 22 of Company  
18 statement No. 2. On December 31, 2004, The Company has estimated the  
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3 PROGRAM IN THIS PROCEEDING?

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21 A. I agree with the Company's plan to improve its network. My objection is  
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5 Company's rate base and included in base rates. The inclusion in the PGC  
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10 A. Yes. Even if, hypothetically, this amortization was permitted to be  
11 included in gas cost, which it should not, the Company's proposed a six  
12 year amortization period is too short. By the Company's own admission, the  
13 average service life of the plant involved would be at least 50 years.  
14 Further, the life of a typical Appalachian natural gas may well be in excess  
15 of 60 years. The actual life of these assets can not be determined as yet  
16 because the breakdown by plant account is not available at this time.

17

18 **Q. WHAT IS YOUR RECOMENDATION AS TO WHAT THE**  
19 **COMMISSION SHOULD DO WITH THIS PROPOSAL?**

20 A. The Commission should not allow the inclusion of non-gas costs in this  
21 PGC or any other PGC. The Commission should reaffirm the distinction  
22 between base rate costs which are to be recovered in a 1308(d) proceeding

1 and gas costs which are recovered in a 1307(f) proceeding and deny the  
2 Company permission to include this amortization in the PGC.

3  
4 **Q. IS THE COMPANY CURRENTLY PROHIBITED FROM FILING A**  
5 **BASE RATE CASE?**

6 A. Yes. In the Commission Order at Docket No. P-00032070, Equitable is  
7 prohibited from filing a base rate case until January 1, 2006. This  
8 prohibition was agreed to by the Company in a settlement of the above  
9 docket. Therefore, it is my opinion that the Company's request for a base  
10 rate item to be included in gas cost is an attempt, by the Company, to  
11 negate a previously agreed to settlement and should be denied.

12  
13 **NATURAL GAS HEATING VALUE**

14 **Q. WHAT PROPOSAL HAS THE COMPANY MADE WITH**  
15 **REGARDS TO THE NATURAL GAS HEATING VALUE?**

16 A. The Company is proposing to include an amount in the calculation of the  
17 PGC (Purchased Gas Cost) to offset what it perceives as a shortfall in  
18 distribution revenue due to the reduction in sales from the Company's  
19 purchase and sale of gas with a higher BTU content.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSAL?**

2 A. The Company is adding a higher BTU Appalachian gas to its supply mix.  
3 This raises the average heat value of all gas sold on the Company's system.  
4 The result of a higher heat value gas is that customers will use less gas.  
5 When customers use less natural gas, the Company's non-gas revenues  
6 decrease, causing, what the Company would have us believe, is a revenue  
7 shortfall.

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9 **Q. DOES AN INCREASE IN HEAT VALUE AFFECT THE**  
10 **RECOVERY OF GAS COSTS?**

11 A. No.

12  
13 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO ADD**  
14 **AN ADJUSTMENT, REFLECTING THE ALLEGED DECREASE IN**  
15 **DISTRIBUTION REVENUE TO THE CALCULATION OF ITS**  
16 **COST OF GAS?**

17 A. No.

18  
19 **Q. WHAT IS THE BASIS OF YOUR DISAGREEMENT WITH THE**  
20 **COMPANY'S PROPOSAL?**

21 A. The Company is proposing to recover an alleged shortfall in base rate  
22 revenue which is affecting the Company's rate of return. It is now seeking

1 to recover this claimed shortfall in an inappropriate proceeding. The  
2 current proceeding is a forum for determining the Purchased Gas Cost rate.  
3 This proceeding is to examine the costs and practices associated with  
4 Company's procurement of gas not the delivery of that gas. The rates set  
5 by the Commission in this proceeding will allow the Company to recover  
6 its gas cost. The rates set by the Commission in a base rate proceeding will  
7 allow the Company an opportunity to recover its distribution related costs.  
8

9 **Q. IS THERE ANY OTHER REASON THIS TYPE OF ADJUSTMENT**  
10 **IS IMPROPER?**

11 A. Yes. On pages 6 and 7 of Company witness Quinn's testimony (Equitable  
12 Statement No. 3), the witness argues that the Company, in fulfilling its least  
13 cost procurement obligation to its customers, should be compensated for  
14 the reduction in Mcf sales by adding a base rate adjustment to the PGC in  
15 order to make up for the customers using less gas.

16 The Company argues that this higher BTU content gas is preventing  
17 the Company from earning a fair rate of return -- a base rate concept which  
18 has no place in a PGC proceeding. If the Commission allows the Company  
19 to include costs associated with rate of return in a PGC proceeding, it  
20 would be tantamount to giving the Company a guarantee for the recovery of  
21 rates. There are many factors which are used to determine fair and  
22 reasonable rates in a base rate proceeding. The Company's request is

DOCUMENT

OCA Statement No. 1-S  
6/15/04 Hbg  
AK

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC )  
UTILITY COMMISSION )  
v. )  
EQUITABLE GAS COMPANY )

DOCKET NO. R-00049154

DOCUMENT

JUN 22 2004

SURREBUTTAL TESTIMONY

OF

JEROME D. MIERZWA

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

JUNE 2004

EXETER

ASSOCIATES, INC.  
5565 Sterrett Place  
Suite 310  
Columbia, Maryland 21044

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC	)	
UTILITY COMMISSION	)	
	)	
v.	)	DOCKET NO. R-00049154
	)	
EQUITABLE GAS COMPANY	)	

SURREBUTTAL TESTIMONY OF JEROME D. MIERZWA

**I. INTRODUCTION**

1

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

3 A. My name is Jerome D. Mierzwa. I am a Principal and Vice President with Exeter  
4 Associates, Inc. My business address is 5565 Sterrett Place, Suite 310, Columbia,  
Maryland, 21044. Exeter specializes in providing public utility-related consulting  
6 services.

7 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS  
8 PROCEEDING?

9 A. Yes. My prepared direct testimony was presented as OCA Statement No. 1.

10 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

11 A. The purpose of my surrebuttal testimony is to respond to those portions of the rebuttal  
12 testimony of Equitable witnesses Stephen C. Rafferty, John M. Quinn and Jeffrey S. Nehr  
13 that addresses my direct testimony.

1 also receive a fixed credit of \$1.2 million. For the 12-month period ended March 2004,  
2 PBR Design No. 1 revenues have totaled \$5.117 million. Therefore, the Company is  
3 projected to receive an even greater share for the 12-months ending September 2004 than  
4 it did in the prior 12-month period. Meanwhile, the PGC customers' share will remain  
5 the same.

6  
7 **Issue: PBR Design No. 2**

8 Q. WITNESS RAFFERTY DISAGREES WITH YOUR RECOMMENDATION TO  
9 NOT EXTEND PBR DESIGN NO. 2 FOR AN ADDITIONAL YEAR. HOW DO  
10 YOU RESPOND?

11 A. As previously explained, the majority of Equitable's capacity contracts expire on March  
12 31, 2005. This includes the Company's contract with Equitrans for no-notice service.  
13 PBR Design No. 2 involves recovery of the costs associated with Equitrans no-notice  
14 service. It would be premature and unreasonable to extend the terms and conditions of  
15 PBR Design No. 2 beyond September 30, 2005 without knowing Equitable's future no-  
16 notice service contract quantities and costs. As with PBR Design No. 1, PBR Design No.  
17 2 was agreed to in last year's settlement negotiations and can be addressed in the  
18 Company's 2005 1307(f) proceeding. Under this approach, both of the Company's  
19 PBR's would be considered simultaneously. This appears to be something the Company  
20 finds desirable.

21  
22 **Issue: Northern Asset Optimization Program (NAOP)**

23 Q. WITNESS RAFFERTY CLAIMS THAT THE COMMISSION HAS  
24 PREVIOUSLY AUTHORIZED THE RECOVERY OF CAPITAL

INVESTMENT BY EQUITABLE OUTSIDE A BASE RATE PROCEEDING.  
DO YOU HAVE ANY COMMENTS?

A. Yes. First, Equitable's recovery of capital investment outside the context of a base rate proceeding was provided for in various settlements approved by the Commission which were agreed to by all the intervening parties. Furthermore, these settlements provided for the resolution of many contested issues. Therefore, you cannot look at one of the settled issues in isolation. Agreement among the intervening parties does not exist with respect to the NAOP in this proceeding. In addition, the recovery of Equitable's capital investment was contingent upon a demonstration of actual savings. Equitable's NAOP proposal in this proceeding is not contingent upon a demonstration of actual savings. There is no guarantee that the estimated NAOP savings will materialize.

**Issue: BTU Proposal**

Q. WITNESS RAFFERTY CLAIMS THAT THE COMPANY'S BTU PROPOSAL IS DIRECTLY RELATED TO ITS NAOP PROPOSAL. WHAT IS YOUR RESPONSE?

A. Witness Rafferty claims that the Company's Btu proposal is simply a means to be "kept whole" for reduced delivery margins due to the higher heat content of NAOP Appalachian gas. This is not accurate. The Company's Btu proposal provides for the recovery of reduced delivery margins due to increases in the heat content of the Company's gas which have occurred since 1996. The Company has not even commenced its NAOP project yet. Therefore, local gas resulting from NAOP has not yet affected the system. Any changes in Btu content that have occurred since 1996 are unrelated to NAOP. That is why costs such as those associated with the NAOP and revenue impacts due to changes in Btu content should be considered in the context of a base rate case.

1 **III. WITNESS: JOHN M. QUINN**

2 Q. WITNESS QUINN ALSO ADDRESSES THE NAOP AND BTU  
3 ADJUSTMENTS. DO YOU HAVE ANY INITIAL COMMENTS?

4 A. Yes. To eliminate duplication, I am limiting my response to witness Quinn's rebuttal  
5 testimony to aspects of those issues not previously addressed in my response to witness  
6 Rafferty.

7  
8 **Issue: Northern Asset Optimization Program**

9 Q. WITNESS QUINN CLAIMS THAT EQUITABLE BELIEVES THAT NAOP  
10 CONSTRUCTION EXPENDITURES ARE A GAS COST AS DEFINED IN  
11 SECTION 1307(H) OF THE PUBLIC UTILITY CODE. DO YOU HAVE ANY  
12 COMMENTS?

13 A. Yes. Whether NAOP construction expenditures are a gas costs is a legal issue which will  
14 be addressed by the OCA's attorneys in brief. Counsel informs me that it is the OCA's  
15 position that NAOP construction expenditures are not a gas cost as defined by the Public  
16 Utility Code.

17 Q. WITNESS QUINN CLAIMS THAT IF NAOP COSTS WERE INCLUDED IN  
18 BASE RATES, PGC CUSTOMERS COULD BE HARMED. WHAT IS YOUR  
19 RESPONSE?

20 A. Witness Quinn's claim is based on a cost of service analysis presented in Attachment  
21 JM2-2 to his rebuttal testimony. This cost analysis is deficient because it fails to  
22 recognize the reductions to operations and maintenance expenses Equitable will  
23 experience as a result of the NAOP. In addition, witness Quinn fails to distinguish  
24 between PGC customers and transportation customers in his analysis. That is, he  
25 incorrectly assumes that PGC customers should bear complete responsibility for NAOP

costs. As explained in my direct testimony, transportation customers should also bear  
2 NAOP cost responsibility.

3 Q. WITNESS QUINN DISAGREES WITH YOUR CLAIM THAT NGDCS ARE  
4 OBLIGATED TO INVEST IN PROJECTS SUCH AS THE NAOP IF THEY  
5 REDUCE GAS COSTS. DO YOU HAVE A RESPONSE?

6 A. NGDCs have the responsibility to minimize overall rates (PGC plus base rates) for their  
7 customers. Pursuing capital projects which increase base rates by more than the resulting  
8 gas cost savings would be inconsistent with this responsibility. Furthermore, as a  
9 component of an NGDC's overall gas procurement policy, the NGDC should pursue  
10 reasonable capital improvements that would reduce gas costs.

11  
12  
13 **Issue: BTU Proposal**

14 Q. WITNESS QUINN CLAIMS THAT THE DECLINE IN THE AVERAGE USE  
15 PER CUSTOMER DUE TO HIGHER BTU CONTENT GAS COINCIDES  
16 WITH EQUITABLE'S ACQUISITION OF THE APOLLO AND CARNEGIE  
17 SYSTEMS IN 1999. DO YOU HAVE ANY COMMENTS?

18 A. Yes. Equitable's Btu proposal fails to consider any of the savings resulting from the  
19 merger which would offset the margins lost due to the decline in the average use per  
20 customer. Considering only one aspect of the impact of the acquisition of the Apollo and  
21 Carnegie Systems constitutes single issue ratemaking and is a prime example  
22 demonstrating that such ratemaking is improper.  
23

DOCUMENT

OTS Statement No. 1 - X-OTS EXH 1  
Witness: Michael J. Gruber  
Date: May 17, 2004  
6/15/04 Hsg. JK

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

v.

**EQUITABLE GAS COMPANY**

DOCKETED

Docket No. R-00049154

JUN 22 2004

SEALING UNIT

DATE JUN 22 2004

RECEIVED

**Direct Testimony**

**of**

**Michael J. Gruber**

**Office of Trial Staff**

**Concerning:**

**Cash-in/Cash-out Pricing**

**Balancing Tolerances**

**Northern Assets Optimization Program Amortization**

**Performance Based Rates: PBR 1 - Off-System Sales and Capacity Release**

**and PBR 2 - No Notice Service**

**Natural Gas Heating Value**

**Flexing of Tariff Charges for Competition**

**Hedging**

1 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE**  
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3 A. It is my recommendation that the Commission deny the Company's  
4 proposal to extend the expiration date of its PBR Plan No. 2. Furthermore,  
5 the Company should be ordered to file schedules which show the  
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12 **PROGRAM?**

13 A. The Northern Assets Optimization Program is a capital investment program  
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10 **RECOVERY OF GAS COSTS?**

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14 **AN ADJUSTMENT, REFLECTING THE ALLEGED DECREASE IN**  
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16 **COST OF GAS?**

17 A. No.

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22 revenue which is affecting the Company's rate of return. It is now seeking

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4 Company's procurement of gas not the delivery of that gas. The rates set  
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6 its gas cost. The rates set by the Commission in a base rate proceeding will  
7 allow the Company an opportunity to recover its distribution related costs.

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10 **IS IMPROPER?**

11 A. Yes. On pages 6 and 7 of Company witness Quinn's testimony (Equitable  
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18 has no place in a PGC proceeding. If the Commission allows the Company  
19 to include costs associated with rate of return in a PGC proceeding, it  
20 would be tantamount to giving the Company a guarantee for the recovery of  
21 rates. There are many factors which are used to determine fair and  
22 reasonable rates in a base rate proceeding. The Company's request is

Equitable Statement No. 3  
Docket No. R-2008-2021160  
Witness: Thomas P. Wiggers  
Date:

EQUITABLE GAS COMPANY

Prepared Direct Testimony of

Thomas P. Wiggers

(Prepared April 2008)

1 within the natural gas industry. Equitable's Appalachian gas purchase  
2 agreements have varying terms, up to and including existing life-of-the-  
3 well agreements, which provide a stable source of supply.

4 Equitable's Appalachian supply includes two types: Appalachian-  
5 Direct and Appalachian-Transport. Appalachian-Direct refers to  
6 Appalachian supplies that are delivered directly into the Company's  
7 gathering systems or otherwise aggregated for delivery into the  
8 Company's distribution system. Appalachian-Transport refers to those  
9 Appalachian supplies that must be transported through Equitrans to the  
10 Company's distribution system.

11 Q. WHAT PERCENTAGE OF TOTAL SUPPLY DOES EACH SUPPLY  
12 SOURCE IDENTIFIED ABOVE REPRESENT DURING THE  
13 PROJECTED PERIOD?

14 A. During the projected period (12-month period ending September  
15 30, 2009), Equitable anticipates that its total supply will consist of  
16 approximately 8.06 million dekatherms ("Dth"), or roughly 30%, from  
17 Southwest production area sources and approximately 18.64 million Dth,  
18 or roughly 70%, from other Appalachian sources, including Appalachian-  
19 Transport and Appalachian - Direct.

20 Q. HAVE THE CURRENT SUPPLY SOURCES CHANGED WHEN  
21 COMPARED TO THE COMPANY'S 2007 1307(F) FILING?

22 A. Only slightly. Equitable's 2007 1307(f) filing indicated that its total  
23 supply would consist of approximately 8.65 million Dth, or roughly 33%,

1 actual and the assumed pressure would have a direct impact on the  
2 metered gas volume and also would contribute to UFG.

3 Q. PLEASE EXPLAIN HOW THE COMPANY'S UFG IS INCORPORATED  
4 INTO THE ANNUAL 1307(F) FILING.

5 A. In the filing, the Company forecasts the quantity of UFG volumes  
6 for the upcoming projected period. Using a forecast, and a projected cost  
7 of gas, the Company develops a total annual projected expense (in  
8 dollars), which includes the cost associated with UFG.

9 Q. PRIOR TO EXPLAINING THE RESULTS OF THE UFG STUDY, PLEASE  
10 PROVIDE A DESCRIPTION OF THE EQUITABLE SYSTEM.

11 A. As of December 31, 2007, Equitable served 258,152 residential,  
12 commercial and industrial customers in the City of Pittsburgh and adjacent  
13 territories in Allegheny, Armstrong, Butler, Clarion, Fayette, Greene,  
14 Indiana, Jefferson, Washington and Westmoreland Counties in  
15 Southwestern Pennsylvania.

16 The Equitable system is unique in that in addition to owning  
17 distribution assets, it also owns transmission assets as well as a  
18 significant amount of gathering facilities.

19 Q. HOW DID EQUITABLE COME TO ACQUIRE THESE GATHERING  
20 ASSETS?

21 A. In December 1999, the Company acquired gathering and other  
22 facilities from the Carnegie Natural Gas Company. In June 2003, this  
23 Commission approved the acquisition of the PA – North gathering system

1 from Equitable Field Services at Docket No. G-0031009. In June 2006,  
2 the Company acquired the Crooked Creek gathering facilities from  
3 Equitrans, L.P.

4 Q. WHY COULD THE ACQUISITION OF GATHERING FACILITIES RESULT  
5 IN AN INCREASE IN TOTAL SYSTEM UFG?

6 A. In general, gathering facilities experience a higher level of lost and  
7 unaccounted for gas than distribution or transmission facilities. Gathering  
8 facilities have a different maintenance standard than distribution and  
9 transmissions facilities. Gathering systems are constructed primarily to  
10 transport well-head production to transportation or distribution facilities,  
11 not to provide service to end-use customers. The decision to invest in  
12 gathering facilities is based on the projected level of supply from the  
13 upstream production wells. As a result of these gathering acquisitions and  
14 recent investments, approximately thirty-six percent (36%) of the total gas  
15 supply into the Equitable system is delivered through some portion of  
16 these gathering assets or aggregated into the distribution system.

17 Q. PLEASE PROVIDE A SUMMARY OF THE RESULTS OF THE OVERALL  
18 SYSTEM UFG STUDY.

19 A. The following details the UFG calculation for the period November  
20 2006 through October 2007.

21	Total Supply	52,741,688 Dth
22	Total Deliveries	<u>49,076,056 Dth</u>
23	Unaccounted for Gas	3,665,632 Dth
24	UFG %	6.95%

25  
26 The detailed study is attached to my testimony as Exhibit TPW-7.

1 Q. WHY DID THE COMPANY SELECT THE PERIOD NOVEMBER 2006  
2 THROUGH OCTOBER 2007 FOR THE STUDY?

3 A. By choosing the period November 2006 through October 2007, the  
4 study ends during light load conditions, which minimizes the effect of  
5 billing cycle adjustments and assures weather conditions have a minimal  
6 impact.

7 Q. WHAT ARE THE SUPPLY SOURCES DELIVERED ONTO EQUITABLE'S  
8 SYSTEM?

9 A. Equitable's supply sources include deliveries from Equitrans  
10 through custody transfer meters and Appalachian – Direct supplies  
11 delivered into the system.

12 Q. HOW MUCH SUPPLY WAS RECEIVED FROM EQUITRANS DURING  
13 THE STUDY PERIOD NOVEMBER 2006 THROUGH OCTOBER 2007?

14 A. During the period November 2006 through October 2007, Equitable  
15 received 33,980,782 Dth of supply from Equitrans. This represents 64%  
16 of the total supply delivered to Equitable over this period. A detailed listing  
17 of Equitrans custody receipts is attached to my testimony as Exhibit TPW-  
18 8.

19 Q. HOW IS THE SUPPLY FROM EQUITRANS RECEIVED?

20 A. Equitrans custody supply consists of 113 custody transfer meters  
21 that feed into the Equitable Gas distribution system. These demand-  
22 based meters include 26 meters with flow computers which are on-line

1 with the SCADA system and 75 meters with electronic gauges correcting  
2 for temperature and pressure as the gas flows.

3 Q. HOW MUCH SUPPLY WAS RECEIVED FROM APPALACHIAN –  
4 DIRECT PRODUCTION DURING THE UFG STUDY PERIOD  
5 NOVEMBER 2006 THROUGH OCTOBER 2007?

6 A. During the period November 2006 through October 2007, Equitable  
7 received 18,760,906 Dth of supply from Appalachian – Direct production.  
8 This represents 36% of the total supply delivered to Equitable over this  
9 period. This production was received from 1,495 points directly connected  
10 to Equitable's facilities. Please see Exhibit TPW-9 for a list of the  
11 production by meter.

12 Q. CAN YOU PROVIDE THE DEMAND REQUIREMENTS ON  
13 EQUITABLE'S SYSTEM?

14 A. The demand requirements include deliveries to customers,  
15 deliveries to Equitrans and gas used for company use. I will describe  
16 each of these in more detail below.

17 Q. CAN YOU PROVIDE THE CUSTOMER DEMAND FOR THE PERIOD  
18 NOVEMBER 2006 THROUGH OCTOBER 2007?

19 A. The customer demand for the period November 2006 through  
20 October 2007 was 47,408,438 Dth. This demand represents accrued  
21 throughput, converted to Dth, for customers served off of Equitable  
22 facilities, based on cycle billing during the study period. Please refer to  
23 Exhibit TPW-10 for details supporting the customer demand for the study

Equitable Gas Company		Appalachian - Direct												Total
		200611	200612	200701	200702	200703	200704	200705	200706	200707	200708	200709	200710	Total
Meter 1467	103	108	108	108	66	108	103	108	103	108	103	108	108	1,247
Meter 1468	72	74	74	74	67	74	72	74	72	74	74	74	74	873
Meter 1469	63	66	66	66	67	66	63	66	63	66	66	66	66	1,136
Meter 1470	76	77	77	77	70	77	75	77	75	77	77	77	77	911
Meter 1471	75	77	77	77	70	77	75	77	75	77	77	77	77	911
Meter 1472	72	74	74	74	67	74	72	74	72	74	74	74	74	873
Meter 1473	21	21	21	21	19	21	21	21	21	21	21	21	21	250
Meter 1474	68	68	68	68	64	68	68	68	68	68	68	68	68	806
Meter 1475	22	22	22	22	20	22	22	22	22	22	22	22	22	262
Meter 1476	29	29	29	29	27	29	29	29	29	29	29	29	29	349
Meter 1477	21	21	21	21	19	21	21	21	21	21	21	21	21	250
Meter 1478	63	66	66	66	60	66	63	66	63	66	66	66	66	849
Meter 1479	96	96	96	96	93	96	96	96	96	96	96	96	96	1,135
Meter 1480	50	52	52	52	47	52	50	52	50	52	52	52	52	611
Meter 1481	21	21	21	21	19	21	21	21	21	21	21	21	21	250
Meter 1482	72	74	74	74	67	74	72	74	72	74	74	74	74	873
Meter 1483	28	29	29	29	26	29	28	29	28	29	29	29	29	337
Meter 1484	346	357	357	357	322	357	346	357	346	357	357	357	357	4,204
Meter 1485	156	161	161	161	145	161	156	161	156	161	161	161	161	1,896
Meter 1486	57	59	59	59	54	59	57	59	57	59	59	59	59	699
Meter 1487	30	34	34	34	31	34	33	34	33	34	34	34	34	399
Meter 1488	47	48	48	48	44	48	47	48	47	48	48	48	48	574
Meter 1489	63	66	66	66	60	66	63	66	63	66	66	66	66	791
Meter 1490	108	109	109	109	99	109	108	109	108	109	109	109	109	1,265
Meter 1491	75	77	77	77	70	77	75	77	75	77	77	77	77	873
Meter 1492	89	89	89	89	84	89	88	89	88	89	89	89	89	1,036
Meter 1493	44	46	46	46	41	46	44	46	44	46	46	46	46	536
Meter 1494	18	17	17	17	16	17	18	17	16	17	17	17	17	200
Meter 1495	50	52	52	52	47	52	50	52	50	52	52	52	52	611
Total	1,378,186	1,590,530	1,590,599	1,399,736	1,580,321	1,809,278	1,704,295	1,833,359	1,483,167	1,813,863	1,561,126	1,682,666	1,870,908	18,750,908

## **Exhibit DMB-4**

Equitable's Responses to:

IOGA Set I-3

I-8

I-13

I-28

I-41

I-43

III-5

III-6

IV-1

IV-3

IV-15

VI-1

VI-5 (Summary pages only)

OTS

RS-14

Item: IOGA-13

- (a) Please list the number of customers currently using Kate AGS and provide the information in a tabular format listing customers by number (not name) separating the customers into the following categories: producer, end user, marketer, other. Please provide the information in Excel format.
- (b) For each customer listed in (a), please list next to the customer the rate currently being paid by the customer. If the customer is paying a discounted rate (i.e., a rate less than the highest rate currently being charged) please provide the reason for the discount next to the rate. If the reason is a competitive alternative, list the distance of the alternative pipeline and the name of the pipeline's owner (i.e., Dominion Peoples, etc), etc) that the customer could use. If the reason for the discount rate is not a competitive alternative, explain why a discount is being offered.
- (c) For each customer listed in (a), adding onto the schedule prepared in (b) add another column showing the level of shrinkage (or retamage) being charged by customer. If the retamage rate for a customer is less than the maximum amount currently being charged under Kate AGS please also explain why the customer is receiving a discount from maximum retamage charged.
- Response:
- Please see the attached for a list of the current gathering and retamage charges being assessed to Kate AGS customers. All Kate AGS charges are negotiated. The agreements related to the attached are confidential and are in possession of each IOGA member who is a party to the agreement. The agreements could be made available to counsel on a limited and confidential basis pursuant to terms of an appropriate confidentiality agreement and protective order.

Customer		Rate	
Type	Number	Gathering	Retainage
Producer	56	\$	0.00%
Producer	1	\$ 0.1400	0.00%
Producer	5	\$ 0.2500	0.00%
Producer	2	\$ 0.3000	0.00%
Producer	1	\$ 0.3500	0.00%
Producer	2	\$ 0.4000	0.00%
Producer	10	\$ 0.5000	0.00%
Producer	1	\$ 0.5000	2.00%
Producer	5	\$ 0.2500	5.00%
Producer	15	\$ 0.3000	5.00%
Producer	7	\$ 0.3500	5.00%
Producer	1	\$ 0.4000	5.00%
Producer	4	\$ 0.4500	5.00%
Producer	1	\$ 0.4656	5.00%
Producer	1	\$ 0.5000	5.00%
Producer	2	\$ 0.2500	5.40%
Producer	1	\$ 0.3000	5.40%
Producer	4	\$ 0.3500	5.40%
Producer	2	\$ 0.4000	5.40%
Producer	2	\$ 0.4500	5.40%
Producer	19	\$ 0.4656	6.68%
Producer	2	\$ 0.4756	6.68%
Producer	8	\$ 0.4791	6.68%
Producer	5	\$ 0.6500	7.50%
Marketer	1	\$ 0.1656	0.00%
Marketer	4	\$ 0.2500	0.00%
Marketer	1	\$ 0.3000	0.00%
Marketer	2	\$ 0.3500	0.00%
Marketer	1	\$ 0.4500	0.00%
Marketer	1	\$ 0.4656	0.00%
Marketer	1	\$ 0.4657	0.00%
Marketer	1	\$ 0.4791	0.00%
Marketer	2	\$ 0.5000	0.00%
Marketer	1	\$ 0.5500	0.00%
Marketer	1	\$ 1.0000	0.00%
Marketer	4	\$	0.00%
Marketer	1	\$ 0.4656	6.68%

Docket No. R-2008-2029325

Item: IOGA-4-8

Respondent: John M. Quinn

Position: Vice President, LDC Rates and Gas Supply

EQUITABLE GAS COMPANY

Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-4-8

Please calculate what a cost based Rate AGS would be for each cost-of-service study using the following assumptions: The numerator of the rate is the total cost of service at proposed rates for the Rate AGS service and the denominator is total gathering system throughput.

Response:

An arithmetical calculation which divides the total "cost of service" at proposed rates for Rate AGS service, as presented in Equitable Exhibit IV, by the total gathering system throughput would not produce a cost based rate for Rate AGS as suggested by the question. The cost of service studies presented in Equitable Exhibit IV are not intended to identify a maximum cost of service rate for negotiated Rate AGS. Rather, the studies simply identify \$7.5 million of the \$51.9 million revenue deficiency that should be recovered from Equitable's Rate AGS customers. The actual cost of service is much higher. The cost-of-service studies do not include estimated costs of gas related to compression or lost and unaccounted for volumes. The attached calculation estimates a Rate AGS cost of service of \$1.96 per Dth.

IOGA-1-8  
(\$000 Omitted)

1 Cost of Service	\$ 12,843
2 Billing Determinants (Dth)	14,444
3 Cost of Service Rate (Dth)	\$ 0.89
4 Retainage	9.00%
5 Retainage cost @ \$11.916	\$ 15,490
6 Total Cost	\$ 28,333
7 Total Cost of Service/Dth	\$ 1.96

Notes:

- 1 Exhibit IV, Item 53 53 IV-B-1(A), Sheet 1 of 85.
- 2 Exhibit III
- 3 Line 1 / Line2
- 4 Tariff retainage rate
- 5 June NYMEX close = \$11.916
- 6 Line 1 + Line 5
- 7 Line 1 + Line 5

Docket No. R-2008-2029325

Item: IOGA-I-13

Respondent: John M. Quinn

Position: Vice President, EDC Rates and Gas Supply

**EQUITABLE GAS COMPANY**

**Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania**

Item: IOGA-I-13

Please explain why the costs of Equitable's gathering system should not be allocated solely to its residential and general sales service customers who are the beneficiaries of Pennsylvania produced gas and also to those transportation customers who transport Pennsylvania supplies on Equitable's system.

Response:

Allocation of the cost of the gathering system solely to residential, general sales service, and transportation customers would lead to cross subsidization, inaccurate prices signals, and allow producers of Pennsylvania gas who benefit from the system and who may well be the primary beneficiaries of the system to escape paying any of the gathering system costs.

Docket No. R-2008-2029325

Item: IOGA-I-28

Respondent: John M. Quinn

Position: Vice President, LDC Rates and Gas Supply

**EQUITABLE GAS COMPANY**

Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-28

Does Equitable view its gathering system as a benefit to its ratepayers? Please explain.

Response:

Equitable views its gathering system as a benefit to its ratepayers. Customers receive natural gas service directly from gathering lines (service from field lines). Absent Equitable's service from field lines, distribution service line extensions, for the most part, would be uneconomic and therefore, many customers would be denied natural gas service.

Equitable also believes that a benefit will exist for residential, commercial, and industrial distribution customers of Equitable if PA production can be acquired and transported to Equitable's distribution system at prices less than city gate delivered interstate natural gas supply. Producers who use the gathering system to bring their gas to market also benefit from the gathering system.

Docket No. R-2008-2029325  
Item: IOGA-I-41  
Respondent: Carol B. Gras  
Position: Manager, Planning and Analysis

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-41

For each of the following compressor stations, please indicate the FERC account for the asset, its original cost, and its accumulated depreciation:

- (a) Crooked Creek
- (b) Atwood
- (c) Creighton
- (d) Village
- (e) Fisher
- (f) Shoemaker
- (g) Hill

Please provide the information in Excel format.

Response:

The attached analysis provides the requested information by compressor station as of June 30, 2008. Please note, since the Company uses the composite method to calculate depreciation expense, the accumulated depreciation reserve for each station is an estimate based on in-service dates and current depreciation rates.

**Equitable Gas Company - PA Division**  
**Compressor Stations by FERC Account**  
**As of June 30, 2008**

<u>Station</u>	<u>FERC Acct</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>
<b>Atwood (Avondale)</b>	327000	\$ 6,607	\$ (4,784)
	333000	106,355	(37,148)
	368000	554	(353)
	397500	3,096	(3,096)
<b>Total</b>		<u>\$ 116,612</u>	<u>\$ (45,382)</u>
<b>Creighton</b>	303000	\$ 7,471	\$ (2,304)
	365110	21,326	-
	366100	259,520	(111,128)
	368000	2,404,712	(353,635)
	369000	555	(313)
	370000	57,301	(57,301)
	389100	9,766	-
<b>Total</b>		<u>\$ 2,760,652</u>	<u>\$ (524,682)</u>
<b>Crooked Creek</b>	325100	\$ 2,365	\$ -
	327000	157,726	(72,827)
	333000	2,867,480	(407,112)
	334000	5,706	(1,526)
	337000	3,066	(2,690)
	390000	67,039	(28,406)
	391000	3,806	(2,312)
	394000	52,576	(30,586)
	397100	15,684	(8,797)
	397400	4,350	(1,136)
<b>Total</b>		<u>\$ 3,179,798</u>	<u>\$ (555,390)</u>
<b>Fisher</b>	365110	\$ 3,363	\$ -
	366100	253,596	(92,851)
	368000	1,639,738	(572,501)
	375000	199	(199)
	393000	2,303	(2,303)
	397120	4,508	(4,508)
<b>Total</b>		<u>\$ 1,903,707</u>	<u>\$ (672,363)</u>
<b>Hill</b>	327000	\$ 64,821	\$ (28,339)
	333000	237,491	(122,336)
	368000	100,185	(8,903)
<b>Total</b>		<u>\$ 402,497</u>	<u>\$ (159,578)</u>

Equitable Gas Company - PA Division  
 Compressor Stations by FERC Account  
 As of June 20, 2008

<u>Station</u>	<u>FERC Acct</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>
Shoemaker	303000	\$ 7,471	\$ (2,304)
	365110	4,063	-
	366100	423,399	(146,898)
	366200	772	(404)
	368000	6,113,467	(1,355,105)
	369000	43,297	(26,532)
	397120	2,318	(2,318)
Total		<u>\$ 6,594,787</u>	<u>\$ (1,533,562)</u>
Village	325510	\$ 2,000	\$ -
	327000	9,516	(5,436)
	333000	195,272	(89,722)
	368000	100,185	(8,903)
	390000	79,918	(62,734)
	393000	3,853	(3,818)
Total		<u>\$ 390,744</u>	<u>\$ (170,613)</u>

Docket No. R-2008-2029325  
Item: IOGA-I-43  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-43

Reference Equitable's response to 52 Pa. Code § 53.53, LC.2, Sheet 1. Does this map show all gathering facilities within the scope of Rate AGS? If not, please provide a map showing these facilities.

Response:

In part. Due to the confidential nature of this request, a map of the gathering facilities is available for review at the law offices of Thomas, Thomas, Armstrong & Niesen, Suite 500, 212 Locust Street, Harrisburg, PA.

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-III-5

Follow-up to IOGA-I-3 in R-2008-2029325. Equitable did not completely answer the question asked. Please provide a list showing the following:

- Column 1: Agreement numbers, starting at 1 and numbering consecutively.
- Column 2: Rate charged under Rate AGS.
- Column 3: Retainage percentage charged under Rate AGS.
- Column 4: Reason for charging a rate in column (2) or retainage column (3) less than the highest rate or retainage percentage shown for any agreement.
- Column 5: If reason in column (4) is "competitive alternative," list the distance to the alternative pipeline.

Also, please explain why the attachment to IOGA-I-3 shows well over 100 customers while the response to OTS-RS-14 states that there are 98 Rate AGS customers.

Response:

Please see the attached. The response to OTS-RS-14 lists the total number of Rate AGS customers. The response to IOGA-I-3 includes more than the total number of Rate AGS customers because the same Rate AGS customer may be included in several of the categories in table included in IOGA-I-3.

Agreement # Column (1)	Rate Column (2)	Retainage Column (3)	Reason for Rate Column (4)	Explanation Column (5)
Agreement 1	\$ -	0.00%	Negotiation	See Column (4)
Agreement 2	\$ -	0.00%	Negotiation	See Column (4)
Agreement 3	\$ -	0.00%	Negotiation	See Column (4)
Agreement 4	\$ -	0.00%	Negotiation	See Column (4)
Agreement 5	\$ -	0.00%	Negotiation	See Column (4)
Agreement 6	\$ -	0.00%	Negotiation	See Column (4)
Agreement 7	\$ -	0.00%	Negotiation	See Column (4)
Agreement 8	\$ -	0.00%	Negotiation	See Column (4)
Agreement 9	\$ -	0.00%	Negotiation	See Column (4)
Agreement 10	\$ -	0.00%	Negotiation	See Column (4)
Agreement 11	\$ -	0.00%	Negotiation	See Column (4)
Agreement 12	\$ -	0.00%	Negotiation	See Column (4)
Agreement 13	\$ -	0.00%	Negotiation	See Column (4)
Agreement 14	\$ -	0.00%	Negotiation	See Column (4)
Agreement 15	\$ -	0.00%	Negotiation	See Column (4)
Agreement 16	\$ -	0.00%	Negotiation	See Column (4)
Agreement 17	\$ -	0.00%	Negotiation	See Column (4)
Agreement 18	\$ -	0.00%	Negotiation	See Column (4)
Agreement 19	\$ -	0.00%	Negotiation	See Column (4)
Agreement 20	\$ -	0.00%	Negotiation	See Column (4)
Agreement 21	\$ -	0.00%	Negotiation	See Column (4)
Agreement 22	\$ -	0.00%	Negotiation	See Column (4)
Agreement 23	\$ -	0.00%	Negotiation	See Column (4)
Agreement 24	\$ -	0.00%	Negotiation	See Column (4)
Agreement 25	\$ -	0.00%	Negotiation	See Column (4)
Agreement 26	\$ -	0.00%	Negotiation	See Column (4)
Agreement 27	\$ -	0.00%	Negotiation	See Column (4)
Agreement 28	\$ -	0.00%	Negotiation	See Column (4)
Agreement 29	\$ -	0.00%	Negotiation	See Column (4)
Agreement 30	\$ -	0.00%	Negotiation	See Column (4)
Agreement 31	\$ -	0.00%	Negotiation	See Column (4)
Agreement 32	\$ -	0.00%	Negotiation	See Column (4)
Agreement 33	\$ -	0.00%	Negotiation	See Column (4)
Agreement 34	\$ -	0.00%	Negotiation	See Column (4)
Agreement 35	\$ -	0.00%	Negotiation	See Column (4)
Agreement 36	\$ -	0.00%	Negotiation	See Column (4)
Agreement 37	\$ -	0.00%	Negotiation	See Column (4)
Agreement 38	\$ -	0.00%	Negotiation	See Column (4)
Agreement 39	\$ -	0.00%	Negotiation	See Column (4)
Agreement 40	\$ -	0.00%	Negotiation	See Column (4)
Agreement 41	\$ -	0.00%	Negotiation	See Column (4)
Agreement 42	\$ -	0.00%	Negotiation	See Column (4)
Agreement 43	\$ -	0.00%	Negotiation	See Column (4)
Agreement 44	\$ -	0.00%	Negotiation	See Column (4)
Agreement 45	\$ -	0.00%	Negotiation	See Column (4)
Agreement 46	\$ -	0.00%	Negotiation	See Column (4)

Agreement # Column (1)	Rate Column (2)	Retainage Column (3)	Reason for Rate Column (4)	Explanation Column (5)
Agreement 47	\$ -	0.00%	Negotiation	See Column (4)
Agreement 48	\$ -	0.00%	Negotiation	See Column (4)
Agreement 49	\$ -	0.00%	Negotiation	See Column (4)
Agreement 50	\$ -	0.00%	Negotiation	See Column (4)
Agreement 51	\$ -	0.00%	Negotiation	See Column (4)
Agreement 52	\$ -	0.00%	Negotiation	See Column (4)
Agreement 53	\$ -	0.00%	Negotiation	See Column (4)
Agreement 54	\$ -	0.00%	Negotiation	See Column (4)
Agreement 55	\$ -	0.00%	Negotiation	See Column (4)
Agreement 56	\$ -	0.00%	Negotiation	See Column (4)
Agreement 57	\$ 0.1400	0.00%	Negotiation	See Column (4)
Agreement 58	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 59	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 60	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 61	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 62	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 63	\$ 0.3000	0.00%	Negotiation	See Column (4)
Agreement 64	\$ 0.3000	0.00%	Negotiation	See Column (4)
Agreement 65	\$ 0.3500	0.00%	Negotiation	See Column (4)
Agreement 66	\$ 0.4000	0.00%	Negotiation	See Column (4)
Agreement 67	\$ 0.4000	0.00%	Negotiation	See Column (4)
Agreement 68	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 69	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 70	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 71	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 72	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 73	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 74	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 75	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 76	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 77	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 78	\$ 0.5000	2.00%	Negotiation	See Column (4)
Agreement 79	\$ 0.2500	5.00%	Negotiation	See Column (4)
Agreement 80	\$ 0.2500	5.00%	Negotiation	See Column (4)
Agreement 81	\$ 0.2500	5.00%	Negotiation	See Column (4)
Agreement 82	\$ 0.2500	5.00%	Negotiation	See Column (4)
Agreement 83	\$ 0.2500	5.00%	Negotiation	See Column (4)
Agreement 84	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 85	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 86	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 87	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 88	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 89	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 90	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 91	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 92	\$ 0.3000	5.00%	Negotiation	See Column (4)

Agreement # Column (1)	Rate Column (2)	Retainage Column (3)	Reason for Rate Column (4)	Explanation Column (5)
Agreement 93	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 94	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 95	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 96	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 97	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 98	\$ 0.3000	5.00%	Negotiation	See Column (4)
Agreement 99	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 100	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 101	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 102	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 103	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 104	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 105	\$ 0.3500	5.00%	Negotiation	See Column (4)
Agreement 106	\$ 0.4000	5.00%	Negotiation	See Column (4)
Agreement 107	\$ 0.4500	5.00%	Negotiation	See Column (4)
Agreement 108	\$ 0.4500	5.00%	Negotiation	See Column (4)
Agreement 109	\$ 0.4500	5.00%	Negotiation	See Column (4)
Agreement 110	\$ 0.4500	5.00%	Negotiation	See Column (4)
Agreement 111	\$ 0.4656	5.00%	Negotiation	See Column (4)
Agreement 112	\$ 0.5000	5.00%	Negotiation	See Column (4)
Agreement 113	\$ 0.2500	5.40%	Negotiation	See Column (4)
Agreement 114	\$ 0.2500	5.40%	Negotiation	See Column (4)
Agreement 115	\$ 0.3000	5.40%	Negotiation	See Column (4)
Agreement 116	\$ 0.3500	5.40%	Negotiation	See Column (4)
Agreement 117	\$ 0.3500	5.40%	Negotiation	See Column (4)
Agreement 118	\$ 0.3500	5.40%	Negotiation	See Column (4)
Agreement 119	\$ 0.3500	5.40%	Negotiation	See Column (4)
Agreement 120	\$ 0.4000	5.40%	Negotiation	See Column (4)
Agreement 121	\$ 0.4000	5.40%	Negotiation	See Column (4)
Agreement 122	\$ 0.4500	5.40%	Negotiation	See Column (4)
Agreement 123	\$ 0.4500	5.40%	Negotiation	See Column (4)
Agreement 124	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 125	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 126	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 127	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 128	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 129	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 130	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 131	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 132	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 133	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 134	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 135	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 136	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 137	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 138	\$ 0.4656	6.68%	Negotiation	See Column (4)

Agreement # Column (1)	Rate Column (2)	Retainage Column (3)	Reason for Rate Column (4)	Explanation Column (5)
Agreement 139	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 140	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 141	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 142	\$ 0.4656	6.68%	Negotiation	See Column (4)
Agreement 143	\$ 0.4756	6.68%	Negotiation	See Column (4)
Agreement 144	\$ 0.4756	6.68%	Negotiation	See Column (4)
Agreement 145	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 146	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 147	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 148	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 149	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 150	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 151	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 152	\$ 0.4791	6.68%	Negotiation	See Column (4)
Agreement 153	\$ 0.6500	7.50%	Negotiation	See Column (4)
Agreement 154	\$ 0.6500	7.50%	Negotiation	See Column (4)
Agreement 155	\$ 0.6500	7.50%	Negotiation	See Column (4)
Agreement 156	\$ 0.6500	7.50%	Negotiation	See Column (4)
Agreement 157	\$ 0.6500	7.50%	Negotiation	See Column (4)
Agreement 158	\$ 0.1656	0.00%	Negotiation	See Column (4)
Agreement 159	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 160	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 161	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 162	\$ 0.2500	0.00%	Negotiation	See Column (4)
Agreement 163	\$ 0.3000	0.00%	Negotiation	See Column (4)
Agreement 164	\$ 0.3500	0.00%	Negotiation	See Column (4)
Agreement 165	\$ 0.3500	0.00%	Negotiation	See Column (4)
Agreement 166	\$ 0.4500	0.00%	Negotiation	See Column (4)
Agreement 167	\$ 0.4656	0.00%	Negotiation	See Column (4)
Agreement 168	\$ 0.4657	0.00%	Negotiation	See Column (4)
Agreement 169	\$ 0.4791	0.00%	Negotiation	See Column (4)
Agreement 170	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 171	\$ 0.5000	0.00%	Negotiation	See Column (4)
Agreement 172	\$ 0.5500	0.00%	Negotiation	See Column (4)
Agreement 173	\$ 1.0000	0.00%	Negotiation	See Column (4)
Agreement 174	\$ -	0.00%	Negotiation	See Column (4)
Agreement 175	\$ -	0.00%	Negotiation	See Column (4)
Agreement 176	\$ -	0.00%	Negotiation	See Column (4)
Agreement 177	\$ -	0.00%	Negotiation	See Column (4)
Agreement 178	\$ 0.4656	6.68%	Negotiation	See Column (4)

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-III-6

- (a) When did Equitable acquire and begin to operate the Crooked Creek gathering system?
- (b) From what company did Equitable acquire this system?
- (c) Did Equitable seek and obtain approval from FERC and/or the Pa PUC for the acquisition of this system? If so, please provide copies of the regulatory request(s) and the regulatory approval(s). If not, please explain why not.

Response:

Please see the attachments.

*Thomas, Thomas, Armstrong & Niesen*  
*Attorneys and Counsellors at Law*

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212 LOCUST STREET  
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FIRM (717) 255-7600  
FAX (717) 236-8278

CHARLES E. THOMAS  
(1913 - 1998)

April 1, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P. O. Box 3265  
Harrisburg, PA 17105-3265

In re: Docket No.  
Application of Equitable Gas Company for Such Approvals as Are Necessary in  
Connection with Its Acquisition of the PA-North Gathering System from Its Affiliate,  
Equitable Field Services, LLC, and Its Proposed Gathering Service Rate Schedule

Dear Secretary McNulty:

Enclosed for filing on behalf of the Equitable Gas Company Division of Equitable Resources, Inc. are an original and three (3) copies of the Company's application for such approvals as are necessary in connection with its acquisition of the PA-North Gathering System from its affiliate, Equitable Field Services, LLC, and its proposed gathering service rate schedule.

If the Commission should have any questions or need any additional information, please contact Daniel L. Frutchey, the Company's Senior Vice President and General Counsel, at 412-395-3202 or the undersigned at 717-255-7615.

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By

  
Charles E. Thomas, Jr.

Encl.

cc: Office of Trial Staff (w/encl.)  
Office of Consumer Advocate (w/encl.)  
Office of Small Business Advocate (w/encl.)  
Daniel L. Frutchey (w/encl.)  
Stephen C. Rafferty (w/encl.)

**Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

---

**Application of Equitable Gas Company :  
for Such Approvals as Are Necessary :  
in Connection with Its Acquisition of :  
the PA - North Gathering System from : Docket No.  
Its Affiliate, Equitable Field Services, :  
LLC, and Its Proposed Gathering :  
Service Rate Schedule :  
:**

**TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:**

AND NOW, comes Equitable Gas Company ("EGC"), a division of Equitable Resources, Inc., by its attorneys, and applies to the Pennsylvania Public Utility Commission ("Commission") for such approvals as are necessary in connection with its acquisition of the PA - North Gathering System from its affiliate, Equitable Field Services, LLC ("EFS") and its proposed gathering service rate schedule. In support of this Application, EGC represents as follows:

**BACKGROUND**

1. EGC is the regulated utility division of Equitable Resources, Inc. EGC is engaged in the purchase, distribution, sale and transportation of natural gas and serves over 259,000 residential, commercial and industrial customers in the City of Pittsburgh and adjacent territories in Allegheny, Armstrong, Butler, Clarion, Fayette, Greene, Indiana, Jefferson, Washington and Westmoreland Counties in Southwestern Pennsylvania.

2. EFS is a Delaware Limited Liability Company. EFS is engaged in the provision of gathering and gas purchases from field lines and owns approximately 107 miles of gathering pipeline in Armstrong and Indiana Counties which EFS refers to as its PA - North Gathering System. EGC provides retail natural gas service to approximately 520 essential human needs residential customers along the PA - North Gathering System.

3. EGC and EFS propose to enter into a Bill of Sale and Assignment pursuant to which EGC will acquire the PA - North Gathering System from EFS.

**APPROVAL OF BILL OF SALE AND ASSIGNMENT WITH AFFILIATE**

4. Section 2102(a) of the Public Utility Code, 66 Pa. C.S. §2102(a), provides that no contract or arrangement for the purchase, sale or exchange of any property between a public utility and any affiliated interest shall be valid or effective unless and until such contract has received the written approval of the Commission.

5. Section 2102(b) of the Public Utility Code, 66 Pa. C.S. §2102(b), provides that it shall be the duty of every public utility to file with the Commission a verified copy of contracts with affiliated interests and that the Commission shall approve such contracts only if it shall clearly appear and be established upon investigation that the contract in question is reasonable and consistent with the public interest.

6. Section 2102(b) further provides that no contract with affiliated interests shall receive the Commission's approval unless satisfactory proof is submitted to the Commission of the cost to the affiliated interest of furnishing the property and that no proof shall be satisfactory unless it includes the original or verified copies of the relevant cost records of the affiliated interest. The Commission may, however, where reasonable, approve or disapprove such contracts without the submission of such cost records.

7. Allowing a non-affiliated third party to acquire the PA - North Gathering System could place at risk, from both an operational and a cost perspective, service to the approximately 520 essential human needs residential customers presently served by EGC along the System.

8. A form of the Bill of Sale and Assignment between EGC and its affiliate, EFS, is attached hereto as Attachment A. An accounting exhibit showing the net book value of the PA - North Gathering System, estimated to be roughly \$500,000, will be filed

with the Commission within the next two weeks. EGC submits that the proposed assignment is reasonable and consistent with the public interest pursuant to Chapter 21 of the Public Utility Code.

**APPROVALS, IF ANY, PURSUANT TO CHAPTER 11 OF THE  
PUBLIC UTILITY CODE**

9. Section 1102 of the Public Utility Code, 66 Pa. C.S. §1102, identifies those acts that require the approval of the Commission evidenced by the issuance of a certificate of public convenience. Section 1102(a)(3), 66 Pa. C.S. §1102(a)(3), requires the issuance of a certificate of public convenience for a public utility to acquire the title to any tangible property used or useful in the public service. An acquisition is, however, exempt from the certification requirement if the property to be acquired is to be installed new as a part of or consumed in the operation of the used and useful property of the public utility. 66 Pa. C.S. §1102(a)(3)(iii).

10. EGC's acquisition of the PA - North Gathering System would seem to fall within the exemption noted in Section 1102(a)(3)(iii). While the System is tangible property that EGC is acquiring for use in the public service, it will be consumed in the operation of EGC's existing used and useful property. EGC submits that its acquisition of the PA - North Gathering System is, therefore, exempt from the certification requirements of Chapter 11 of the Public Utility Code but, if it is not exempt, then EGC respectfully requests that the Commission issue a Certificate of Public Convenience authorizing its proposed acquisition of the PA - North Gathering System from EFS.

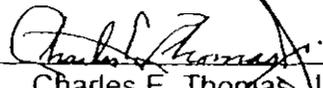
## APPROVAL OF PROPOSED GATHERING SERVICE RATE SCHEDULE

11. Although acquisition of the PA - North Gathering System would increase rate base and operating and depreciation expense, EGC is not proposing any increase in its existing rates by virtue of the proposed acquisition. At the same time, in connection with the acquisition of the PA - North Gathering System, EGC would begin providing a gathering service to those producers with facilities along the System route. Consequently, a proposed gathering service rate schedule is attached hereto as Attachment B. The rate for the service will be negotiated between EGC and the producer. EGC respectfully requests that the Commission allow the proposed gathering rate schedule to go into effect on less than 60 days notice, immediately following the Commission's approval of this Application and the submission of EGC's compliance filing.

WHEREFORE, Equitable Gas Company prays that the Public Utility Commission issue such approvals as are necessary in connection with its acquisition of the PA - North Gathering System from its affiliate, Equitable Field Services, LLC, and its proposed gathering service rate schedule.

Respectfully submitted,

By



Charles E. Thomas, Jr., Esquire

Thomas T. Niesen, Esquire

THOMAS, THOMAS, ARMSTRONG & NIESEN

212 Locust Street, Suite 500

P.O. Box 9500

Harrisburg, PA 17108-9500

Daniel L. Frutchey

Senior Vice President and General Counsel

EQUITABLE GAS COMPANY

200 Allegheny Center

Pittsburgh, PA 15212

Attorneys for Equitable Gas Company,  
a Division of Equitable Resources, Inc.

# **ATTACHMENT A**

## BILL OF SALE AND ASSIGNMENT

**THIS BILL OF SALE AND ASSIGNMENT** is made and entered into to be effective as of the \_\_\_ day of \_\_\_\_\_, 2002 by and between Equitable Field Services, L.L.C, a Delaware limited liability company, with an office at Four Allegheny Center, 9<sup>th</sup> Floor, Pittsburgh, PA 15212, hereinafter referred to as "EFS" and Equitable Gas Company, a division of Equitable Resources, Inc., a Pennsylvania corporation, with an office at 200 Allegheny Center Mall, Pittsburgh, PA 15212 hereinafter referred to as "Equitable Gas".

**WHEREAS**, EFS is the owner of certain gathering systems and facilities as described in an Order Authorizing Abandonment and Determining Jurisdictional Status of Facilities entered on February 14, 2002 by the Federal Energy Regulatory Commission ("FERC") and in an Assignment dated effective February 14, 2002 by and between Equitrans, LP and EFS;

**WHEREAS**, EFS desires to bargain, sell, assign, transfer and convey all of its right, title and interest in and to certain of those pipelines, properties and facilities unto Equitable Gas including all of its right, title and interest in all leases, deeds, easements, road grants, licenses, permits, rights of way agreements, or other interests in property and facilities relating thereto to the extent the same are necessary or convenient to the continued operation of the pipelines and appurtenant facilities;

**WHEREAS**, Equitable Gas wishes to accept such assignment and conveyance of all right, title and interest of EFS in and to the property more particularly identified and described below.

**NOW THEREFORE**, for and in consideration of the premises and the mutual promises and covenants made by the parties hereto, and further for and in consideration of Ten Dollars (\$10.00) cash in hand and other good and valuable consideration not recited herein, paid unto EFS by Equitable Gas, the receipt and sufficiency of which is hereby acknowledged, EFS does hereby **GRANT, BARGAIN, SELL, ASSIGN, CONVEY** and **TRANSFER** unto Equitable Gas, its successors and assigns, all of its right, title and interest in and to:

1. Certain of those pipelines and facilities owned by EFS and referred to as Pennsylvania Gathering - North ("Pa-North") located in Armstrong and Indiana, Counties, Pennsylvania known as the Atwood, Crooked Creek and Kelly gathering sections and generally described as follows:
  - (a) The Atwood section consists of approximately 18.7 miles of pipeline varying in size from two inches to 6.625 inches in diameter and ranging in length from six feet to 5.6 miles. The 45 lines that comprise this section for two primary backbone structures, lines F-175 and F-167, serve to gather the gas and deliver it directly to the Atwood

compressor station. The Atwood section includes a 340 horsepower (HP) compressor.

- (b) The Crooked Creek section consists of approximately 87 miles of pipeline varying in size from 1 inch to 20 inches in diameter and ranging in length from 2 feet to 11.1 miles. The 147 lines that comprise this section form both a backbone and web-like structure. The backbone configuration is comprised of Lines F-184, F-187, F-189, F-190 and F-200 gather the gas received from smaller pipelines and deliver it to the Crooked Creek compressor station.
- (c) The Kelly section consists of approximately 1.7 miles of pipeline varying in size from 2 inches to 8 inches in diameter and ranging in length from 1547 feet to 3,222 feet. The four lines that comprise this section form a web-like structure and gather gas for delivery to Equitrans' transmission line H-114.

and being more specifically described and identified in the Abbreviated Application for an Order Permitting and Approving Abandonment and Determining Non-Jurisdictional Gathering Status of Facilities and Service filed July 2, 2001 by Equitrans LP ("Application") and in the Order Authorizing Abandonment and Determining Jurisdictional Status of Facilities issued by FERC on February 14, 2002 ("Order") in FERC Docket No. CP01-396-000 and all leases, deeds, easements, road grants, licenses, permits, right of way agreements or other interest in property and facilities relating thereto to the extent the same are necessary or convenient to the continued operation of the pipelines and appurtenant facilities;

- 2. All attendant meters and all pressure control devices and other appurtenant equipment, rights and privileges, including associated easements, rights of way, or other interests in property and facilities which EFS possesses to the extent the same are necessary or convenient to the continued operation of the pipelines and facilities; and
- 3. All contracts and agreements relating primarily to or otherwise affecting the pipelines, meters, compressor stations and facilities transferred hereunder which are not otherwise described above.

TO HAVE AND TO HOLD the forgoing unto Equitable Gas, its successors and assigns.

This instrument is signed by EFS and Equitable Gas as of the date of acknowledgement of their signatures below, but is effective for all other purposes as of the Effective Date of \_\_\_\_\_ stated above.

**IN WITNESS WHEREOF**, the parties hereto have executed this Bill of Sale and Assignment by their respective officers, duly hereunto authorized.

**Assignor**  
**Equitable Field Services, LLC**

**Assignee**  
**Equitable Gas Company,**  
**A division of Equitable Resources, Inc.**

\_\_\_\_\_  
By:  
Its:

\_\_\_\_\_  
By:  
Its:

**ACKNOWLEDGEMENTS**

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, a Notary Public in and for said County and State, do certify that the foregoing **BILL OF SALE AND ASSIGNMENT** was this day produced to me in said County and State aforesaid and duly acknowledged before me by \_\_\_\_\_, known to me to be the \_\_\_\_\_ of **EQUITABLE FELD SERVICES, LLC**.

Witness my hand this \_\_\_\_ day of \_\_\_\_\_, 2003.

My commission expires \_\_\_\_\_.

(OFFICIAL SEAL)

\_\_\_\_\_  
Notary Public

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, a Notary Public in and for said County and State, do certify that the foregoing **BILL OF SALE AND ASSIGNMENT** was this day produced to me in said County and State aforesaid and duly acknowledged before me by \_\_\_\_\_, known to me to be the \_\_\_\_\_ of **EQUITABLE GAS COMPANY, a division of Equitable Resources, Inc.**

Witness my hand this \_\_\_\_ day of \_\_\_\_\_, 2003.

My commission expires \_\_\_\_\_.

(OFFICIAL SEAL)

\_\_\_\_\_  
Notary Public

**ATTACHMENT B**

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RATE AGS - APOLLO GATHERING SERVICE (C)

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## APPLICABILITY

This rate schedule shall be applicable throughout the Apollo District for natural gas produced in and available for redelivery in the Apollo District.

## AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system for redelivery into the Company's Apollo District provided that there exists: (1) a gas purchase agreement with the Company; or, a gas purchase agreement with a third-party having service under a Company transportation Rate Schedule has been executed; and (2) compliance with the provisions of this Rate Schedule and with all other provisions of this Tariff.

## RATE

The applicable rate for this service shall be determined by negotiation. The Company shall retain a separate quantity of gas for fuel, loss and unaccounted for gas required to provide this gathering service.

## TERM

The term for service shall be a minimum of one (1) year from the commencement of deliveries of gas supplies.

## CHARACTER OF SERVICE

Equitable's only obligation under this Rate Schedule shall be to receive gas from any Appalachian receipt point and to permit that gas to flow against the existing pressure in Equitable's facilities. Equitable shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule.

Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Section 11.13 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit Equitable's right to interrupt service or to take other action as may be required to alleviate conditions which threaten the integrity of its system.

(C) Indicates Change.

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---

ISSUED:

R. L. CRAWFORD  
PRESIDENT

EFFECTIVE:



VERIFICATION

I, STEPHEN C. RAFFERTY, Director - Gas Acquisition and Management of Equitable Gas Company, a Division of Equitable Resources, Inc., hereby state that the facts set forth in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: March 31, 2003

  
STEPHEN C. RAFFERTY

*Thomas, Thomas, Armstrong & Niesen*  
*Attorneys and Counsellors at Law*

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212 LOCUST STREET  
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CHARLES E. THOMAS  
(1913 - 1998)

April 28, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P. O. Box 3265  
Harrisburg, PA 17105-3265

In re: Docket No.  
Application of Equitable Gas Company for Such Approvals as Are Necessary in  
Connection with Its Acquisition of the PA-North Gathering System from Its Affiliate,  
Equitable Field Services, LLC, and Its Proposed Gathering Service Rate Schedule

Dear Secretary McNulty:

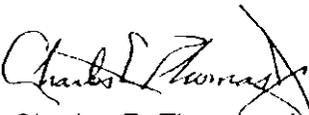
On April 1, 2003, we filed the above referenced Application on behalf of the Equitable Gas Company Division ("Equitable" or "Company") of Equitable Resources, Inc. In Paragraph 8 of the Application Equitable stated that it would be submitting an Accounting Exhibit to the Public Utility Commission which would show the net book value of the PA - North Gathering System. Four copies of the Accounting Exhibit are enclosed. Please include the Exhibit with the original Application.

If the Commission should have any questions or need any additional information, please contact Daniel L. Frutchey, the Company's Senior Vice President and General Counsel, at 412-395-3202 or the undersigned at 717-255-7615.

Very truly yours,

THOMAS, THOMAS, ARMSTRONG & NIESEN

By

  
Charles E. Thomas, JR.

Encl.

cc: Office of Trial Staff (w/encl.)  
Office of Consumer Advocate (w/encl.)  
Office of Small Business Advocate (w/encl.)  
Daniel L. Frutchey (w/encl.)  
Stephen C. Rafferty (w/encl.)  
H. Edwin Rodrock (w/encl.)

# **ACCOUNTING EXHIBIT**

**Equitable Gas Company**  
**Original Cost and Net Book Value**  
**PA - North Gathering System**  
**At February 28, 2003**

<u>Plant</u>	<u>Original Cost</u>	<u>Net Book Value</u>
General	\$ 3,096	\$ 522
Production and Gathering	<u>1,156,925</u>	<u>670,376</u>
Total	<u>\$ 1,160,021</u>	<u>\$ 670,898</u>



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE

G-00031009

JUNE 11, 2003

THOMAS T NIESEN  
THOMAS THOMAS ARMSTRONG AND NIESEN  
212 LOCUST STREET  
P O BOX 9500  
HARRISBURG PA 17108-9500

Re: Affiliated Interest Agreement Between Equitable Gas Company and  
Equitable Field Services, LLC

Dear Mr. Niesen:

On April 1, 2003, Equitable Gas Company ("Equitable Gas") and Equitable Field Services, LLC ("Equitable Field Services") filed an Affiliated Interest Agreement. This agreement is filed in accordance with the requirements of Section 2102(b) of the Public Utility Code, 66 Pa. C.S. §2102(b). On May 22, 2003, the Commission extended the period for consideration of this Agreement until further order of the Commission. The Agreement is necessary for Equitable Gas' acquisition of the PA-North Gathering System from its affiliate, Equitable Field Services.

Upon review of the companies' filing, it does not appear that this filing is unreasonable or contrary to the public interest. Therefore, this filing is hereby approved. However, approval of this filing does not constitute a determination that such filing is consistent with the public interest, and that the associated costs or expenses are reasonable or prudent for the purposes of determining just and reasonable rates. Furthermore, the Commission's approval is contingent upon the possibility that subsequent audits, reviews, and inquiry, in any Commission proceeding, may be conducted, pursuant to 66 Pa. C.S. §§2102, *et seq.*

In addition, this approval will apply only to the agreement(s), service(s), matters, and parties specifically and clearly defined under this instant filing as well as under any associated and previously filed filings.

Sincerely,

James J. McNulty  
Secretary

cc: Kerry Klinefelter, FUS  
Janet Patrick, Secretary's Bureau

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-IV-1

Referring to the response to IOGA I-4 (R-2008-2029325), please explain specifically what adjustments were made to 2007 Rate AGS throughput to arrive at the forecast, using line item adjustments as follows:

2007 Rate AGS throughput \_\_\_\_\_

Adjustment 1

(Explain adjustment and then quantify)

Adjustment 2

(Explain adjustment and then quantify)

Total with Adjustments = Forecasted Rate AGS throughput

Response:

Please see attached.

Equitable Gas Company  
Docket No. R-2008-2029325  
IOGA-IV-1

	<u>Dth</u>	
2007 Rate AGS throughput	17,129,949	
Adjustment 1 - Expiration of gas purchase agreements	(2,693,998)	
Adjustment 2 - Estimated well declines; producers exercising competitive offers; line abandonment	(721,798)	5% decline ((17,129,949 - 2,693,998) X 5%)
Adjustment 3 - Projected additions	<u>730,000</u>	approximately 2,000 per day of increased throughput
Forecasted Rate AGS throughput	14,444,153	

Docket No. R-2008-2029325  
Item: IOGA-IV-3  
Respondent: Robert M. Narkevici  
Position: Manager, Rates

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-IV-3

Follow-up to IOGA I-5 (R-2008-2029325). Please provide all workpapers and assumptions used to derive future test year revenue. The answer to IOGA I-5 did not provide workpapers or assumptions, and the references to the other interrogatories, IOGA I-33 and IOGA I-3, also did not provide workpapers and assumptions.

Response:

The assumptions used to derive future test year revenue are similar to the assumptions used to derive future test year throughput shown in response to IOGA-IV-1. Please see the attached which quantifies those assumptions.

Equitable Gas Company  
Docket No. R-2008-2029325  
IOGA-IV-3

	<u>\$</u>	
2007 Rate AGS Revenue	\$ 5,169,989	
Adjustment 1 - Expiration of gas purchase agreements	(727,263)	
Adjustment 2 - Estimated additional revenue due to negotiated rate increases	391,921	
Adjustment 3 - estimated well declines; producers exercising competitive offers; line abandonment	(238,193)	5% decline in throughput @ avg. rate of \$.33
Adjustment 4 - Projected additions	<u>730,000</u>	approximately 2,000 per day of increased throughput
Forecasted Rate AGS throughput	\$ 5,326,454	

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-IV-15

Are there situations on Equitable's system where producers or marketers are retaining title to the gas and using Equitable's gathering system simply to get their gas to a connection where the gas can be sold off system? If so, please provide the volumes of gas sold off system, by month from January 2007 through the present, that is producer/marketer titled PA production that is coming in through Equitable's gathering system.

Response:

At this time, Equitable is not aware of any situation where producers or marketers are retaining title to PA production and using Equitable's gathering system to get their gas to a connection where the gas can be sold off system.

Docket No. R-2008-2029325  
Item: IOGA-VI-1  
Prepared by: Thomas P. Wiggers  
Title: Director Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-VI-1

Reference the response to IOGA I-43 (C-20066800). Please provide a copy of the distribution system map (Equitable's response to 52 Pa. Code § 53.531.C.2, Sheet 1), identifying the gathering facilities within the scope of Rate AGS that are shown on this map.

Response:

The distribution system map provided in Equitable's response to 52 Pa. Code § 53.531.C.2, Sheet 1 does not include gathering assets.

Docket No. R-2008-2029325  
Item: IOGA-VI-5  
Respondent: Russell A. Feingold  
Position: Vice President – Black & Veatch Corporation

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-VI-5

Please rerun the cost of service at present rates under both methodologies using the following assumption in place of the current method of assigning and allocating Rate AGS costs, and provide the results: Apportion all of the costs assigned or allocated to Rate AGS to the remaining classes of customers (RS, GS and GSL) using total system throughput by customer class (RS, GS and GSL) as the allocation factor.

Response:

Please see attached response, including IOGA-VI-5A for the Design Day method and IOGA-VI-5B for the Peak and Average method.

In the response, all costs that had been assigned using 'AGS Direct' were functionalized to Production & Gathering, classified as Commodity and allocated using 'Gas\_Deliveries'.

Revenue from Rate AGS, and the related income tax expense computed at the statutory rate, were eliminated.

EQUITABLE GAS COMPANY  
DOCKET NUMBER 008-2029325  
COST OF SERVICE STUDY- FUTURE TEST YEAR ENDED 12/31/2008

	<u>Total</u>	<u>Residential Service (RS)</u>	<u>General Service - Small (GSS)</u>	<u>General Service - Large (GSL)</u>	<u>Appalachian Gathering Service (AGS)</u>
<u>Revenues at Current Rates</u>					
1 Operating Revenue	152,305	108,258	14,584	29,463	0
2 Other revenue / Adjustments	<u>61</u>	<u>43</u>	<u>6</u>	<u>12</u>	<u>0</u>
3 Net revenues	152,366	108,301	14,590	29,475	0
<u>Operating Expenses</u>					
5 Operations, Customer, A&G	105,498	83,288	7,125	15,086	0
6 Depreciation expense	23,471	17,775	1,285	4,411	0
7 Taxes other than income	<u>2,186</u>	<u>1,537</u>	<u>180</u>	<u>469</u>	<u>0</u>
8 Operating expenses	131,155	102,600	8,589	19,966	0
9 Income tax expense	<u>2,129</u>	<u>1,495</u>	<u>221</u>	<u>413</u>	<u>0</u>
10 Total Operating Expenses	133,284	104,095	8,810	20,380	0
11 Income at Present Rates	<u>19,082</u>	<u>4,206</u>	<u>5,781</u>	<u>9,095</u>	<u>0</u>
12 Rate Base	<u>583,253</u>	<u>429,046</u>	<u>37,314</u>	<u>116,893</u>	<u>(0)</u>
13 Return on Rate Base at Present Rates	<u>3.27%</u>	<u>0.98%</u>	<u>15.49%</u>	<u>7.78%</u>	
14 Revenue Requirement at Full Cost of Service	209,757	160,742	13,540	35,475	0
15 Operating expenses	131,155	102,600	8,589	19,966	0
16 Income tax expense	25,531	18,781	1,633	5,117	(0)
17 Additional expenses	<u>1,219</u>	<u>1,219</u>	<u>0</u>	<u>0</u>	<u>0</u>
18	157,906	122,600	10,223	25,083	0
19 Income at Full Cost of Service	<u>51,852</u>	<u>38,142</u>	<u>3,317</u>	<u>10,392</u>	<u>0</u>
20 Return on Rate Base at Full Cost of Service	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	
21 Revenue INCREASE (DECREASE) to Achieve Full Cost of Service	<u>57,391</u>	<u>52,441</u>	<u>(1,050)</u>	<u>6,000</u>	<u>0</u>

EQUITABLE GAS COMPANY  
DOCKET NUMBER 008-2029325  
COST OF SERVICE STUDY- FUTURE TEST YEAR ENDED 12/31/2008

	<u>Total</u>	<u>Residential Service (RS)</u>	<u>General Service - Small (GSS)</u>	<u>General Service - Large (GSL)</u>	<u>Appalachian Gathering Service (AGS)</u>
<u>Revenues at Current Rates</u>					
1 Operating Revenue	152,305	108,258	14,584	29,463	0
2 Other revenue / Adjustments	<u>61</u>	<u>43</u>	<u>6</u>	<u>12</u>	<u>0</u>
3 Net revenues	152,366	108,301	14,590	29,475	0
<u>Operating Expenses</u>					
5 Operations, Customer, A&G	105,498	80,036	7,205	18,258	0
6 Depreciation expense	23,471	16,546	1,335	5,590	(0)
7 Taxes other than income	<u>2,186</u>	<u>1,473</u>	<u>183</u>	<u>530</u>	<u>0</u>
8 Operating expenses	131,155	98,055	8,723	24,377	(0)
9 Income tax expense	<u>2,129</u>	<u>1,517</u>	<u>220</u>	<u>392</u>	<u>(0)</u>
10 Total Operating Expenses	133,284	99,572	8,942	24,770	(0)
11 Income at Present Rates	<u>19,082</u>	<u>8,729</u>	<u>5,648</u>	<u>4,705</u>	<u>0</u>
12 Rate Base	<u>583,253</u>	<u>393,351</u>	<u>38,799</u>	<u>151,103</u>	<u>0</u>
13 Return on Rate Base at Present Rates	<u>3.27%</u>	<u>2.22%</u>	<u>14.56%</u>	<u>3.11%</u>	
14 Revenue Requirement at Full Cost of Service	209,757	151,462	13,870	44,425	0
15 Operating expenses	131,155	98,055	8,723	24,377	(0)
16 Income tax expense	25,531	17,219	1,698	6,614	0
17 Additional expenses	<u>1,219</u>	<u>1,219</u>	<u>0</u>	<u>0</u>	<u>0</u>
18	157,906	116,493	10,421	30,992	(0)
19 Income at Full Cost of Service	<u>51,852</u>	<u>34,969</u>	<u>3,449</u>	<u>13,433</u>	<u>0</u>
20 Return on Rate Base at Full Cost of Service	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	
21 Revenue INCREASE (DECREASE) to Achieve Full Cost of Service	<u>57,391</u>	<u>43,160</u>	<u>(720)</u>	<u>14,950</u>	<u>0</u>

Docket No. R-2008-2029325  
Item: OTS-RS-14-D  
Respondent: Robert M. Narkevic  
Position: Manager, Rates

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Office of Trial Staff

Item: OTS-RS-14-D

Provide a schedule showing the monthly customer levels by rate class for the historic period and the projected monthly customer levels by rate class for the future period.

Response:

Please see the attached schedule.

**EQUITABLE GAS COMPANY**

Docket No. R-2008-2029325

OTS RS-14

Historic Test Year

	<u>RS</u>	<u>CAP</u>	<u>GSS</u>	<u>GSL</u>	<u>FDS</u>	<u>GDS</u>	<u>DDS</u>	<u>AGS</u>
Jan-2007	211,137	14,382	13,569	819	14,952	3,177	3	98
Feb-2007	211,694	14,796	13,586	816	14,608	3,181	3	98
Mar-2007	211,076	15,575	13,589	772	14,371	3,176	3	98
Apr-2007	209,219	15,756	13,614	639	13,897	3,170	3	98
May-2007	208,513	15,720	13,516	631	13,404	3,160	3	98
Jun-2007	208,057	15,492	13,470	632	13,260	3,171	3	98
Jul-2007	207,723	15,280	13,470	631	13,127	3,139	3	98
Aug-2007	207,880	15,222	13,446	624	12,962	3,140	2	98
Sep-2007	208,182	15,044	13,482	623	12,855	3,110	3	98
Oct-2007	209,130	15,264	13,531	623	12,742	3,105	3	98
Nov-2007	211,012	15,899	13,688	626	12,563	3,097	3	98
Dec-2007	211,710	16,482	13,714	662	12,478	3,093	3	98

Future Test Year

	<u>RS</u>	<u>CAP</u>	<u>GSS</u>	<u>GSL</u>	<u>FDS</u>	<u>GDS</u>	<u>DDS</u>	<u>AGS</u>
Jan-2008	206,543	18,976	13,569	819	14,952	3,176	3	98
Feb-2008	207,514	18,976	13,586	816	14,608	3,180	3	98
Mar-2008	207,675	18,976	13,589	772	14,371	3,175	3	98
Apr-2008	205,999	18,976	13,614	639	13,897	3,169	3	98
May-2008	205,257	18,976	13,516	631	13,404	3,159	3	98
Jun-2008	204,563	18,976	13,470	632	13,260	3,170	3	98
Jul-2008	204,027	18,976	13,470	631	13,127	3,139	3	98
Aug-2008	204,126	18,976	13,446	624	12,962	3,139	3	98
Sep-2008	204,250	18,976	13,482	623	12,855	3,109	3	98
Oct-2008	205,418	18,976	13,531	623	12,742	3,104	3	98
Nov-2008	207,935	18,976	13,688	626	12,563	3,096	3	98
Dec-2008	209,226	18,976	13,714	662	12,478	3,092	3	98

## **Exhibit DMB-5**

Docket No. C-20066800

IOGA's Amended Complaint

Equitable's Answer to Complaint

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Independent Oil and Gas Association of  
Pennsylvania

v.

Equitable Gas Company

Docket No. C-20066800

**RECEIVED**

FEB 1 2009

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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**AMENDED  
FORMAL COMPLAINT OF  
INDEPENDENT OIL AND GAS ASSOCIATION OF PENNSYLVANIA**

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Pursuant to 66 Pa. C.S. § 701 and 52 Pa. Code §§ 5.21-5.22, 5.91, the Independent Oil and Gas Association of Pennsylvania ("IOGA") submits this formal complaint, as amended, on behalf of its natural gas local producer members against the rates, terms and conditions of Equitable Gas Company's ("Equitable") gathering service tariff provisions (Rate AGS) and Equitable's practices concerning the gathering and transportation of IOGA members' Pennsylvania natural gas production through Equitable's pipeline system.

**I. INTRODUCTION & SUMMARY OF COMPLAINT**

Delivered Pennsylvania natural gas production ("Appalachian supply") is generally lower in cost than natural gas from the Southwest production areas of the Gulf of Mexico, Texas and Louisiana due to the lack of interstate pipeline demand, transportation and/or shrinkage charges. Appalachian supply also provides reliability benefits to Equitable's pipeline system and other cost benefits to Equitable's customers. The Commission's transportation regulations expressly state that the development of Pennsylvania natural gas should be promoted "because it will achieve benefits which accrue to gas utilities and their customers." As implemented by Equitable, its Rate AGS unreasonably impedes the development of Pennsylvania natural gas production and discriminates against local production sold to Equitable.

What Equitable considers to be "gathering" facilities are essential facilities for Equitable's provision of public utility services. These facilities are required for Equitable to: (1) acquire and distribute Appalachian supply to Equitable's sales service customers; (2) transport Appalachian supply for marketers for resale and delivery to Equitable's delivery service customers; and (3) transport Appalachian supply from the wellhead through to wholesale or retail customers served by other natural gas distribution utilities ("NGDC's"). Accordingly, Equitable's "gathering" facilities are part of the system and facilities Equitable uses to provide public utility service to end use customers, their suppliers and local producers.

Equitable's "gathering" facilities are indistinguishable from its distribution pipeline system that transports and delivers natural gas to Equitable's end user distribution customers (or delivers it to the city gates of other NGDC's). The costs of Equitable's distribution system are the responsibility of Equitable (for which it seeks to be compensated through the retail delivery services it charges) and not that of natural gas suppliers or pipelines that deliver gas to Equitable to be delivered to end user customers. Equitable charges each end user customer a delivery charge which is (or should be designed) to recover a return of and on the investment Equitable has made in such facilities, as well as all associated expenses. Equitable should not be permitted to charge natural gas producers or transporters again for facilities used to move natural gas once it has been delivered to Equitable's pipeline facilities.

IOGA is not opposed to separate fees for transportation of its members' Appalachian supply through and out of Equitable's pipeline system for delivery to wholesale or retail customers served by other gas utilities or for enhanced facilities or services that benefit only local producers, as other gas utilities charge. But Equitable's existing rate AGS goes much further than this in charging local producers for costs that are part of Equitable's provision of utility service to its end use customers. Moreover, Equitable's additional charges for the use of

its distribution system discriminate against local producers selling Appalachian supply to Equitable because these charges are not imposed upon third-party marketers who deliver their natural gas supply to Equitable for transportation and eventual delivery to end user customers. Nor are third-party marketers charged "gathering" fees or shrinkage under Rate AGS on Appalachian supply sold by IOGA member local producers to the third party marketers for transportation and delivery by Equitable to the marketers' customers over the same facilities as Appalachian supply sold to Equitable.

Accordingly, IOGA requests that the Commission direct Equitable to cancel Rate AGS. Unless cancelled, Equitable's Rate AGS will establish a dangerous precedent that will encourage other gas utilities to inflict similar harm on the local producers in their service territories by separately charging for the costs of service that benefit all customers and system reliability and, therefore, should be recovered in base rates..

Even if the Commission were to somehow conclude that it is appropriate to charge local producers for the use of Equitable's distribution system over and above its charges to end users, the "negotiated" gathering and shrinkage rates (rates for gas for fuel, lost and unaccounted for gas) presented to or imposed on IOGA member local producers are grossly excessive, unjust and unreasonable. In addition, Rate AGS charges currently paid by IOGA member producers were determined by Equitable and illegally imposed on producers without negotiations with the producers. The "negotiated" rates demanded by Equitable are based on whatever Equitable believes it can charge and collect, and far exceed any actual incremental cost incurred by Equitable in gathering, transporting and distributing additional local production (if there was any additional gas produced). The result is that Equitable is over-recovering actual costs and double-recovering certain costs (such as shrinkage), and earning an excessive and unreasonable return on its investment in this portion of its utility business.

As of January 2008, Equitable is also imposing, or attempting to impose, unilaterally determined, an increased non-negotiated charge of \$0.50/Dth on IOGA member producers under Rate AGS and is attempting to coerce producers into accepting this charge by refusing to set new meter taps for IOGA member producers unless the producers "agree" to the \$0.50/Dth rate. In addition to violating the explicit terms of Rate AGS, Equitable's actions violate its obligation under Sections 1317 and 1318 of the Code to pursue a least cost fuel procurement policy, as well as the Commission's regulations promoting the development and use of Pennsylvania natural gas and prohibiting unreasonable restrictions on producer access to gas utility facilities.

The Public Utility Code requires every public utility to furnish and maintain adequate, efficient, safe, and reasonable service and facilities, and to make all changes and improvements to its service and facilities as necessary or proper for the accommodation, convenience and safety of its patrons, employees, and the public. The Public Utility Code also requires all rates for services and facilities provided by a public utility to be just and reasonable, which means rates that provide for the recovery of the reasonable costs of the services and facilities used and useful in the public service, and an opportunity to earn a reasonable or fair return thereon. IOGA member local producers are currently "customers" of Equitable's "gathering service" and are entitled to the protections of the Code against the provision of unjust and unreasonable service, facilities and rates, as well as the Code provisions providing for refunds of unlawful charges collected by Equitable.

In support of its complaint, as amended, Complainant avers as follows:

## II. THE PARTIES

1. The Complainant is the Independent Oil and Gas Association of Pennsylvania ("IOGA"), a non-profit trade association representing Pennsylvania independent oil and natural gas producers and Commission-licensed marketers and natural gas suppliers ("NGSs"). IOGA's contact information is:

Louis D. D'Amico, Executive Director  
Independent Oil and Gas Association of Pennsylvania  
115 VIP Drive, Suite 100  
Wexford, PA 15090-7906  
Ph. (724) 933-7306  
Fax (724) 933-7310  
[info@iogapa.org](mailto:info@iogapa.org)

2. IOGA's attorneys in this matter are:

Kevin J. Moody, Esq.  
Attorney I.D. No. 34367  
Daniel Clearfield, Esq.  
Attorney I.D. No. 26183  
Wolf, Block, Schorr and Solis-Cohen LLP  
213 Market Street, 9th Floor  
P.O. Box 865  
Harrisburg, PA 17108-0865  
Ph. (717) 237-7160  
Fax (717) 237-7161  
[kmoody@wolfblock.com](mailto:kmoody@wolfblock.com)  
[dclearfield@wolfblock.com](mailto:dclearfield@wolfblock.com)

3. IOGA's Pennsylvania natural gas producer members sell (or want to sell) their local natural gas production ("Appalachian supply") to Equitable or its affiliates or third-party NGSs for resale to Equitable's sales service customers and its delivery service customers.

4. IOGA's Pennsylvania natural gas producer members deliver (or want to deliver) their Appalachian supply to Equitable's pipeline facilities for transportation by Equitable and resale by third-party NGSs to wholesale or end use transportation customers served by other natural gas distribution companies ("NGDCs").

5. IOGA's Pennsylvania-licensed NGS producer members want to deliver their Appalachian supply to Equitable's pipeline facilities for transportation by Equitable and sale directly to their own retail customers on Equitable's system or on other NGDC systems.

6. The Respondent is Equitable Gas Company ("Equitable"), an unincorporated division of Equitable Resources, Inc. which operates as a public utility as defined in Section 102 of the Public Utility Code ("Code") and a natural gas distribution company ("NGDC") as defined in Section 2202 of the Code. Equitable's PUC utility code is 121100.

7. Equitable provides public utility services as defined in Section 102 of the Code, including natural gas distribution service and natural gas supply services as defined in Section 2202 of the Code.

8. Equitable's provision of the services described in paragraph 7 above is subject to the jurisdiction and authority of the Pennsylvania Public Utility Commission ("PUC" or "Commission"), the Code,<sup>1</sup> including the Natural Gas Choice and Competition Act,<sup>2</sup> and the Commission's regulations.<sup>3</sup>

9. As part of its distribution system, Equitable owns and/or operates natural gas pipeline facilities in western Pennsylvania which Equitable uses in its provision of public utility services to obtain, transport and deliver natural gas, including Appalachian supply, to its sales service customers and its delivery service customers.

10. As part of its distribution system, Equitable owns and/or operates natural gas pipeline facilities in western Pennsylvania which Equitable uses to transport and deliver natural

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<sup>1</sup> 66 Pa. C.S. §§ 101-3316.

<sup>2</sup> 66 Pa. C.S. §§ 2201-2212 ("Gas Choice and Competition Act").

<sup>3</sup> For example, 52 Pa. Code § 60.1 (relating to development of Pennsylvania natural gas production) and § 60.2(8) (relating to access to gas utility facilities).

gas, including Appalachian supply, that is marketed or sold by NGSs to their retail customers and to Equitable's delivery service customers.

11. As part of its distribution system, Equitable owns and/or operates natural gas pipeline facilities in western Pennsylvania which can be used by Equitable to transport natural gas, including Appalachian supply, for ultimate delivery to the pipeline systems of other NGDCs for sale or resale to wholesale or retail customers served by other NGDCs.

### **III. BACKGROUND**

12. Delivered Appalachian supply is generally lower in cost than natural gas from the Southwest production areas of the Gulf of Mexico, Texas and Louisiana. The primary reason is that there are no interstate pipeline demand, transportation and/or shrinkage charges paid by consumers up to the point of delivery to Equitable's system.

13. In addition to lower cost, delivered Appalachian supply provides other cost or reliability benefits to Equitable's customers, such as reducing dependency on interstate pipelines, reducing interstate pipeline demand costs, lowering purchased gas cost ("PGC") rates, and reducing unit/operating costs (such as compression).

14. Delivered Appalachian supply improves the reliability of Equitable's pipeline system and its natural gas utility services.

15. There are end use customers and local production meters located on the same portions of Equitable's distribution pipeline network.

16. Equitable provides public utility service to retail gas customers through natural gas pipeline facilities owned and operated by one or more pipeline affiliates of Equitable.

17. Equitable's distribution pipeline facilities are essential for Equitable's provision of public utility service to its end use customers, their suppliers and local producers.

18. IOGA member local producers are currently customers of Equitable's "gathering service" under Rate AGS.

19. Some IOGA member producers own and/or operate their own gathering lines that deliver their Appalachian production directly into Equitable's distribution pipelines.

20. Equitable is charging, or attempting to charge, producers who own and/or operate their own gathering lines for gathering service under Rate AGS.

21. Ownership of, and responsibility to deliver, IOGA member local producers' Appalachian supply sold to Equitable for its sales service customers passes to Equitable when the gas leaves the local producers' facilities and enters Equitable's distribution pipeline network.

22. Ownership of and responsibility for IOGA member local producers' Appalachian supply sold or transported to Equitable's delivery service customers passes, and Equitable's responsibility to transport and deliver begins, when the gas leaves the local producers' facilities and enters Equitable's distribution pipeline network.

23. In June 2003, the Commission approved Equitable's affiliated interest agreement filing and initial Rate AGS at Docket No. G-00031009, but the Commission did not determine that the filing or initial rate schedule AGS was consistent with the public interest, or that the associated costs or expenses were reasonable or prudent for the purposes of determining just and reasonable rates. The Commission's approval was also expressly contingent upon subsequent audits, reviews and inquiry in any Commission proceeding.

24. In its application at G-00031009, Equitable acknowledged that the "PA-North Gathering System" it acquired would become part of its distribution rate base on which its delivery service rates are determined.

25. Equitable's Rate AGS charges local producers for the first time for the use of Equitable's distribution pipeline network.

A. Rate AGS states that the gathering rate "shall be determined by negotiation," and that Equitable "shall retain a separate quantity of gas for fuel, loss and unaccounted for gas [shrinkage] required to provide this gathering service."

26. Equitable's tariff Rule 11.4 ("Shrinkage") for Equitable's delivery and pooling service states that Equitable's retention allowance for delivery service shrinkage is 5% of the total volume of gas delivered into its system on behalf of a delivery service, or end-use transportation, customer.

27. Equitable's tariff Rule 11.4 for Equitable's delivery and pooling service states that in addition to the 5% delivery service shrinkage rate, Equitable may retain a portion of all Apollo District transportation as compressor fuel, not to exceed 3%, with the portion to be established in each customer's service contract based upon the actual service to be provided by Equitable.

28. Equitable's Rate AGS and Rule 11.4 permit Equitable to charge its delivery service customers for shrinkage on the same gas volumes transported over the same facilities for which Equitable charges local producers for shrinkage.

29. Upon information and belief, Equitable in fact does charge its delivery service customers for shrinkage under Rule 11.4 on the same gas volumes transported over the same facilities for which Equitable charges IOGA member local producers for shrinkage under Rate AGS.

30. In 2005, Equitable completed the Apollo District "Northern Asset Optimization Program ("NAOP") which consisted of five (5) projects Equitable asserted would increase pipeline capacity, lower pressures and increase local natural gas production on the Apollo District portion of Equitable's distribution pipeline network.

31. Upon information and belief, Equitable has recovered, or attempted to recover, Apollo District NAOP costs through rates imposed, or sought to be imposed, on IOGA member

local producers' volumes transported on both the Apollo District and Equitable District portions of Equitable's distribution pipeline network.

32. Upon information and belief, Equitable charges IOGA member local producers more than 8% combined for shrinkage and fuel on volumes transported over the Apollo District portion of Equitable's distribution network.

33. Upon information and belief, costs of Equitable's facilities and shrinkage recovered through Rate AGS charges are also being recovered through Equitable's sales service rates and delivery service rates.

34. Upon information and belief, Equitable does not charge third-party marketers for the use of the distribution system over and above the transportation and delivery service rates charged to end user customers.

35. Upon information and belief, Equitable does not charge gathering fees or shrinkage under Rate AGS on Appalachian supply sold by IOGA member local producers to third-party marketers for transportation and delivery by Equitable to the marketers' customers over the same distribution pipeline facilities as local production sold to Equitable.

36. Rate AGS charges currently paid by IOGA member producers were determined by Equitable and imposed on producers and were not the product of negotiations with the producers.

37. As of January 2008, Equitable has been imposing, or attempting to impose, an increased non-negotiated charge of \$0.50/Dth on IOGA member producers under Rate AGS.

38. Equitable has refused, and is continuing to refuse, to set new meter taps for IOGA member producers unless the producer agrees to sign a contract agreeing to pay the increased non-negotiated Rate AGS charge.

#### IV. GROUNDS FOR RELIEF

##### COUNT 1

**EQUITABLE'S RATE AGS, AND EQUITABLE'S PRACTICES UNDER COLOR OF AUTHORITY OF RATE AGS, ARE UNLAWFUL, UNJUST AND UNREASONABLE IN VIOLATION OF SECTION 1301 OF THE PUBLIC UTILITY CODE BECAUSE THEY PERMIT EQUITABLE TO CHARGE LOCAL PRODUCERS FOR COSTS THAT ARE NOT THEIR RESPONSIBILITY.**

39. Paragraphs 1 through 35 are incorporated herein by reference.

40. The distribution pipeline facilities Equitable owns and/or operates to provide public utility services constitute property used and useful in the public service and are, upon information and belief, part of Equitable's rate base as defined in Section 102 of the Code.

41. Section 1301 of the Code requires every rate demanded by a public utility to be "just and reasonable."<sup>4</sup>

42. Rates are just and reasonable if they permit the utility to recover the reasonable costs of its plant and facilities used and useful in providing public utility services, and an opportunity to earn a reasonable or fair return thereon.<sup>5</sup>

43. It is longstanding ratemaking principle that current utility customers should pay only the costs of providing current utility service based upon the costs of the utility's property that is "used and useful" in service to the public.<sup>6</sup>

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<sup>4</sup> 66 Pa. C.S. § 1301.

<sup>5</sup> *Com. v. Duquesne Light Co.*, 366 A.2d 242, 245 (Pa. 1976) ("The Commission has an ongoing duty to protect the public from unreasonable rates while insuring that public utility companies are permitted to charge rates sufficient to cover their costs and provide a reasonable rate of return.").

<sup>6</sup> *Barasch v. Pa. P.U.C.*, 491 A.2d 94, 104 (Pa. 1985); *Pennsylvania Electric Company v. Pa. P.U.C.*, 502 A.2d 130, 135 (Pa. 1985).

44. Sections 1501 and 2205(a),(b)(2) of the Code require every gas utility to provide and maintain adequate, efficient, safe and reasonable service and facilities, including improvements that are "necessary or proper for the accommodation, convenience, and safety of its patrons, employees, and the public"<sup>7</sup> and maintenance or upgrades necessary to meet retail gas customer requirements consistent with the utility's obligation to provide safe and reliable service.<sup>8</sup>

45. The costs of Equitable's "used and useful" property includes its costs of complying with its obligations under Sections 1501 and 2205(a),(b)(2) of the Code, such as the Apollo District NAOP projects, because complying with these obligations provides reliability and cost benefits to Equitable's pipeline system and cost benefits to Equitable's end use customers.

46. The ownership of IOGA member local producers' Appalachian supply passes to the purchasers – Equitable, Equitable's delivery service customers, or marketers, as the case may be – when the gas leaves the local producers' facilities and enters Equitable's distribution pipeline network.

47. Equitable's responsibility to transport or deliver IOGA member local producers' Appalachian supply also begins when the gas leaves the local producers' facilities and enters Equitable's distribution pipeline network.

48. Equitable charges end user customers a delivery service rate and a shrinkage charge that are intended to compensate Equitable for the costs of transporting natural gas delivered to Equitable's distribution system to the end user customers' meters.

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<sup>7</sup> 66 Pa. C.S. § 1501.

<sup>8</sup> 66 Pa. C.S. § 2205(a),(b)(2).

49. Equitable's Rate AGS is unlawful, unjust and unreasonable because it permits Equitable to charge IOGA member local producers for costs of what is, in fact, a delivery service function, the costs of which are (or should be) recovered through Equitable's sales service and delivery service rates.

50. While the Commission permitted Equitable's Rate AGS to become effective, the Commission did not determine that it was consistent with the public interest to permit Equitable to charge separate gathering fees or that separate "negotiated" gathering fees under Rate AGS constituted just and reasonable rates.

## COUNT II

### **AS IMPLEMENTED BY EQUITABLE, RATE AGS DISCRIMINATES AGAINST LOCAL PRODUCERS IN VIOLATION OF SECTION 1304 OF THE CODE.**

51. Paragraphs 1 through 35 and 40 through 50 are incorporated herein by reference.

52. Section 1304 of the Code prohibits rates that subject any person to "any unreasonable prejudice or disadvantage."<sup>9</sup>

53. Under Rate AGS, Equitable charges local producers, including IOGA members, for the use of its distribution network on Appalachian supply volumes sold to Equitable for its end user customers.

54. However, Equitable does not charge third-party marketers for the use of its distribution system over and above the transportation and delivery service rates charged to end user customers.

55. Equitable also does not charge gathering rates or shrinkage on Appalachian supply sold by IOGA member local producers to third-party marketers for transportation and

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<sup>9</sup> 66 Pa. C.S. § 1304.

delivery to the marketers' customers over the same gathering facilities as Appalachian supply sold to Equitable.

56. Accordingly, as implemented by Equitable, its Rate AGS discriminates against local producers selling Appalachian supply to Equitable, in violation of Section 1304 of the Code.

### COUNT III

**EQUITABLE'S RATE AGS, AND EQUITABLE'S PRACTICES UNDER COLOR OF AUTHORITY OF RATE AGS, ARE UNLAWFUL, UNJUST AND UNREASONABLE IN VIOLATION OF SECTION 1301 OF THE PUBLIC UTILITY CODE BECAUSE THEY PERMIT EQUITABLE TO RECOVER MORE THAN THE REASONABLE COSTS OF, AND A REASONABLE RETURN ON, WHAT EQUITABLE CONSIDERS A "GATHERING" PORTION OF ITS DISTRIBUTION NETWORK.**

57. Paragraphs 1 through 38 and 40 through 56 are incorporated herein by reference.

58. Section 1301 of the Code requires every rate demanded by a public utility to be "just and reasonable."<sup>10</sup>

59. Equitable's Rate AGS is unlawful, unjust and unreasonable as it has been implemented because Equitable has successfully demanded that local producers pay rates that produce for Equitable a return on what Equitable considers a "gathering" portion of its distribution network that far exceeds a fair return on its investment after compensating it for all reasonable expenses.

60. As a result of Equitable's Rate AGS and Equitable's practices under color of authority of Rate AGS, Equitable is able to dictate extremely favorable rates, terms and conditions of service which have harmed – and will continue to significantly harm – IOGA member local producers.

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<sup>10</sup> 66 Pa. C.S. § 1301.

61. To the extent that Equitable is permitted to charge local producers for a "gathering service," it may only be permitted to charge a rate that does not allow Equitable to receive more than a fair or reasonable return on its investment, after accounting for all relevant and reasonable expenses.

62. IOGA is not opposed to separate charges, as other gas utilities impose, for transportation of its members' Appalachian supply through and out of Equitable's pipeline system for delivery to wholesale or end use customers served by other gas utilities, to the extent that Equitable does not recover this cost in some other rate.

63. IOGA also does not oppose separate fees for incremental costs Equitable experiences for improvements to its distribution network that provide enhanced facilities and services that benefit only IOGA member local producers.

64. To the extent Equitable's existing sales service and delivery service rates do not provide Equitable with the opportunity to recover its reasonable costs of service, including the costs of what Equitable considers a "gathering" portion of its distribution network, and a reasonable return thereon, Equitable's remedy is to make the necessary filings with the Commission to adjust its base rates to recover, through just and reasonable cost-based rates, the costs of its distribution pipeline network used to provide public utility service and a reasonable return on these costs.

#### COUNT IV

**EQUITABLE'S RATE AGS, AND EQUITABLE'S PRACTICES UNDER COLOR OF AUTHORITY OF RATE AGS, ARE UNLAWFUL, UNJUST AND UNREASONABLE IN VIOLATION OF SECTION 1301 OF THE PUBLIC UTILITY CODE BECAUSE THEY PERMIT EQUITABLE TO DOUBLE RECOVER ITS COSTS FOR SHRINKAGE AND WHAT EQUITABLE CONSIDERS TO BE "GATHERING" FACILITIES.**

65. Paragraphs 1 through 38, through 50, and 58 through 64 are incorporated herein by reference.

66. Equitable's separate "gathering" rates and shrinkage imposed pursuant to Rate AGS permit Equitable to charge amounts for the use of what Equitable considers a "gathering" portion of its distribution pipeline network over and above Equitable's charges for the use of its distribution network included in its sales, delivery and transportation service rates. This permits Equitable to double recover costs for the use of these distribution network facilities, and therefore is unjust and unreasonable.

67. Equitable's Rate AGS is also unlawful, unjust and unreasonable because it permits Equitable to recover shrinkage (gas for fuel, lost gas and unaccounted for gas) on Appalachian supply transported from IOGA member local producers even though Equitable recovers shrinkage from its delivery service customers on the same Appalachian supply volumes transported over the same portion of Equitable's distribution network. This permits Equitable to double recover costs for shrinkage and, with respect to Appalachian supply volumes transported on Equitable's Apollo District facilities, even more than twice the shrinkage costs.

#### COUNT V

**EQUITABLE'S IMPOSITION ON IOGA MEMBER PRODUCERS OF ANY UNILATERALLY DETERMINED, NON-NEGOTIATED RATE UNDER RATE AGS VIOLATES THE EXPLICIT TERMS OF RATE AGS AND IS THEREFORE IN VIOLATION OF SECTIONS 1301 AND 1303 OF THE PUBLIC UTILITY CODE.**

68. Paragraphs 1 through 38 are incorporated herein by reference.

69. The common and approved usage of the word "negotiation" is "the action or process of negotiating or being negotiated," while the common and approved usage of the word "negotiate" is defined as "to arrange for or bring about through conference, discussion, and compromise."<sup>11</sup>

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<sup>11</sup> *Webster's Ninth New Collegiate Dictionary* (1991) at 791.

70. By its explicit terms, Rate AGS does not authorize Equitable to unilaterally determine and impose, or attempt to impose, any charge under Rate AGS without the agreement of the producer arrived at through negotiation.

71. By its explicit terms, Rate AGS does not provide for any charge other than a negotiated rate.

72. Rate AGS does not provide a range of rates, floor and ceiling rates, or a default rate which the Commission has determined to be just and reasonable for Equitable to impose unilaterally if the negotiations required by Rate AGS are unsuccessful.

73. If negotiations under Rate AGS are unsuccessful and no negotiated rate is possible, IOGA asserts that Equitable must file a proposed rate (either by amending Rate AGS or by proposing a new rate) for approval by the Commission pursuant to Section 1308 of the Code before it can lawfully charge IOGA member producers new and increased charges under Rate AGS.

74. The Commission has not delegated (and may not legally delegate) to Equitable its authority to determine a just and reasonable rate under Rate AGS.

75. Section 1301 of the Code requires every rate demanded by a public utility to be "just and reasonable."<sup>12</sup>

76. Section 1303 of the Code states that "no public utility shall, directly or indirectly, by any device whatsoever, or in anywise, demand or receive" a greater or less rate "for any service rendered or to be rendered by the public utility than that specified" in the utility's tariffs approved by the Commission.<sup>13</sup>

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<sup>12</sup> 66 Pa. C.S. § 1301.

<sup>13</sup> 66 Pa. C.S. § 1303.

77. Imposition of a rate that is not authorized by Equitable's tariff is unjust, unreasonable and unlawful.

78. Equitable's actions in unilaterally determining and imposing, or attempting to impose, non-negotiated charges under authority of Rate AGS on IOGA member producers violates the explicit terms of Rate AGS, and therefore is unjust, unreasonable and unlawful in violation of Sections 1301 and 1303 of the Code.

79. Equitable's actions in unilaterally determining and imposing, or attempting to impose, non-negotiated charges under authority of Rate AGS on IOGA member producers usurp the Commission's authority to determine a just and reasonable rate under Rate AGS and is therefore illegal pursuant to Sections 1301 and 1303 of the Code.

#### COUNT VI

#### **EQUITABLE'S REFUSAL TO SET NEW METER TAPS FOR IOGA MEMBER PRODUCERS' LOCAL PRODUCTION VIOLATES EQUITABLE'S OBLIGATION TO PURSUE A LEAST COST FUEL PROCUREMENT POLICY.**

80. Paragraphs 1 through 38 and 69 through 79 are incorporated herein by reference.

81. Equitable's refusal to set new meter taps for IOGA member producers – unless they agree to sign contracts agreeing to pay Equitable's new unilaterally determined, increased non-negotiated Rate AGS charge of \$0.50/Dth - prevents new local Appalachian supplies from being delivered to Equitable's pipeline system for Equitable system supply or for supply to end use customers of Commission licensed NGSs.

82. Sections 1317 and 1318 of the Code require Equitable to pursue a least cost fuel procurement policy.<sup>14</sup>

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<sup>14</sup> 66 Pa. C.S. §§ 1317, 1318.

83. As delivered, locally produced Appalachian supply is generally lower in cost than natural gas from the Southwest production areas of the Gulf of Mexico, Texas and Louisiana. Equitable's refusal to set new meter taps for IOGA member producers unless they agree to pay Equitable's new unilaterally determined, increased non-negotiated Rate AGS charges violates Equitable's obligation under Sections 1317 and 1318 of the Code. It also potentially denies customers access to lower priced, locally produced gas.

### COUNT VII

#### **EQUITABLE'S REFUSAL TO SET NEW IOGA MEMBER LOCAL PRODUCTION METER TAPS VIOLATES THE COMMISSION'S REGULATIONS CONCERNING THE DEVELOPMENT AND USE OF PENNSYLVANIA NATURAL GAS AND PRODUCER ACCESS TO EQUITABLE'S GAS PIPELINE FACILITIES.**

84. Paragraphs 80 through 83 incorporated herein by reference.

85. The Commission's regulations state that the "development of Pennsylvania natural gas should be promoted, because it will achieve benefits that accrue to gas utilities and their customers."<sup>15</sup>

86. In its recent Section 1307(f) proceedings, Equitable has touted the benefits of Pennsylvania natural gas to pipeline system reliability and its end use customers.

87. The Commission's regulations prohibit a Class A gas utility, such as Equitable, from "unreasonably restrict[ing] Commonwealth natural gas producer access to gas utility facilities."<sup>16</sup>

88. Equitable's refusal to set new meter taps for IOGA member producers' Pennsylvania natural gas production unless they agree to pay Equitable's new unilaterally

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<sup>15</sup> 52 Pa. Code § 60.1.

<sup>16</sup> 52 Pa. Code § 60.2(8).

determined, increased non-negotiated Rate AGS charge of \$0.50/Dth violates the Commission's regulations requiring Equitable to promote the development and use of Pennsylvania natural gas and is therefore unlawful.

89. Equitable's refusal to set new meter taps for IOGA member producers' Pennsylvania natural gas production unless they agree to pay Equitable's new unilaterally determined, increased non-negotiated Rate AGS charge violates the Commission's regulations that prohibit Equitable from unreasonably restricting IOGA member producers' access to Equitable's gas utility facilities and is therefore unlawful.

#### COUNT VIII

#### EQUITABLE MUST BE REQUIRED TO REFUND ALL UNLAWFUL CHARGES COLLECTED UNDER AUTHORITY OF RATE AGS.

90. Counts I through VII are hereby incorporated by reference.

91. Section 1312(a) of the Code authorizes the PUC to order the refund of any rate received by a public utility if the Commission determines that the rate was unjust, unreasonable, in violation of any Commission regulation or order, or in excess of the applicable rate in an existing and effective tariff.<sup>17</sup>

92. For the reasons set forth in Counts I through VIII, Equitable's charges under authority of Rate AGS are, and have been, unjust, unreasonable, in violation of Equitable's Rate AGS and in excess of the applicable rate(s) in authorized by Equitable's existing and effective tariff.

93. Accordingly, Equitable's collection from IOGA member producers of unjust, unreasonable and unlawful charges under authority of Rate AGS is unlawful.

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<sup>17</sup> 66 Pa. C.S. § 1312(a).

94. In accordance with Section 1312(a) of the Code, Equitable must be required to refund all such unlawful charges paid by IOGA member producers, plus interest at the legal rate of interest from the date of each unlawful payment.

## **V. CONCLUSION**

Unless cancelled, Equitable's Rate AGS will establish a dangerous precedent that will encourage other gas utilities to inflict similar harm on the local producers in their service territories by separately charging for the costs of service and facilities that benefit all customers and therefore should be recovered through base rates.

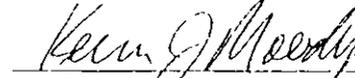
## **VI. RELIEF REQUESTED**

WHEREFORE, for the reasons set forth above, IOGA respectfully requests that the Pennsylvania Public Utility Commission sustain this Complaint and:

1. Direct Equitable to cancel Rate AGS, effective immediately.
2. Direct Equitable to refund to IOGA member producers all unlawful charges under Rate AGS collected by Equitable from IOGA member producers.
3. If the Commission determines that Equitable's existing base rates do not provide Equitable with an opportunity to recover its reasonable costs of service and facilities, including what Equitable considers "gathering" facilities, and a reasonable or fair return thereon, IOGA requests that the Commission direct Equitable to make the necessary filings, within 60 days of the entry of the Commission's Order, to enable the Commission, in accordance with Section 1309(a) of the Code, to establish Equitable's just and reasonable base rates that provide Equitable with an opportunity to recover its reasonable costs of service and facilities, and a reasonable or fair return thereon.

4. Grant such other and further relief as the Commission determines to be in the public interest.

Respectfully submitted,



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Harrisburg, PA 17101  
(717) 237-7173

Attorneys for the Independent Oil and Gas  
Association of Pennsylvania

Dated: September 14, 2006, amended February 1, 2008

VERIFICATION

I, Louis D. D'Amico, hereby verify that I am Executive Director of the Independent Oil and Gas Association of Pennsylvania (IOGA), that I am authorized to make this verification on behalf of IOGA, that the facts set forth above are true and correct to the best of my knowledge, information and belief, and that IOGA expects to be able to prove the same at a hearing held in this matter. This verification is made subject to the penalties relating to unsworn falsification to authorities as prescribed by 18 Pa. C.S. § 4904.

  
\_\_\_\_\_  
Louis D. D'Amico  
Executive Director

Independent Oil and Gas Association of  
Pennsylvania

Dated: Jan 31, 2013

**Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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<b>Independent Oil and Gas</b>	:	<b>Docket No. C-20066800</b>
<b>Association of Pennsylvania</b>	:	
	:	
<b>v.</b>	:	
	:	
<b>Equitable Gas Company</b>	:	

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**ANSWER TO AMENDED COMPLAINT WITH NEW MATTER**

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AND NOW, comes Equitable Gas Company, a division of Equitable Resources, Inc., ("Equitable" or "Company"), by its attorneys, and, following a brief introduction and summary and utilizing the headings from the Amended Complaint, answers in *seriatim* fashion, pursuant to 52 Pa. Code §5.61, the Amended Complaint of the Independent Oil and Gas Association of Pennsylvania ("IOGA"), as follows:

**I. INTRODUCTION AND SUMMARY OF ANSWER TO AMENDED COMPLAINT**

Over the past 8 years, 2000 through 2007, Equitable has invested capital in excess of \$18.5 million in gathering lines and other gathering related facilities including compression and dehydration equipment. In addition to these capital expenditures the Company has incurred significant gathering related operation and maintenance ("O&M") expenses. For example, during 2006 and 2007, the Company's annual gathering related O&M expenses were \$2.03 million and \$2.21 million, respectively. These investments have opened up Appalachian production areas in Western Pennsylvania expanding the ability of Appalachian producers, including members of IOGA, to bring locally produced natural gas to market. A measure of the success of the investment is shown by the substantial and significant increase in locally produced gas purchased by Equitable for purchased gas cost purposes. From 2000 through 2007, Equitable's purchases of local Pennsylvania produced gas increased from 2.16 Bcf annually to 9.25

Bcf annually and the dollars it paid to local Pennsylvania producers for gas delivered directly into the Equitable system increased from \$5.56 million to \$72.9 million, an increase of \$67.34 million on an annual basis. Having received such extreme monetary benefits from the increased gathering ability, it is appropriate that producers pay the cost of the facilities installed to enable them to bring their gas to market.

Equitable's investment in gathering lines and other gathering facilities is not part of its Pennsylvania utility rate base. Equitable's investment in gathering facilities is all of recent occurrence well subsequent to Equitable's 1996-1997 most recent prior base rate proceeding. Additionally, Equitable Field Services, LLC, from which Equitable acquired the PA-North Field Gathering System in 2003 was not a Pennsylvania jurisdictional entity and Equitable acquired those assets and has operated those facilities as a non-PA jurisdictional field gathering system. Consistent therewith, Equitable is recording its more recent investment in gathering facilities, including most of its Northern Asset Optimization Program, as Non-Utility Property. Contrary to IOGA's contention, gathering facilities are distinguishable from distribution pipeline. Gathering facilities should not be lumped together with distribution pipeline. IOGA is trying to avoid contributing to the cost of the very gathering facilities from which they so clearly benefit. Such cost avoidance should not be allowed.

Reduced to the real issue at stake here, this Amended Complaint identifies that IOGA members have production that apparently is being subsidized on other NGDCs, and IOGA wants the Commission to require Equitable to do the same. Equitable believes producers are economically able to cover the appropriate costs, including gathering costs and shrinkage, based on the current prices for natural gas and the outlook for future gas prices. IOGA would force ratepayers, who are already burdened with gas costs that are two to three times the level they were paying only a few years ago, to further enrich IOGA members by subsidizing the gathering costs associated with

acquiring local production. Equitable has invested a considerable amount in gathering plant because it recognizes that local production benefits its ratepayers to some degree. However, clearly, IOGA members are the primary beneficiary of this increased investment and they should not be allowed a "free ride" at either Equitable's or our ratepayers' expense.

## II. THE PARTIES

1. Admitted as stated.<sup>1</sup>

2. Admitted as stated.

3. Admitted in part and denied in part. Equitable admits that IOGA's Pennsylvania members sell local production to Equitable, its affiliates or third party NGSs for resale to sales and transportation customers. Equitable is without knowledge of what IOGA members "want" to do as expressed in the parenthetical of paragraph 3 of the Amended Complaint and, if relevant, proof thereof is demanded.

4. Admitted in part and denied in part. Equitable admits that IOGA's Pennsylvania members deliver their Appalachian supply to Equitable's pipeline, including both distribution and gathering facilities, for transportation by Equitable and resale by Natural Gas Suppliers ("NGS") to Equitable's delivery service customers or to wholesale or end use customers served by other natural gas distribution companies ("NGDC"). Equitable is without knowledge of what IOGA members "want" to do as expressed in the parenthetical of paragraph 4 of the Amended Complaint and, if relevant, proof thereof is demanded.

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<sup>1</sup> Although Equitable admits that Complainant is IOGA, Equitable has no knowledge whether IOGA is a non-profit trade association or whether IOGA's financial statements support its claims of non-profit status. Equitable, additionally, has no knowledge of which, if any, IOGA members IOGA purports to represent in this proceeding. No list of purported IOGA members is attached to the Amended Complaint. Equitable demands proof of the averment details presented in Paragraph 1 of the Amended Complaint.

5. Denied as stated. Equitable is without knowledge of what IOGA members "want" to do as expressed in paragraph 5 of the Amended Complaint and, if relevant, proof thereof is demanded.

6. Admitted as stated.

7. Admitted as stated.

8. Paragraph 8 of the Amended Complaint is a conclusion of law to which no response is required. If an answer is deemed necessary, Equitable submits that it provides services subject to the jurisdiction and authority of the Public Utility Commission ("Commission" or "PaPUC") under the terms and provisions of the Public Utility Code and the rules and regulations of this Commission.

9. Admitted as stated but with the clarification that the PaPUC jurisdictional "distribution system" does not include the gathering facilities at issue in this complaint proceeding.

10. Admitted as stated but with the clarification that the PaPUC jurisdictional "distribution system" does not include the gathering facilities at issue in this complaint proceeding.

11. Admitted as stated but with the clarification that the PaPUC jurisdictional "distribution system" does not include the gathering facilities at issue in this complaint proceeding.

### **III. BACKGROUND**

12. Admitted as stated.

13. Admitted in part and denied in part. Equitable admits that delivered Appalachian supply can be cost beneficial vis-a-vis Southwest production supply. Equitable denies, however, the blanket averment that Appalachian supply is more reliable. Appalachian supply may be less reliable than Southwest supply and may

require more in operating costs for compression, maintenance and measurement and have higher average lost and unaccounted for gas levels.

14. Denied as stated. See paragraph 13, *supra*.

15. Admitted as stated but with the clarification that the PaPUC jurisdictional "distribution pipeline network" does not include the gathering facilities at issue in this complaint proceeding.

16. Admitted as stated in that Equitable receives the majority of its gas supply through one or more pipeline affiliates of Equitable.

17. Admitted as stated but with the understanding that "distribution pipeline facilities" do not include gathering facilities.

18. Admitted in part and denied in part. Equitable admits that IOGA member producers pay for gathering service under currently effective Rate AGS. Equitable denies, however, any suggestion that IOGA members are PaPUC jurisdictional "customers" of Equitable similar, for example, to residential or commercial customers of Equitable.

19. While Equitable believes that "some" IOGA member producers may own and/or operate their gathering lines, Equitable has no knowledge of the specific identity of those member producers or the details pursuant to which they own or operate gathering lines. Proof thereof accordingly is demanded.

20. Admitted with the understanding that Rate AGS is not a charge for gathering lines that a producer may own and/or operate.

21. Paragraph 21 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that each contract with the various Appalachian producers contains language addressing the transfer of title and those contracts speak for themselves.

22. Paragraph 22 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that each contract with the various Appalachian producers contains language addressing the transfer of title and those contracts speak for themselves.

23. Admitted in part and denied in part. In a letter dated June 11, 2003, at Docket No. G-00031009, the Commission addressed the Affiliated Interest Agreement between Equitable Gas Company and Equitable Field Services, LLC, and concluded that the filing did not appear to be unreasonable or contrary to the public interest and stated further, *inter alia*, that approval was contingent upon the possibility that subsequent audits, reviews and inquiry, in any Commission proceeding may be conducted, pursuant to 66 Pa. C.S. §§2101, *et seq.*

24. Denied as stated. Although the acquisition of the PA-North Gathering System could have increased rate base and operating and depreciation expense, Equitable did not propose any increase in rates as a result of the acquisition and, instead, proposed and instituted a negotiated Rate AGS - Appalachian Gathering Service. Equitable acquired the PA-North Gathering System assets and has operated the facilities as a non-jurisdictional field gathering system. It has recorded the acquisition as Non-Utility Property.

25. Denied as stated. Rate AGS is a charge for using or benefitting from the investments made to the gathering system.

26. Admitted in part and denied in part. Equitable's Tariff Rule 11.4 concerns shrinkage but provides that the retention allowance for delivery service shrinkage is 6.0 percent of the total volume delivered into its system on behalf of commercial and industrial customers and 8.0 percent of the total volume delivered into its system on behalf of all other customers. Tariff Rule 11.4 does not address shrinkage associated with gathering service.

27. Admitted in part and denied in part. Tariff Rule 11.4 concerns shrinkage but provides that, in addition to the shrinkage rate addressed in paragraph 26, *supra*, Equitable reserves the right to retain a portion of all Apollo District transportation volumes as compressor fuel. Tariff Rule 11.4 does not address shrinkage associated with gathering service.

28. Denied. Rate AGS does not address charges to delivery service customers. Rule 11.4 does not address shrinkage associated with gathering service.

29. Denied. IOGA member local producers are charged through Rate AGS for the benefit received from Equitable's investment in gathering facilities including shrinkage through the gathering system. Delivery service customers do not pay a Rate AGS shrinkage fee.

30. Admitted in part. The Northern Asset Optimization Program ("NAOP") consisted of five projects designed to increase pipeline capacity, lower pressures on the gathering system and ultimately increase local Appalachian production into the Equitable system.

31. Denied. Equitable is recovering through Rate AGS from IOGA members the Apollo District NAOP costs related to gathering facilities.

32. Denied. Equitable does not charge any IOGA member more than 8% combined for shrinkage and fuel on volumes transported.

33. Denied. The cost of and some portion of the shrinkage associated with the gathering system are intended to be recovered through Rate AGS.

34. Admitted with the understanding and clarification that "distribution system" refers to Equitable's Pennsylvania jurisdictional distribution system which does not include the gathering system or facilities.

35. Denied. While Equitable believes there may be a *de minimus* amount of gas sold by producers to marketers that has so far escaped payment of gathering

charges or shrinkage under Rate AGS, it is Equitable's intention to assess Rate AGS fees to any producer that benefits from gathering investment.

36. Denied. Rate AGS rates are the product of negotiations with producers.

37. Denied. While Equitable did seek to charge and has charged certain producers a Rate AGS of \$0.50 per Dth beginning November 2007, the charge was mutually agreed to between the producer and Equitable. If a producer complained about the charge, Equitable did not pursue the charge.

38. Denied. In October 2007, Equitable began to decline to set new meter taps. See Paragraph 81, *infra*.

#### IV. GROUNDS FOR RELIEF

##### COUNT I

39. Equitable's answers to paragraphs 1 through 38 are incorporated herein by reference.

40. Paragraph 40 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that the *distribution pipeline facilities* it owns and/or operates to provide public utility services constitute property used and useful in the public service. In contrast, however, new investment in *gathering facilities*, which are the point of reference for this proceeding, are not presently reflected in rate base and have been accounted for by Equitable as Non-Utility Property.

41. Paragraph 41 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that Section 1301 of the Public Utility Code provides that "[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable." Equitable's rates are in full compliance with the requirements of Section 1301 of the Code and established ratemaking principles.

42. Paragraph 42 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that its rates are in full compliance with the requirements of Section 1301 of the Code and established ratemaking principles.

43. Paragraph 43 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that its rates are in full compliance with the requirements of Section 1301 of the Code and established ratemaking principles.

44. Paragraph 44 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that Sections 1501 and 2205(a) and (b)(2) of the Public Utility Code provide variously that every public utility shall furnish and maintain adequate, efficient, safe and reasonable service and facilities and shall make such improvements as shall be necessary or proper for the accommodation, convenience, and safety of its patrons, employees and the public and further that nothing in Chapter 22 of the Code shall prevent the NGDC from maintaining and upgrading its system to meet retail gas customer requirements consistent with the requirements of Section 1501 or compliance with other statutory and regulatory requirements. Equitable's service and facilities are in full compliance with all requirements of Sections 1501 and 2205 of the Code. Equitable, moreover, denies that the Code requires Equitable to construct and maintain a network of pipelines for the purpose of bringing local production gas to market. Section 2205(b)(1) of the Code provides that an NGDC shall not have an obligation to install nonstandard facilities, either as to type or location, for the purpose of receiving natural gas from the natural gas supplier unless the supplier or its retail gas customer pays the full cost of the facilities.

45. Paragraph 45 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that the costs of projects such as the NAOP should be considered "used and useful" and included in Pennsylvania jurisdictional rates if the Commission concludes in this or some other proceeding that local producers are not obligated to pay for the cost of facilities necessary to gather the producers' gas and bring it to market. See also the response to paragraph 44, *supra*, incorporated herein by reference

46. Paragraph 46 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that each contract with the various Appalachian producers contains language addressing the transfer of title and those contracts speak for themselves.

47. Paragraph 47 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable denies that it has a "responsibility" to transport or deliver IOGA member producers' Appalachian supply. Equitable, however, has constructed significant gathering facilities in recent years to facilitate the bringing of IOGA member producers' gas to market. IOGA member producers have a "responsibility" to contribute to paying the cost of such facilities.

48. Denied. The shrinkage charged to end user customers through the delivery service rate is intended to compensate Equitable for the costs of transporting gas through the Pennsylvania jurisdictional distribution system. Costs for transporting gas through the gathering system to the distribution system are intended to be recovered through charges such as Rate AGS.

49. Denied. Rate AGS is neither unlawful, unjust nor unreasonable but is rather lawful, just and reasonable. Equitable has acquired and constructed significant gathering facilities in recent years to facilitate the bringing of IOGA member producers'

gas to market. It is reasonable and appropriate that IOGA members contribute to the payment of the costs of these facilities whether in the form of a tariff rate or otherwise. Instead of recognizing their responsibility, IOGA members attempt to avoid it by claiming that gathering is a delivery service function. This is inappropriate and done only for their own economic self-interest. Measured by Equitable's purchased gas cost purchases alone, local producers are receiving \$67.34 million more on an annual basis than they were receiving prior to Equitable's investment in gathering facilities. IOGA members are economically positioned to contribute to the cost of these facilities.

50. Paragraph 50 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that, while IOGA may allege that the Commission made no determination that Rate AGS is consistent with the public interest, the Commission stated that the Rate AGS did not appear to be unreasonable or contrary to the public interest. IOGA members have benefitted tremendously from the investment made by Equitable in gathering facilities. It is reasonable and appropriate that IOGA members contribute to the payment of the costs of these facilities whether in the form of a tariff rate or otherwise.

## **COUNT II**

51. Equitable's answers to paragraphs 1 through 50 are incorporated herein by reference.

52. Paragraph 52 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that Section 1304 of the Public Utility Code provides that "[n]o public utility shall, as to rates ... subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. Equitable's rates are in full compliance with the requirements of Section 1304 of the Code and established ratemaking principles.

53. Denied. Under Rate AGS, Equitable does not charge local producers for the use of Equitable's Pennsylvania jurisdictional distribution network.

54. Admitted as stated.

55. Denied. While Equitable believes there may be a *de minimus* amount of gas sold by producers to marketers that has so far escaped payment of gathering charges or shrinkage under Rate AGS, it is Equitable's intention to assess Rate AGS charges to any producer that benefits from gathering investment.

56. Paragraph 56 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that its Rate AGS is not discriminatory. Equitable submits further that it does not implement Rate AGS in a discriminatory fashion in violation of Section 1304 of the Code.

### **COUNT III**

57. Equitable's answers to paragraphs 1 through 56 are incorporated herein by reference.

58. Paragraph 52 of the Amended Complaint is a conclusion of law to which no response is required. If, however, an answer is deemed necessary, Equitable submits that Section 1301 of the Public Utility Code provides that "[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable." Equitable's rates are in full compliance with the requirements of Section 1301 of the Code and established ratemaking principles.

59. Denied. Rate AGS is neither unlawful, unjust nor unreasonable but is rather lawful, just and reasonable. Equitable has acquired and constructed significant gathering facilities in recent years to facilitate the bringing of IOGA member producers' gas to market. The return produced by Rate AGS on those gathering facilities is not

excessive. To the contrary, the costs associated with the gathering of IOGA member gas exceed the revenue received through Rate AGS.

60. Denied. IOGA members have benefitted tremendously from the investment made by Equitable in gathering facilities. It is reasonable and appropriate that IOGA members contribute to the payment of the costs of these facilities whether in the form of a tariff rate or otherwise. Measured by Equitable's purchased gas cost purchases alone, local producers are receiving \$67.34 million more on an annual basis than they were receiving prior to Equitable's investment in gathering facilities.

61. Denied. The return produced by charges to local producers is not excessive. See the response to paragraph 59, *supra*, incorporated herein by reference.

62. Admitted as stated that IOGA does not oppose separate charges for transportation of its members' gas through and out of Equitable's system for delivery to the extent that Equitable does not recover this cost in some other rate.

63. Admitted as stated that IOGA also does not oppose separate charges for incremental costs incurred by Equitable for improvements to the distribution network that provide enhanced facilities and services that benefit only IOGA members. The improvements made by Equitable to the gathering system (while not part of the Pennsylvania jurisdictional distribution network) benefit IOGA members. It is reasonable and appropriate that IOGA members contribute to the payment of the costs of these facilities whether in the form of a tariff rate or otherwise.

64. Denied. IOGA's suggestion that sales service and delivery service rates should bear the cost of improvements to the gathering system that benefit IOGA members and that these same IOGA members should not contribute, whether in the form of a tariff rate or otherwise, to the payment of the costs of the facilities from which they so clearly benefit is inherently unreasonable and contrary to the requirements of the Public Utility Code. Rather than adjust base rates, IOGA should acknowledge the

reasonableness of Rate AGS and the appropriateness of its continued application to IOGA members for their use of Equitable's gathering system.

#### **COUNT IV**

65. Equitable's answers to paragraphs 1 through 64 are incorporated herein by reference.

66. Denied. Separate gathering rates and shrinkage collected pursuant to Rate AGS effect recovery of costs associated with the gathering system and not the Pennsylvania jurisdictional distribution network. There is no double recovery of costs through Rate AGS.

67. Denied. Rate AGS is neither unlawful, unjust nor unreasonable but is rather lawful, just and reasonable. IOGA members have benefitted tremendously from the investment made by Equitable in gathering facilities. It is reasonable and appropriate that IOGA members contribute to the payment of the costs of these facilities whether in the form of a tariff rate or otherwise. Separate gathering rates and shrinkage collected pursuant to Rate AGS effect a partial recovery of costs associated with the gathering system and not the Pennsylvania jurisdictional distribution network. There is no double (or further) recovery of shrinkage.

#### **COUNT V**

68. Equitable's answers to paragraphs 1 through 67 are incorporated herein by reference.

69. Paragraph 69 of the Amended Complaint is a conclusion of law or argument concerning a term in Equitable's Tariff Rate AGS to which no response is required. If, however, an answer is deemed necessary, Equitable submits that *Webster's Ninth New Collegiate Dictionary* (1991) speaks for itself. Equitable has no knowledge of what IOGA may mean by "common and approved usage." Accordingly, proof thereof is demanded.

70. Denied. The "explicit terms" of Rate AGS are presented in Rate AGS which speaks for itself. The RATE paragraph of Rate AGS provides that "[t]he applicable rate for this service shall be determined by negotiation." While IOGA argues that Rate AGS does not authorize Equitable to unilaterally determine and impose any charge under Rate AGS without the agreement of the producer, that same producer has no right under Rate AGS to impose its own rate by unilaterally refusing to negotiate and then declining to pay for the service and facilities used to bring producer gas to market. Requiring IOGA members and Pennsylvania producers to pay the gathering and other costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles.

71. Denied. The "explicit terms" of Rate AGS are presented in Rate AGS which speaks for itself. The RATE paragraph of Rate AGS provides that "[t]he applicable rate for this service shall be determined by negotiation." Equitable denies that this language allows IOGA to dictate the charge under Rate AGS. Requiring IOGA members and Pennsylvania producers to pay the gathering and other costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles. See Paragraph 70 above.

72. Denied. The "explicit terms" of Rate AGS are presented in Rate AGS which speaks for itself. The RATE paragraph of Rate AGS provides that "[t]he applicable rate for this service shall be determined by negotiation." While IOGA argues that Rate AGS does not provide a range of rates, floor and ceiling rates or the default rate to be imposed if negotiations are unsuccessful, it is unreasonable for IOGA to suggest that a negotiated rate for gathering service that presents no floor or ceiling allows IOGA to impose its own rate by unilaterally refusing to negotiate and then declining to pay for the service and facilities used to bring producer gas to market. Requiring IOGA members and Pennsylvania producers to pay the gathering and other

costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles.

73. Paragraph 73 of the Amended Complaint is a presentation of IOGA's assertion or position concerning Rate AGS and a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable submits that Section 1301 of the Public Utility Code provides that every rate made, demanded, or received by any public utility for a regulated utility service shall be "just and reasonable." Requiring IOGA members and Pennsylvania producers to pay the gathering and other costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles. A gathering service provided using non-utility gathering plant facilities is ultimately a non-utility, non-jurisdictional service, the charges for which may be lawfully increased without Commission approval.

74. Paragraph 74 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable submits that the Commission has not delegated authority to determine a just and reasonable rate under Section 1301 of the Public Utility Code. A gathering service provided using non-utility gathering plant facilities is ultimately a non-utility, non-jurisdictional service the charges for which may be legally delegated by the Commission. Indeed, the Commission may have no jurisdiction over these charges in the first instance.

75. Paragraph 75 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable submits that Section 1301 of the Public Utility Code provides that "[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable." Equitable's rates are in full compliance with the requirements of Section 1301 of the Code and established ratemaking principles.

76. Paragraph 76 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable submits that Section 1303 of the Public Utility Code provides that “[n]o public utility shall, directly or indirectly, by any device whatsoever, or in anywise, demand or receive from any person, corporation, or municipal corporation a greater or less rate than for any service rendered or to be rendered by such public utility than that specified in the tariffs of such public utility applicable thereto.” Equitable’s rates are in full compliance with the requirements of Section 1303 of the Code.

77. Paragraph 77 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies that it has imposed a rate not authorized by its tariff or otherwise charged rates that are unjust, unreasonable or unlawful.

78. Paragraph 78 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies that it has violated the terms of Rate AGS or otherwise charged rates or attempted to charge rates that are unjust, unreasonable or unlawful.

79. Paragraph 79 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies that it is attempting to unilaterally impose a rate under Rate AGS. IOGA members have no right under Rate AGS to impose their own rates by unilaterally refusing to negotiate and then declining to pay for the service and facilities used to bring producer gas to market. Requiring IOGA members and Pennsylvania producers to pay the gathering and other costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles. Providing a gathering service using non-utility gathering plant facilities is ultimately a non-utility, non-jurisdictional service the charges for which may be lawfully increased without Commission approval.

## COUNT VI

80. Equitable's answers to paragraphs 1 through 79 are incorporated herein by reference.

81. Denied. In Equitable's last 1307(f) proceeding, Lost and Unaccounted for Gas ("LUFG") was an issue and the statement of Vice Chairman Cawley issued August 30, 2007, focused on the need to review the high levels of LUFG in the 2008 proceeding. Accordingly, beginning in October 2007, Equitable began to review the sources of its LUFG. At such time, it decided to suspend new taps on its gathering system until it could complete the LUFG study. Subsequent to October 2007, new taps were made only for producers whose tap(s) had been approved prior to October 2007. This resulted in 21 new taps having been made since the suspension of new taps was undertaken. Of the 21 taps, only four were for producers that had previously agreed to pay the \$0.50 per Dth rate. The remainder were added at their pre-existing rates which were less than \$0.50 per Dth.

82. Paragraph 82 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable admits that Section 1317 and Section 1318 of the Public Utility Code speak for themselves.

83. Paragraph 83 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies the allegations presented in Paragraph 83. Requiring IOGA members and Pennsylvania producers to pay the gathering and other costs of bringing their gas to market is entirely consistent with the Public Utility Code and established regulatory principles. The alternative, essentially sought by IOGA in this proceeding, is that these

costs be borne by the ratepaying public. Such an alternative may well not be in the public interest.<sup>2</sup>

## COUNT VII

84. Equitable's answers to paragraphs 1 through 83 are incorporated herein by reference.

85. Admitted as stated that Section 60.1 of the Commission's Rules and Regulations states that the "development of Pennsylvania natural gas should be promoted, because it will achieve benefits that accrue to gas utilities and their customers."

86. Denied as stated. While Equitable has identified benefits associated with Pennsylvania supply in 1307(f) proceedings, Pennsylvania supply, like Appalachian supply generally, may be less reliable than Southwest supply and may require more in operating costs for compression, maintenance and measurement and have higher average lost and unaccounted gas levels.

87. Denied as stated. Section 60.2(8) of the Commission's Rules and Regulations states as follows:

The tariff may not unreasonably restrict Commonwealth natural gas producer access to gas utility facilities.

Equitable is not unreasonably restricting Pennsylvania producer access either to its utility or gathering facilities.

88. Paragraph 88 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies that it is acting in an unlawful manner. Equitable's desire to charge producers a Rate

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<sup>2</sup> In the "Conclusion" section of its Amended Complaint IOGA argues that "unless cancelled, Equitable's Rate AGS will establish a dangerous precedent that will encourage other gas utilities to inflict similar harm on the local producers in their service territories by separately charging for the costs of service and facilities that benefit all customers and therefore should be recovered through base rates." The allocation of gathering and other costs to IOGA members and Pennsylvania producers is neither a "dangerous precedent" nor a "harm" to these producers.

AGS of \$0.50 per Dth is entirely reasonable, consistent with Commission Rules and Regulations and lawful.

89. Paragraph 89 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies that it is acting in an unlawful manner. Equitable's suspension of new meter taps is entirely reasonable, consistent with Commission Rules and Regulations and lawful.

#### **COUNT VIII**

90. Equitable's answers to paragraphs 1 through 89 are incorporated herein by reference.

91. Paragraph 91 of the Amended Complaint is a restatement of a statutory provision and a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable submits that Section 1312(a) of the Public Utility Code speaks for itself.

92. Paragraph 92 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies the allegations presented in Paragraph 92. Equitable's rates and charges, including rates and charges under Rate AGS, have at all times been just and reasonable and in compliance with the requirements of the Public Utility Code and applicable ratemaking and regulatory principles.

93. Paragraph 93 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies the allegations presented in Paragraph 93. Equitable's rates and charges to IOGA members, including rates and charges under Rate AGS, have at all times been just and reasonable and in compliance with the requirements of the Public Utility Code and applicable ratemaking and regulatory principles.

94. Paragraph 94 of the Amended Complaint is a conclusion of law to which no response is required. If, however, answer is deemed necessary, Equitable denies the allegations presented in Paragraph 93. Equitable's rates and charges, including rates and charges under Rate AGS, have at all times been just and reasonable and in compliance with the requirements of the Public Utility Code and applicable ratemaking and regulatory principles. IOGA members are not entitled to refunds of any amount.

#### **NEW MATTER**

1. The charges challenged by IOGA are part of negotiated contracts between Equitable Gas Company and individual IOGA member producers.

2. Equitable invested and is continuing to invest significant sums in gathering related facilities in consideration of and reliance upon these negotiated contracts. These investments, which have totaled in excess of \$18.5 million and are not part of Equitable's rate base or utility cost of service, would not have been made to the extent they were without the contractual commitments of IOGA members.

3. IOGA members have benefitted from Equitable's investment in gathering facilities. Indeed as noted in the foregoing Answer, as a consequence of Equitable's investments, IOGA members have increased the value of the natural gas sold by them to Equitable from a modest \$5.56 million in calendar year 2000 to \$72.9 million in calendar year 2007 and on a volumetric basis from 2.16 Bcf purchased by Equitable in calendar year 2000 to 9.25 Bcf purchased by Equitable in 2007.

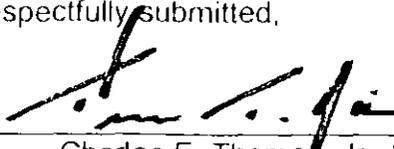
4. IOGA member producers will continue to be bound by the terms of their individual contracts with Equitable regardless of the outcome of this proceeding.

5. Having contractually agreed to pay such charges, IOGA should not be permitted to use this Commission's good offices to launch a collateral attack on existing non-public contracts entered into voluntarily and not involving a regulated utility service.

6. IOGA should not be permitted to use this Commission to foist the contractual obligations of its members which have produced significant revenues for such members onto the backs of Equitable's residential ratepayers.

WHEREFORE, Equitable Gas Company, a division of Equitable Resources, Inc., prays that the Pennsylvania Public Utility Commission dismiss the Amended Complaint of the Independent Oil and Gas Association of Pennsylvania.

Respectfully submitted,

By 

Charles E. Thomas, Jr., Esquire  
Thomas T. Niesen, Esquire  
THOMAS, THOMAS, ARMSTRONG & NIESEN  
212 Locust Street, Suite 500  
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Daniel L. Frutchey, Esquire  
Chief Regulatory Officer  
EQUITABLE UTILITIES  
225 North Shore Drive  
Pittsburgh, PA 15212

*Attorneys for  
Equitable Gas Company*

Date: March 10, 2008  
Answer to Amended Complaint (Final) 4/1

**VERIFICATION**

I, Stephen C. Rafferty, Senior Vice-President, hereby state that the facts set forth in the foregoing Amended Answer to Amended Complaint are true and correct to the best of my knowledge, information and belief and that I expect Applicant to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

  
\_\_\_\_\_  
Stephen C. Rafferty

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SECRETARY'S BUREAU

Before The  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Independent Oil and Gas : Docket No. C-20066800  
Association of Pennsylvania :  
v. :  
Equitable Gas Company :

**CERTIFICATE OF SERVICE**

I hereby certify that I have this 10<sup>th</sup> day of March 2008, served a true and correct copy of Equitable Gas Company's Answer to the Amended Complaint with New Matter of the Independent Oil and Gas Association of Pennsylvania, upon the persons and in the manner set forth below:

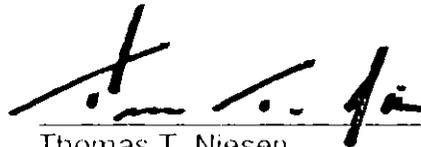
**BY FIRST CLASS MAIL**

Kevin J. Moody, Esquire  
Wolf, Block, Schorr and Solis-Cohen, LLP  
213 Market Street, 9<sup>th</sup> Floor  
P.O. Box 865  
Harrisburg, PA 17108-0865

Johnnie E. Simms, Director  
Office of Trial Staff  
Pennsylvania Public Utility Commission  
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Irwin Popowsky, Esquire  
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Office of Consumer Advocate  
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300 North Second Street  
Harrisburg, PA 17101



Thomas T. Niesen  
PA Attorney ID No. 31379

**Exhibit DMB-6**

Rafferty Letter

Date: May 1, 2007

Dear Producer,

As you may be aware, Equitable Gas Company ("Equitable") has made numerous enhancements to the former Apollo District during the past several years in an effort to stimulate and increase local Appalachian production. During this time, Equitable has incurred significant costs in operating, maintaining and improving the distribution/gathering facilities in this area.

Equitable is willing to continue making improvements, change operating conditions where feasible and ultimately increase local Appalachian production if producers are willing to compensate Equitable for some of the costs incurred. Any producer that is not willing to compensate Equitable for these costs may be prohibited from flowing incremental volumes and may possibly be curtailed during low-demand periods. Equitable is seeking reimbursement from only those producers that will directly benefit from these on-going projects.

Specifically, Equitable has a project that will be undertaken in the next several months if demand warrants. This project is described in more detail below:

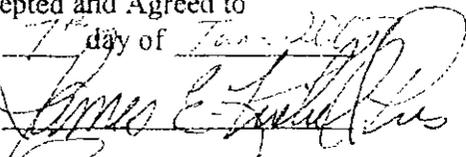
- (1). Eshbaugh Interconnection with Dominion Transmission, Clarion County, PA  
Install 10,000 feet of 8" steel mainline (1,000 psig MAOP). Install (2) 1,350 BHP units and a dehydration unit in an effort to facilitate the northwest movement of 10,000 – 12,000 dth/day into Dominion Transmission.

Equitable is proposing an *incremental gathering charge* equal to \$0.25/dth. This incremental charge will be in addition to any other applicable charges currently being assessed. This incremental charge is specifically related to the project described above and will be assessed on only those meters that directly benefit from the completion of this project.

If the above terms and conditions are acceptable, please sign and date in the space provided below and return to me by fax at 412-395-3335.

Accepted and Agreed to

this 7<sup>th</sup> day of June 2007

By: 

Title: Pres.

Sincerely,

Stephen C. Rafferty,  
Vice-President, Utility  
Asset Management

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania.	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hamil  
wfh*

**REBUTTAL TESTIMONY**

**OF**

**DIANE MEYER BURGRAFF**

On Behalf of

The Independent Oil and Gas Association of Pennsylvania

**Topics Addressed**

Allocation and Recovery of Rate AGS Costs to and from End Use Customers

October 31, 2008

**RECEIVED**

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME ADDRESS, OCCUPATION AND CAPACITY IN WHICH YOU ARE PARTICIPATING IN THIS MATTER.**

3 A. My name is Diane Meyer Burgraff. My address is 19 Westwind Drive, Lemoyne, PA.  
4 17043. I am an independent consultant retained by the Independent Oil and Gas  
5 Association of Pennsylvania ("IOGA") to investigate issues concerning the existing and  
6 proposed Rate AGS of Equitable Gas Company ("Equitable" or "EGC" or "Company").

7 **Q. PLEASE STATE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

8 A. The purpose of my rebuttal testimony is to respond to the Direct Testimony of Mr.  
9 Gruber of the Office of Trial Staff ("OTS"), Mr. Kalcic on behalf of the Office of Small  
10 Business Advocate. ("OSBA") and Mr. Watkins on behalf of the Office of Consumer  
11 Advocate ("OCA").

12 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

13 A. OTS and OSBA have apparently accepted that the "customer class" Rate AGS should  
14 recover all of Equitable's investment in gathering facilities and costs assigned to Rate  
15 AGS from producers and marketers. OCA expressly states that Equitable's Rate AGS  
16 cost recovery proposal is reasonable because "Equitable's gathering service is a totally  
17 different line of business" from its distribution operations. In my direct testimony, I  
18 noted that all three statutory advocates had, in the past, supported recovering gathering  
19 facility costs from end use customers. I am hopeful that after careful reconsideration, the  
20 statutory parties will recognize that the cost of gathering facilities used by Equitable Gas  
21 to provide lower cost and reliable Pennsylvania production to its end use customers  
22 should be reflected in the rates paid by those end use customers and included in base  
23 rates, and that the statutory parties will support the assignment of Rate AGS costs to end  
use customers.

1 **Q. PLEASE DESCRIBE THE OTS AND OSBA TESTIMONY IN THIS**  
2 **PROCEEDING CONCERNING RATE AGS.**

3 A. It appears that both OTS and OSBA have merely accepted the four (4) customer  
4 classifications in Equitable's cost of service studies and Equitable's position that 100% of  
5 Equitable's investment in gathering facilities and other costs assigned to Rate AGS  
6 should be recovered from producers and marketers under Rate AGS.

7 **Q. IN YOUR OPINION, DOES THE OTS AND OSBA TESTIMONY INDICATE**  
8 **SUPPORT FOR ASSIGNING EQUITABLE'S GATHERING FACILITY COSTS**  
9 **TO PRODUCERS AND MARKETERS BASED ON COST CAUSATION**  
10 **PRINCIPLES?**

11 A. No. Neither witness appears to have made any specific analysis of the reasons that these  
12 costs are incurred by Equitable. Neither witness expressly claims that cost causation and  
13 allocation principles support Equitable's proposal to recover its gathering facility costs  
14 from producers and marketers, nor do they offer any explanation for their acceptance of  
15 the Company's proposal. As I explained in my direct testimony, both OTS and OSBA  
16 have in the past on many occasions supported inclusion of gathering system costs in base  
17 rates to be recovered from end use customers. Examples are the National Fuel Gas  
18 ("NFG") 2004 base rate case at Docket R-00049656 and Equitable's 2004 PGC case at  
19 Docket R-00049154 involving the Northern Asset Optimization Project ("NAOP")  
20 related to Equitable's gathering facilities. In the latter case, Mr. Gruber testified that:  
21 "The Company's proposal to include NAOP costs in the PGC not only places the  
22 recovery of these costs in the wrong proceeding but the shortened recovery period  
23 violates the fundamental principle of rate making that all customers should pay for the  
24 cost of supplying gas they use . . . ." Exh. DMB-7 (Docket R-00049154, Gruber  
25 Surrebuttal at 5, emphasis added). Although Mr. Gruber's testimony goes to the six year  
26 amortization period as not being consistent with cost causation principles in that it

1 relieves future ratepayers for cost responsibility for assets that have a life of well over six  
2 years, his statement also confirms his view that the end use of customers of EGC, that is  
3 those who are using the supply delivered through the gathering facilities, should pay for  
4 those facilities, and should pay for them in base rates not in gas costs. Neither Mr.  
5 Gruber or Mr. Kalcic suggested at any time in that 2004 Equitable PGC case that  
6 gathering facility costs should be borne by marketers or producers, nor did OTS or OSBA  
7 support such a position in the NFG case previously referenced.

8 **Q. PLEASE DESCRIBE THE OCA TESTIMONY IN THIS PROCEEDING**  
9 **CONCERNING RATE AGS.**

10 A. The OCA's Mr. Watkins expressly supports as reasonable Equitable's proposal to recover  
11 100% of Equitable's investment in gathering facilities and most of the associated  
12 expenses from producers and marketers under Rate AGS. Mr. Watkins' rationale for his  
13 support of Equitable's proposal is that "Equitable's gathering service is a totally different  
14 line of business from its natural gas distribution operations."

15 **Q. DO YOU AGREE WITH MR. WATKIN'S RECOMMENDATION AND**  
16 **RATIONALE?**

17 A. No. Mr. Watkins' testimony indicates that perhaps he does not fully appreciate the use of  
18 gathering assets by end use customers of Equitable and the integral role these assets play  
19 in Equitable's meeting its least cost gas procurement obligation.

20 Although Mr. Watkins was not a witness for the OCA in EGC's 2004 gas cost  
21 proceeding concerning the NAOP investment, Mr. Mierzwa was. OCA's witness  
22 Mierzwa, just as Mr. Kalcic and Mr. Gruber, testified that both sales and transportation  
23 customers should bear responsibility for the costs of the NAOP gathering system  
24 investment. Mr. Mierzwa also stated OCA's legal position "that NAOP construction  
25 expenditures are not gas costs as defined by the Public Utility Code." Exhibit DMB-3.

1           Perhaps Mr. Watkins does not understand that the Pennsylvania gas that flows  
2 through EGC's gathering facilities is not moving off system for producer profit but is all  
3 being used for customers served off the gathering facilities directly and also moved into  
4 EGC's transmission and distribution system to serve EGC customers, thus benefiting all  
5 of EGC's end user customers. Perhaps he also does not understand that EGC actively  
6 acquired gathering assets since 1999 and in seeking approval for such acquisitions has  
7 described the end use customer benefits that will result from such acquisitions. Perhaps  
8 Mr. Watkins does not understand that EGC did not acquire and improve gathering assets  
9 for a separate line of business, but acquired and improved these assets because the  
10 delivery of least cost supplies to its jurisdictional customers is EGC's line of business. In  
11 National Fuel Gas' 2004 base rate case at Docket R-00049656, Mr. Watkins as a witness  
12 for the OCA supported National Fuel Gas' position that its production and gathering  
13 assets should be recovered from end use customers in base rates. Mr. Watkins has not  
14 offered any explanation as to why gathering assets of Equitable should be treated  
15 differently than National Fuel Gas' gathering assets for ratemaking purposes. I am  
16 hopeful that after he has an opportunity to review all of the facts in this proceeding, he  
17 will reconsider his position.

18           Returning to EGC, contrary to Mr. Watkins view, EGC has never itself claimed  
19 that it was acquiring gathering assets as a separate line of business. On the contrary,  
20 EGC has consistently acknowledged its obligation to its customers to acquire least cost  
21 gas supply and the role of its gathering facilities in meeting that obligation. Equitable has  
22 described the benefits of its gathering system to its end use customers to establish  
23 compliance with its least cost gas procurement obligation. For example, in Equitable's

1 2004 Section 1307(f) case concerning NAOP project improvements to its gathering assets  
2 acquired from Carnegie and Apollo Gas Companies, Equitable's Mr. Quinn in his  
3 Rebuttal Testimony testified that:

4 The NAOP, estimated to cost \$6.6 million, is for the sole purpose  
5 of increasing Pennsylvania-produced natural gas volumes into  
6 Equitable's distribution system. Benefits associated with the  
7 increased Pennsylvania production will accrue primarily to  
8 Purchased Gas Cost ("PGC") rate customers, the state of  
9 Pennsylvania, and the various companies which purchase the  
10 Pennsylvania-produced gas in lieu of natural gas produced  
11 elsewhere and transported into Equitable's service territory. Exh.  
12 DMB-3 (emphasis added).

13 More recently, in its March 2007 response to the PUC's 2005 Management  
14 Efficiency Investigation ("MEI") recommendation that Equitable investigate its high  
15 levels of unaccounted for gas ("UFG") and initiate cost-effective efforts to reduce UFG  
16 levels, Equitable described to the PUC the benefits to its end use customers of its  
17 gathering facilities:

18 As you may well know, Equitable operates both distribution and  
19 gathering facilities. The gathering facilities tend to be older and to  
20 have higher UFG than distribution facilities. However, these  
21 gathering facilities are important to our customers as they allow  
22 Equitable direct access to lower cost gas supplies produced locally  
23 and reduce Equitable's need to maintain expensive interstate  
24 pipeline capacity.

25 Exhibit DMB-7 (Docket No. D-05MEI020, Comments, Responses  
26 and Implementation Plan of Equitable Gas Company, 3/29/07, p.  
27 5) (emphasis added).

28 And, as recently as June 12, 2008, a mere 18 days before Equitable filed this base rate  
29 case, in response to the question "Does the Company's ownership of gathering systems  
30 benefit PGC customers?" Equitable's Mr. Wiggers in his Rebuttal testimony in  
31 Equitable's 2008 1307(f) proceeding testified that:

1 A. Yes. In addition to serving approximately 3,500 customers  
 2 from these gathering facilities for whom service from distribution  
 3 lines is not an option, as Equitable increases the level of  
 4 Appalachian production that flows onto its gathering facilities, it  
 5 becomes less reliant on interstate pipeline supplies. This reduces  
 6 the variable costs associated with transporting gas from the Texas  
 7 and Louisiana production areas to Western Pennsylvania. It also  
 8 protects Pennsylvania customers from the supply risks associated  
 9 with relying on a gas supply located primarily in hurricane-prone  
 10 regions. In the future, the Company will look to further reduce its  
 11 contractual capacity on upstream pipelines, as it did in 2006, when  
 12 the Company was able to reduce its contractual capacity on  
 13 Equitrans by 55,528 dth per day, which equates to approximately  
 14 \$3.3 million of annual savings. Exh. DMB-7 (Docket No. R-2008-  
 15 2021160, Wiggers Rebuttal at 7-8).

16 Again and again Equitable has consistently argued that its gathering facilities benefit its  
 17 end use customers.

18 **Q. WHAT IS THE EFFECT OF HAVING GATHERING FACILITY COSTS PAID**  
 19 **FOR ONLY BY PRODUCERS AND MARKETERS, AS EGC PROPOSES?**

20 A. If EGC prevails in this proceeding, its gathering facility investments will become exactly  
 21 that gas costs. The costs of the gathering facilities will not disappear from customers'  
 22 bills but instead will just become part of gas costs to the extent producers are able to  
 23 include these costs in the cost of Pennsylvania supplies sold to Equitable for system  
 24 supply or sold to Equitable's transportation customers. To the extent producers'  
 25 Pennsylvania production becomes unprofitable to deliver to EGC as a result of Rate AGS  
 26 charges, Equitable and its customers will be deprived of this lower cost supply which  
 27 would need to be replaced by costlier supplies delivered through the interstate pipelines.  
 28 The costs of EGC's gathering facilities ultimately will be borne by consumers of EGC's  
 29 natural gas service.

30 **Q. IN YOUR VIEW, DOES IT ACTUALLY MAKE A DIFFERENCE TO THE END**  
 31 **USE CUSTOMER AS TO WHETHER THESE GATHERING SYSTEM COSTS**  
 32 **ARE IN BASE RATES OR IN GAS COSTS?**

1 A. Yes, it does. As EGC has proposed Rate AGS, there is no ceiling rate. If Rate AGS is  
2 approved as filed, EGC will be able to charge as much as it can extract from producers  
3 and marketers for moving Pennsylvania supplies through the gathering system. Rate  
4 AGS will continue to be profitable for EGC as it has since its inception in 2003 between  
5 rate cases and EGC will have no maximum as to the rate it charges through Rate AGS. If  
6 EGC is permitted to recover all of its gathering system investment from producers and  
7 marketers with no ceiling rate in place, the cost of Pennsylvania production will increase  
8 because producers will be forced to include the costs charged by EGC in the prices they  
9 charge for Pennsylvania supplies to the extent that they are contractually able to do so.  
10 If, instead, the cost recovery for gathering facility investment remains as a component of  
11 sales and delivery rates, then there is Commission oversight of the gathering related rates  
12 charged to the end use customer. In both cases, the costs of the gathering facilities will  
13 be paid for by those who use and benefit from the gathering facilities, which are the end  
14 use customers of EGC, but keeping the costs in base rates provides more protection for  
15 the ratepayer in terms of Commission oversight.

16 **Q. IN SUMMARY, WHAT DO YOU CONCLUDE FROM THE REVIEW OF**  
17 **WITNESSES GRUBER, KALCIC, AND WATKINS?**

18 A. It is understandable that the statutory parties want to keep any Equitable rate increase  
19 imposed on their particular constituencies as low as possible. However, gathering facility  
20 costs on EGC are not going to disappear if they are removed from end user base rates.  
21 Ultimately end use customers will need to pay for the pipeline facilities that bring  
22 Pennsylvania supplies to their homes and businesses. Or, if these costs cannot be passed  
23 on in the contracts that producers have with gas suppliers, including Equitable, Equitable  
24 customers may lose access to Pennsylvania produced gas, as producers either find other

1 means of moving their gas to market that does not require them to pay these Rate AGS  
2 charges or they shut in their production.

3 The question that is before this Commission is will the gathering facility  
4 investment costs continue to be part of base rates for end use customers, as they have  
5 been for more than thirty years, or will these costs be shifted to gas costs which will not  
6 only impact the price of Pennsylvania supply but also the availability of Pennsylvania  
7 supply?

8 It is my opinion that the existing procedure of recovering gathering facility costs  
9 in base rates has worked well and served consumers well over the years in making  
10 Pennsylvania supply available for its citizens. There is no need to change the approach  
11 for recovery of these costs and risk the adverse consequences to customers not only on  
12 EGC's system but throughout the Commonwealth. Rate AGS was authorized as an  
13 interim solution between rate cases as an outcome of Equitable's 2003 Application filing  
14 to acquire assets of the former Apollo Gas utility, which used those assets to serve its end  
15 use customers. Rate AGS has served its purpose and enriched EGC by over five million  
16 dollars in additional revenue per year between rate cases to help to pay for investments  
17 and operation and maintenance expenses related to its 2003 acquisition. Rate AGS  
18 should not now be expanded but instead should be eliminated from EGC's tariff. EGC  
19 should recover the costs of its gathering investments in the same manner as has been  
20 authorized for other natural gas distribution utilities in the Commonwealth for well over  
21 thirty years.

22 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 **A.** Yes, thank you very much.

## **Exhibit DMB-7**

Docket No. R-00049154  
(Relevant Page(s) Only)

OTS Witness Michael Gruber (Surrebuttal Testimony)

Docket No. D-05ME1020  
(Relevant Page(s) Only)

Comments, Responses & Implementation Plan of  
Equitable Gas Company, March 29, 2007

Docket No. R-2008-2021160  
(Relevant Page(s) Only)

EGC Witness Thomas P. Wiggers (Rebuttal Testimony)

OTS Statement No. 1-SR  
Witness: Michael J. Gruber  
Date: June 11, 2004

6/15/04 Hlg JK

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

v.

**DOCUMENT** **EQUITABLE GAS COMPANY**

**Docket No. R-00049154**

**Surrebuttal Testimony**

of

**Michael J. Gruber**

**Office of Trial Staff**

**DOCKETED**

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**Concerning:**

**Cash-in/Cash-out Pricing**

**Balancing Tolerances**

**Northern Assets Optimization Program amortization**

**Performance Based Rates: PBR 1 - Off-system Sales and Capacity Release**

**PBR 2 - No Notice Service**

**Natural Gas Heating Value**

**Flexing of Tariff Charges for Competition**

1 If either of the situations indicated by these statements exists, there is a  
2 fundamental difference of opinion between Company management and OTS in the  
3 nature of what PBRs are intended to produce, and it is time for the Commission to  
4 review the Company's management practices.  
5

6 **Q. ARE YOU IN AGREEMENT WITH MR. RAFFERTY'S REPRESENTATION**  
7 **FOR INCLUDING THE NAOP COSTS IN THE PGC?**

8 A. No. At Pages 21 and 22 of Statement No. 2-1, Company witness Rafferty testified as  
9 follows:

10 "Two of the projects involve upgrading and automating compressor stations.  
11 The cost for these two projects is estimated to be approximately \$2.5 MM.  
12 Another project involves the renewal of approximately 19,000 feet of 12" steel  
13 at a projected cost of approximately \$3.1 MM. This project is located between  
14 the two compressor stations and is necessary because the existing infrastructure  
15 would not facilitate the movement of additional high-pressure gas. The last two  
16 projects involve interconnects between various distribution and transmission  
17 systems. These projects are downstream of the compressor stations and are  
18 required to facilitate the movement of the additional gas after it has been  
19 compressed. The cost for these two interconnects is estimated to be  
20 approximately \$1.0 MM."  
21

22 These five projects associated with the NAOP are capital improvements to the  
23 Company's gathering, distribution and transmission systems. They are not gas costs  
24 recoverable in a PGC proceeding but capital investment costs recoverable in a  
25 1308(d) proceeding.

26 The example cited by the Company has no bearing on this proposal. The  
Settlement was negotiated based upon the evidence and situation as it existed at that

time. The little bit of information the Company has presented shows that there was  
2 more to the approval of the treatment of the plant in question than just an approval for  
3 it to be put in gas cost rates. The plant, at that time, was not a capital investment in  
4 plant owned by the Company, but a contribution in aid of construction to a third party  
5 to improve the Company's ability to acquire less expensive gas (Page 23, Lines 21-23  
6 of Company witness Rafferty's Statement No. 2-1). Further, the recovery was not  
7 through the 1307(f) rate, but through a pre-existing surcharge established to recover  
8 non-gas costs.

9           The Company's proposal to include the NAOP costs in the PGC not only  
10 places the recovery of these costs in the wrong proceeding but the shortened recovery  
11 period violates the fundamental principle of rate making that all customers should pay  
12 the cost of supplying gas they use. The recovery of these costs over six years charges  
13 present customers for costs which should be borne by future customers.

14  
15 **Q. DOES THE COMPANY'S REBUTTAL TESTIMONY PROVIDE ANY**  
16 **JUSTIFICATION FOR ITS BTU PROPOSAL?**

17 **A.** No. At Page 27, Lines 21 and 22 of Statement No. 2-1, Company witness Rafferty  
18 testified as follows:

19           "The Company's Btu proposal is simply to be "kept whole" on these reduced  
20 delivery margins."



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Pittsburgh, PA 15212-5861  
www.eqt.com

TEL 412 395 3202  
FAX 412 395 3155

March 28, 2007

Mr. Dennis P. Hosler, Audit Manager  
Bureau of Audits  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg PA 17105-3265

RE: Management Efficiency Investigation:

Dear Mr. Hosler:

Enclosed you will find a copy of the Comments, Responses and Implementation Plan of Equitable Gas Company, a division of Equitable Resources, Inc. (the "Company"), with respect to the above-referenced Management Efficiency Investigation.

As you will see the Company has accepted in full all of the follow-up recommendations, except in those instances where we believe compliance has already been achieved, that were made by the Bureau of Audits as a result of its review of the Company's implementation of the 2003 Focused Audit.

If you have any questions regarding the Company's filing, please contact Bob Narkevic at 412-395-3248.

Very truly yours,

Daniel L. Frutchey  
Senior Vice President and General Counsel

DLF:amd

Enclosure

The MEI recognizes that Equitable was able to reduce its capital project backlog from 431 projects in 2001 to 373 projects in 2004. Accordingly the MEI recommends a continuation of efforts to reduce the project backlog. Equitable believes it has substantially complied with the recommendation, as the backlog in projects as of year end 2005 stood at 47. Further improvement in 2006 will be reported shortly.

The MEI also noted substantial improvement in reducing the backlog of Class 2 leaks, but recommends that repairs be completed in all outstanding Class 2 leaks over one-year old and to keep current on future Class 2 leaks. Equitable is proud to report that it eliminated the backlog of Class 2 leaks in the first quarter of 2006 and is now current on all new Class 2 leaks. Therefore, the follow-up recommendation has been accepted and the task is completed.

The MEI further recommends that Equitable investigate the causes of high levels of unaccounted for gas (UFG) and initiate cost-effective efforts to reduce UFG levels. As is noted in our response, Equitable takes the issue of UFG very seriously, especially in this era of high gas prices. Accordingly, this issue will be addressed in Equitable's 2007 1307(f) filing, as it has been in every annual gas cost recovery filing. As you may well know, Equitable operates both distribution and gathering facilities. The gathering facilities tend to be older and to have higher UFG than distribution facilities. However, these gathering facilities are important to our customers as they allow Equitable direct access to lower cost gas supplies produced locally and reduce Equitable's need to maintain expensive interstate pipeline capacity. Very few Pennsylvania NGDCs have gathering facilities, including many of the companies to which Equitable's UFG is compared. Nevertheless, Equitable will accept the follow-up recommendation and further investigate the sources of UFG. In that regard, third-party line hits are part of the UFG problem. The MEI recommends greater scrutiny of such hits, as well as recovery of damages from parties hitting our lines. Equitable's response sets forth our procedure for dealing with line hits, including our procedure for the recovery of damages. Equitable has three employees dedicated to investigating third-party damage to pipelines, and our claims department in 2005 recovered 71% of the estimated damages in which the excavator was at fault. These recovery numbers have improved in 2006, as contractors have begun to recognize that Equitable will hold them accountable for pipeline damage. It should be noted that Equitable's efforts to prevent damage to its pipelines have allowed it to exceed the AGA's Best Practices Benchmark in this category. As noted previously, Equitable aggressively pursues contractors that damage our lines and reports line hits to the Department of Labor and Industry for regulatory

Equitable Statement No. 3-R  
Docket No. R-2008-2021160  
Witness: Thomas P. Wiggers  
Date:

EQUITABLE GAS COMPANY

Prepared Rebuttal Testimony of

Thomas P. Wiggers

(Prepared June 2008)

1           **PREPARED REBUTTAL TESTIMONY OF THOMAS P. WIGGERS**

2                           **WITNESS BACKGROUND**

3    Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4    A.            My name is Thomas P. Wiggers. My business address is 225  
5            North Shore Drive, Pittsburgh, Pennsylvania 15212.

6    Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7    A.            I am employed by Equitable Gas Company ("Equitable" or the  
8            "Company"), a division of Equitable Resources, Inc., as Director, Gas  
9            Supply.

10   Q.    HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS  
11            PROCEEDING?

12   A.            Yes. I submitted direct testimony that has been marked as  
13            Equitable Statement No. 3.

14  
15                           **PURPOSE OF TESTIMONY**

16   Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS  
17            PROCEEDING?

18   A.            In my rebuttal testimony, I will respond to various contentions in the  
19            direct testimony of Office of Trial Staff ("OTS") witness Michael Gruber,  
20            Office of Consumer Advocate ("OCA") witness Jerome D. Mierzwa and  
21            Pennsylvania Office of Small Business Advocate ("OSBA") witness Brian  
22            Kalcic. Specifically, I will respond to Mr. Gruber's recommendation that  
23            the Company's retention allowance should be the same as the delivery

1 is comparing Equitable to companies that do not have similar asset  
2 portfolios. One of the NGDC's in the comparison has on-system storage  
3 which can significantly skew the UFG results. Additionally, several of the  
4 NGDC's listed own primarily distribution facilities and have minimal, if any,  
5 gathering facilities. In general, gathering facilities experience a higher  
6 level of UFG and Company use gas than distribution systems. Therefore,  
7 you would expect a company like Equitable that owns a significant amount  
8 of gathering facilities to have higher UFG and Company use gas  
9 experience than other Pennsylvania jurisdictional NGDC's that do not own  
10 gathering facilities.

11 Q. DOES THE COMPANY'S OWNERSHIP OF GATHERING SYSTEMS  
12 BENEFIT PGC CUSTOMERS?

13 A. Yes. In addition to serving approximately 3,500 customers from  
14 these gathering facilities for whom service from distribution lines is not an  
15 option, as Equitable increases the level of Appalachian production that  
16 flows onto its gathering facilities, it becomes less reliant on interstate  
17 pipeline supplies. This reduces the variable costs associated with  
18 transporting gas from the Texas and Louisiana production areas to  
19 Western Pennsylvania. It also protects Pennsylvania customers from the  
20 supply risks associated with relying on a gas supply located primarily in  
21 hurricane-prone regions. In the future, the Company will look to further  
22 reduce its contractual capacity on upstream pipelines, as it did in 2006,  
23 when the Company was able to reduce its contractual capacity on

1 Equitrans by 55,528 dth per day, which equates to approximately \$3.3  
2 million of annual savings.

3 Q. PLEASE SUMMARIZE MR. GRUBER'S RECOMMENDATION  
4 REGARDING THE COMPANY'S TRACKING AND REPORTING OF UFG  
5 AS WELL AS EFFORTS TO REDUCE UFG ON ITS SYSTEM.

6 A. Mr. Gruber recommends that the Commission order the Company  
7 to track and report its efforts to reduce its UFG annually in its 1307(f)  
8 filings, and if the Company can not further reduce its UFG in future filings  
9 he opines that the Commission should take whatever action it deems  
10 necessary to encourage the Company to reduce its UFG.

11 Q. WHAT STEPS CAN THE COMPANY TAKE TO FURTHER REDUCE  
12 UFG ON ITS SYSTEM?

13 A. As stated previously in my rebuttal testimony, the primary  
14 contributor to Equitable's UFG is the level of UFG experienced on its  
15 gathering facilities. In order to reduce total system UFG, the Company  
16 must focus on lowering the UFG on its gathering facilities while at the  
17 same time continue to take steps to reduce UFG on the distribution  
18 system. However, at some point, the cost of repairing and replacing a  
19 gathering system with a customer density such as in Apollo outweighs the  
20 potential savings from UFG reductions.

21 Q. WHAT ACTIONS CAN THE COMPANY TAKE TO REDUCE THE LEVEL  
22 OF UFG ON ITS GATHERING FACILITIES?

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company.	:	
Respondent	:	

*11/20/08  
Handy  
wgh*

**SURREBUTTAL TESTIMONY**

**OF**

**DIANE MEYER BURGRAFF**

On Behalf of

The Independent Oil and Gas Association of Pennsylvania

**Topics Addressed**

Expansion of Purpose and Applicability of Rate AGS  
 Dominion Peoples Production Enhancement Service Program  
 Benefits of Pennsylvania Production to Equitable's Customers  
 Base Rate Moratorium  
 IOGA Alternative Rate AGS Proposal

**RECEIVED**

November 14, 2008

NOV 25 2008

UTILITY COM:  
SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND TITLE .**

2 A. My name is Diane Meyer Burgraff. My address is 19 Westwind Drive, Lemoyne,  
3 PA17043. I am an independent consultant representing the Independent Oil and  
4 Gas Association of Pennsylvania (“IOGA”) in this proceeding.

5 **Q. PLEASE STATE THE PURPOSE OF YOUR SURREBUTTAL**  
6 **TESTIMONY.**

7 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of  
8 Messrs. Rafferty, Dalena, Quinn and Feingold representing of the Equitable Gas  
9 Company ( “the Company,” “Equitable,” or “EGC”), and Mr. Kalcic of the Office  
10 of Small Business Advocate ( “OSBA”).

11 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

12 A. Each of the Company witnesses and the OSBA witness have failed to support the  
13 Company’s position that this Commission should depart from its long held view  
14 that Pennsylvania natural gas production is a low cost source of supply that is  
15 beneficial to ratepayers in this Commonwealth. These witnesses have also failed  
16 to provide reasons why this Commission should depart from its long held position  
17 that a utility’s costs of owning and operating gathering facilities that bring  
18 Pennsylvania production to utility ratepayers should be recovered in the rates  
19 charged to residential, commercial and industrial ratepayers in the same manner  
20 that this Commission has approved in numerous base rate cases dating back at  
21 least thirty years.

22 **Witness Rafferty**

23 **Q. WHAT ISSUES THAT YOU HAVE ADDRESSED DOES MR. RAFFERTY,**  
24 **ADDRESS IN HIS REBUTTAL TESTIMONY?**

1 A. Mr. Rafferty describes Equitable’s gathering facilities, provides a history and  
2 evolution of Rate AGS, discusses the Northern Asset Optimization Project  
3 (“NAOP”) and the Limestone project, and offers his reasons why Equitable’s Rate  
4 AGS cost recovery proposal should be approved.

5 **Q. WHAT IS YOUR RESPONSE TO HIS REBUTTAL TESTIMONY**  
6 **CONCERNING THE HISTORY AND EVOLUTION OF RATE AGS?**

7 A. Mr. Rafferty begins his section on Rate AGS stating that he doesn’t agree with  
8 my presentation of the history, but then he proceeds to describe an embellished  
9 version of same history of Rate AGS that I presented. As I first explained in my  
10 Direct Testimony, Rate AGS came into existence as a result of a 2003 Application  
11 filing by Equitable to acquire the PA-North Gathering System from its affiliate,  
12 Equitable Field Services. As Mr. Rafferty describes it: “Since Equitable was not  
13 proposing any increase in rates by virtue of the proposed acquisition, it needed a  
14 mechanism to fund the acquisition and the improvements that would occur in the  
15 future. Absent this mechanism, Rate Schedule AGS [Apollo Gathering Service],  
16 Equitable would not have acquired those facilities and made those  
17 improvements.” Rafferty Rebuttal at 9.

18 This is completely consistent with my Direct Testimony, in which I  
19 explained that EGC filed an application to acquire the PA-North Gathering  
20 System and sought approval of Rate AGS to fund the investment and ongoing  
21 operation and maintenance expense related to the acquisition. Equitable did not  
22 seek general rate relief at the time to pay for this acquisition – it could not because  
23 Equitable was in a base rate moratorium until January 2006. However, I also note  
24 that the 2003 Application filing did not state Mr. Rafferty’s qualification

1 described above – that the 2003 acquisition was contingent upon approval of Rate  
2 AGS as proposed and would not be made unless proposed Rate AGS was  
3 approved.

4 Mr. Rafferty goes on to explain how the Apollo District facilities acquired  
5 in 1999 were contiguous and overlapped the PA-North Gathering System, which  
6 required that the “Applicability” section of the initial Rate AGS-Apollo Gathering  
7 Service tariff state that it applied to the entire Apollo District. As I stated in my  
8 Direct Testimony in this proceeding, EGC stated in its 2003 Application that the  
9 “although acquisition of the PA-North Gathering System would increase rate base  
10 and operating and depreciation expense, EGC is not proposing any increase in  
11 rates by virtue of the proposed acquisition.” Exhibit DMB-1 (Application at 4).  
12 Thus Rate AGS came to be because of a particular acquisition and Rate AGS was  
13 approved specifically to fund that particular acquisition. Rate AGS as approved  
14 was never intended by the Commission to be a blank check to permit Equitable to  
15 start charging every producer on its system for the privilege of delivering gas to  
16 EGC.

17 Mr. Rafferty’s explanation of how the rate evolved from “Apollo  
18 Gathering Service” into “Appalachian Gathering Service” is a basic admission  
19 that EGC implemented the 2004 changes to Rate AGS in a manner not consistent  
20 with Equitable’s testimony in its 2004 Section 1307(f) proceeding or the terms of  
21 Rate AGS. EGC’s 2004 PGC testimony did not address a significant expansion  
22 of the applicability of Rate AGS beyond the PA-North Gathering System to  
23 encompass Equitable’s distribution facilities. In its 2004 Section 1307(f) filing

1 with the Commission. Mr. Narkevic stated that the changes to Rate AGS were  
2 “minor changes to the availability and applicability sections.” Specifically, his  
3 entire testimony justifying the change of Rate AGS from Apollo Gathering  
4 service to Appalachian Gathering Service consisted of the following two  
5 questions and answers:

6 Q. WHAT IS RATE AGS-APOLLO GATHERING  
7 SERVICE?

8 A. Rate Schedule AGS – Apollo Gathering Service – is  
9 a negotiated rate for gathering natural gas in the  
10 Company’s PA-North Crooked Creek gathering system  
11 primarily in Armstrong and Indiana Counties and in the  
12 Company’s Apollo District.

13 Q. WHAT CHANGES IS THE COMPANY  
14 PROPOSING TO RATE SCHEDULE AGS-APOLLO  
15 GATHERING SERVICE?

16 A. The Company is proposing to rename Rate  
17 Schedule AGS-Apollo Gathering service as Rate AGS-  
18 Appalachian Gathering Service. The Company is also  
19 proposing minor changes to the applicability and  
20 availability sections of this Rate Schedule. The changes can  
21 be found in the Proposed Tariff page included in the  
22 definitive filing. (Emphasis added).

23 I note that the “Applicability” section of the 2004 tariff filing stated that  
24 “[s]ervice under this rate schedule is available to any party desiring to transport  
25 gas through the gathering system for redelivery into the Company’s service  
26 territory i.e., Equitable and Apollo Districts. . . .” The only change to this  
27 sentence in 2004 from the original Rate AGS was that “service territory i.e.,  
28 Apollo and Equitable Districts” replaced “Apollo District.” The limitation of the  
29 original rate schedule to gas transported “through the gathering system” was  
30 retained in the 2004 version.

1           There was no reason for the other parties to the 2004 proceeding, namely  
2           the statutory advocates, to believe that the changes to Rate AGS proposed by  
3           EGC were substantive because of Mr. Narkevic's representation that the changes  
4           were "minor." Also, since Rate AGS initially had come into effect through an  
5           acquisition filing the prior year, these parties, the ALJ and the Commission would  
6           have rightfully thought that EGC proposed changes related only to the acquired  
7           property. Now – four years later – Equitable confirms that after the 2004 gas cost  
8           case it implemented Rate AGS contrary to its terms by applying it to  
9           Pennsylvania production flowing through meters directly on Equitable's  
10          distribution and low-pressure transmission system. (Rafferty Rebuttal at 13) Rate  
11          AGS is limited by its terms to transportation "through the gathering system." In  
12          addition, by changing the applicability to include the Equitable District, EGC now  
13          claims that it expanded the applicability of Rate AGS to include gas flowing into  
14          facilities that had no relationship to its 2003 acquisition. But, the parties who  
15          would have been affected by Equitable's significant expansion of Rate AGS in  
16          2004 – producers – were given no notice of such a change when the filing was  
17          made. Specifically regarding the applicability of Rate AGS to distribution and  
18          low-pressure transmission lines, this is not mentioned at all in the Company's  
19          2004 filing and testimony – or in the proposed Rate AGS tariff. Indeed, it is  
20          apparent now – with the benefit of Mr. Rafferty's admission – that Equitable  
21          intended to expand Rate AGS to deliveries of Pennsylvania production into the  
22          distribution and low-pressure transmission systems.

1           Apparently, Equitable’s representation that it needed Rate AGS “to fund  
2           the acquisition and the improvements that would occur” (Rafferty Rebuttal at 9)  
3           related to the 2003 acquisition was long forgotten by EGC just a year later when  
4           Equitable saw an opportunity in 2004 to implement Rate AGS in a manner that  
5           would increase its revenue during its rate moratorium by expanding Rate AGS to  
6           gas delivered into the distribution and transmission systems and to gas delivered  
7           into facilities that were not part of its 2003 acquisition – contrary to Mr.  
8           Narkevic’s seemingly innocuous testimony.

9           Equitable’s after-the-fact revisionist history continues with Mr. Rafferty’s  
10          current assertion that the NAOP improvements primarily benefited producers with  
11          Pennsylvania production, so producers should pay for them – and thus the NAOP  
12          investment was the reason EGC’s proposed and implemented the 2004 expansion  
13          of Rate AGS. However, in that same 2004 Section 1307(f) case, Equitable  
14          proposed that the same NAOP investment be recovered in its entirety from  
15          residential, commercial and industrial customers through a six-year amortization  
16          to be included as a component of PGC demand charges. The reason given was  
17          that end use **customers primarily benefited from these investments**. Thus, Mr.  
18          Rafferty’s claims in his Rebuttal Testimony in this proceeding as to why Rate  
19          AGS expansion was justified in 2004 makes no sense at all, and is clearly an  
20          after-the-fact rationale created to justify Equitable’s Rate AGS cost recovery  
21          proposal in this proceeding and should not be given any weight.

22          As I stated, EGC has applied its Rate AGS in a manner inconsistent with  
23          the plain language of the tariff and its own sworn representations to the

1 Commission. Producers who have meters attached to distribution or low-pressure  
2 transmission lines (meters not on gathering lines) and producers who have meters  
3 lines not on the PA-North Gathering System or outside of the service area  
4 acquired in the 2003 acquisition should have their Rate AGS payments refunded  
5 (with interest). Putting aside the specific limiting language in Rate AGS, if the  
6 purpose of Rate AGS was to recover costs associated with new NAOP gathering  
7 system investments, as Mr. Rafferty now claims in his Rebuttal Testimony, then it  
8 makes no sense at all to charge Rate AGS to producers who inject gas directly  
9 into a distribution or transmission line. The costs of EGC's distribution and  
10 transmission facilities were already in base rates in 2004. There is no justification  
11 to charge producers an additional fee to inject their gas into an existing pipeline  
12 system when the costs of the system were already in base rates.

13 Equitable should not be permitted to implement Rate AGS in a manner  
14 contrary to its original, stated and limited purpose and contrary to Equitable's  
15 clear representations in 2004 by being able to keep Rate AGS revenues charged  
16 on meters that were (a) not part of the 2003 acquisition or (b) on distribution or  
17 transmission lines. EGC argues that the expansion of Rate AGS in 2004 to  
18 include the "Equitable District" gives them the authority to charge Rate AGS on  
19 all gathering facilities regardless of whether the facilities had any relationship to  
20 the 2003 acquisition (an argument that in my view must be rejected since EGC  
21 was in a rate moratorium and this argument is inconsistent with the sworn  
22 testimony of its witness that the change to "Equitable District" only made a  
23 "minor" change). EGC has no defense whatsoever for charging Rate AGS to

1 locally produced gas that is injected directly into distribution or transmission  
2 pipelines since by doing so Equitable is in clear violation of its tariff. Gas  
3 delivered directly into the distribution or transmission system is not gas  
4 transported “through the gathering system for redelivery” into EGC’s distribution  
5 system, as required by the tariff language contained in Rate AGS.

6 Later in my testimony, I will address Mr. Quinn’s comments about the rate  
7 moratorium.

8 **Q. PLEASE COMMENT ON MR. RAFFERTY’S DISCUSSION OF THE**  
9 **NAOP IN HIS REBUTTAL TESTIMONY.**

10 A. In his Rebuttal Testimony on page 14, Mr. Rafferty asserts that additional local  
11 production has occurred because of the NAOP investments. His testimony leaves  
12 the impression that Rate AGS charges have helped to pay for that investment. (In  
13 fact, the title of the section on page 13 of Mr. Rafferty’s rebuttal about increased  
14 production is “Rate AGS Benefits/NAOP Project/Limestone Compressor  
15 Project.”) If that is in fact the case, and the Commission finds that EGC legally  
16 applied Rate AGS to fund EGC’s capital investments in gathering facilities, then  
17 the producers’ payments are contributions in aid of construction (“CIAC”), so that  
18 the entire depreciated original cost of the investments would not now be claimed  
19 in rate base. That is not the case, however, and Equitable has not treated the  
20 producer payments as CIAC. The result is that producers are being asked to pay  
21 again for investment that they have already paid for – according to Equitable’s  
22 own testimony.

23 It is more than ironic that just four years ago, in its 2004 PGC case, EGC  
24 argued that residential customers should pay for the NAOP projects as CIAC

1 (Exhibit DMB-3 (Docket R-00049154, Quinn Rebuttal at 3) through a proposed  
2 six-year amortization of NAOP costs as an add-on to PGC demand costs, but now  
3 is arguing that Rate AGS was meant to pay for these same NAOP investments  
4 since the rate was first introduced but that producers should not have these  
5 payments treated as CIAC. The problem with Mr. Rafferty's current testimony is  
6 that in the same 2004 gas cost case EGC thus made both proposals – recovery of  
7 the NAOP costs from customers through the PGC through a six-year amortization  
8 and recovery from producers through Rate AGS. Therefore, it is clear that Rate  
9 AGS as originally proposed and as changed in 2004 was not intended to cover the  
10 NAOP investments at all, contrary to Mr. Rafferty's testimony in this proceeding,  
11 but was instead intended to enrich EGC.

12 **Q. PLEASE COMMENT ON MR. RAFFERTY'S TESTIMONY ON THE**  
13 **LIMESTONE PROJECT.**

14 A. This project appears to be one that may provide benefits to producers in addition  
15 to end use customers and, if that is the case, some producer contributions may  
16 ultimately be appropriate. My proposal regarding this project is described in my  
17 Direct Testimony. I will defer to the producer members of IOGA to discuss  
18 exactly what was communicated to them with respect to the Limestone Project  
19 and with respect to the impact on EGC's interstate pipeline contracts.

20 **Q. PLEASE COMMENT ON DOMINION PEOPLES PRODUCTION**  
21 **ENHANCEMENT SERVICE ("PES") PROGRAM AND ITS**  
22 **RELATIONSHIP TO RATE AGS.**

23 A. Mr. Rafferty points to the Dominion Peoples PES program as a justification for  
24 Rate AGS on the basis that if other NGDCs can have separate rates to charge  
25 producers to deliver gas to their systems, then so should EGC. Although I am not

1 familiar with all the details of the PES program, I do know that it is not at all like  
2 EGC's Rate AGS proposal. First of all, the Dominion Peoples PES is a non-  
3 tariffed program and service, and Peoples has not asked for Commission authority  
4 to charge producers under the PES. The program was developed by mutual  
5 agreement between Dominion Peoples and producers. The Dominion Peoples PES  
6 charges for specific capital investments and does not attempt to collect from  
7 producers all of Dominion Peoples' costs of owning and operating existing  
8 gathering facilities. Consistent with cost causation principles and the  
9 Commission's long held position, the costs of Peoples' gathering facilities are  
10 included in base rates charged to residential, commercial and industrial  
11 ratepayers. Peoples program is related to specific new capital investments where  
12 Peoples and the producers collaborate through the Project Review Committee to  
13 agree on projects which provide clear benefits to Peoples, Peoples' customers and  
14 the producers.

15 **Q. DO YOU AGREE WITH MR. RAFFERTY THAT RATE AGS FEES WILL**  
16 **HAVE NO BEARING ON THE AVAILABILITY OF LOCALLY**  
17 **PRODUCED GAS, AND THAT HISTORY SHOWS HIM TO BE**  
18 **CORRECT?**

19 A. No. The NAOP projects were specifically designed to increase local gas for the  
20 benefit of residential, commercial and industrial customers, according to  
21 Equitable's testimony in its 2004 Section 1307(f) case. As gas contracts expire  
22 and as producers look to the future, they will take actions that benefit them  
23 economically and if they are not able to recover their costs for particular wells  
24 through the prices they receive for their gas on EGC's system, it is only logical  
25 that they will look for more profitable opportunities to market their gas. It

1 appears from Mr. Dalena's testimony that now EGC would welcome that outcome  
2 even though that would be completely inconsistent with Equitable's  
3 representation to the PUC in its Section 1307(f) cases after it acquired gathering  
4 assets.

5 **Q. PLEASE COMMENT ON THE FORMULA YOU RECOMMENDED IN**  
6 **YOUR DIRECT TESTIMONY REGARDING YOUR ALTERNATIVE**  
7 **POSITION AND WHY MR. RAFFERTY'S REBUTTAL TESTIMONY**  
8 **NOW REQUIRES A CHANGE IN THE FORMULA.**

9 A. In my Direct Testimony in this proceeding, I recommended that if this  
10 Commission determines that as a matter of policy, that producers and marketers  
11 should now bear a portion of the costs of gathering facilities owned and operated  
12 by a natural gas utility in this Commonwealth, that the relationship of gathering  
13 deliveries to total system deliveries could be a way to assign a portion of costs to  
14 producers and marketers. In my formula, I used Rate AGS billing determinants  
15 divided by total system deliveries to arrive at a percentage of 30%. I applied that  
16 to the unit cost gathering cost of service at proposed rates of 89 cents per Dth as  
17 computed by EGC in response to IOGA I-8 and arrived at a producer maximum  
18 rate of 27 cents.

19 Now in Mr. Rafferty's rebuttal testimony on page 13, I have learned that  
20 EGC has applied Rate AGS to throughput that never passes through their  
21 gathering system. I had assumed that "gathering throughput" and Rate AGS  
22 deliveries were approximately the same quantity, except for the volumes  
23 delivered directly into the distribution system as described in the testimony of  
24 IOGA witness Hillebrand. The gathering throughput quantity has not yet been  
25 furnished in response to any discovery question that requested the information, to

1 the best of my knowledge. I did inquire about the quantity when attempting to get  
2 obtain the breakdown of gathering throughput by system supply and  
3 transportation gas, but was told by Mr. Narkevic in response to IOGA I-9 (Exhibit  
4 DMB-8) that the breakdown that I requested was not available for the historic or  
5 future test year. It was a surprising response since EGC's witness Wiggers was  
6 able to provide a breakdown of the same information going back for five years  
7 immediately preceding the test year in response to IOGA I-10. Exhibit DMB-8 (  
8 IOGA I-9 and IOGA I-10). Now that Mr. Rafferty has explained clearly that Rate  
9 AGS is applicable to local gas entering EGC through low-pressure transmission  
10 or distribution lines, I must revise my alternative recommendation calculation as  
11 follows. Since my 30% calculation used, in the numerator, billing determinants  
12 for Rate AGS (and we now know the billing determinants under Rate AGS and  
13 gathering throughput are not the same or even necessarily similar quantities), I am  
14 recommending that gathering throughput - whatever that volume is - should be  
15 divided by total deliveries to calculate the percentage of costs that should be  
16 borne by producers and marketers under my alternative recommendation. The  
17 billing determinant number of 14,444,000 Dth should not be used in the  
18 calculation since it includes volumes billed under Rate AGS that never passed  
19 through EGC's gathering system.

20 **Q. PLEASE COMMENT ON MR. RAFFERTY'S DISCUSSION ABOUT THE**  
21 **LIMESTONE AND FISHER PROJECTS AND THE IMPACT OF THESE**  
22 **PROJECTS ON FUTURE RATE AGS REVENUES.**

23 **A.** EGC has two projects planned that will permit more local production to flow on  
24 EGC's system. The first, the Limestone Project, is a \$13.8 million dollar project  
25 to install 10,000 feet of 8 inch main, a new compressor station with a dehydration

1 unit to connect to the new Eshbaugh connection with Dominion Transmission  
2 (“DTI”). This project is included in the future test year additions and has in  
3 service date of fourth quarter 2008 (according to Ms. Gras in response to  
4 interrogatory OTS-RB-18D). The second project, for \$10 million dollars, which  
5 involves a new Fisher compressor station with dehydration and a new DTI  
6 interconnect, has been cancelled for 2008 according to Equitable’s response to  
7 OCA IV-24 Attachment. Mr. Rafferty discusses these projects on page 15 of his  
8 rebuttal testimony and states that these projects “are designed to discharge 12,000  
9 dth/day.” From Equitable’s responses to IOGA IV-1 and IV-3 ( DMB Exhibit 3)  
10 concerning adjustments for the future test year relating to additional Rate AGS  
11 revenues at proposed rates, Equitable has added only 2,000 Dth per day of  
12 increased throughput as a future test year revenue adjustment and has not  
13 explained what, if any, project(s) that throughput adjustment relates to.  
14 Obviously, when Limestone and Fisher are complete and operating at full  
15 capacity, there will be additional growth in Rate AGS revenues well above the  
16 2,000 Dth per day level.

17 Equitable should be required to furnish more details as to these projects,  
18 especially Limestone since its costs are included in the future test year, as to  
19 whether the 2,000 Dth per day of increased throughput used a revenue adjustment  
20 is an accurate representation of the throughput growth that is expected from the  
21 major project, in the first year of its operation as well as the next few years. If  
22 Equitable has understated its estimate, then there is the ability for Equitable to  
23 receive revenues well in excess of amounts authorized at the conclusion of this

1 proceeding, if Rate AGS is permitted to remain in EGC's tariff and Equitable's  
2 cost recovery proposal is approved.

3 Again, I emphasize that producer contributions to the Limestone project  
4 that have already been collected from producers should be refunded as premature,  
5 or at the very least should be treated as contributions in aid of construction.

6 Equitable has yet to demonstrate that the Limestone and Fisher projects are not  
7 required to be done anyway as part of EGC's least cost fuel procurement  
8 obligation without producer contributions. EGC needs to prove that these  
9 additional local production volumes related to Limestone and then Fisher into  
10 DTI will not enable EGC to lower its pipeline contract costs on DTI as was  
11 represented to IOGA witness Bauer.

12 **Witness Dalena**

13 **Q. PLEASE DESCRIBE MR. DALENA'S REBUTTAL TESTIMONY.**

14 A. Mr. Dalena begins his testimony discussing the investments that EGC has made in  
15 gathering facilities since 1999 and why he believes that "it is only appropriate that  
16 producers pay for the cost of the investment in facilities and operation of the  
17 facilities that were installed for them to deliver their gas to market." Dalena  
18 Rebuttal at 5.

19 **Q. WHAT IS YOUR RESPONSE TO MR. DALENA'S TESTIMONY?**

20 A. First of all, no one forced EGC to acquire the Carnegie and Apollo Gas company  
21 facilities, and certainly Equitable did not acquire these facilities for producers to  
22 deliver their gas to market. As Mr. Dalena states (p. 12 of his rebuttal Testimony  
23 in this proceeding), Equitable is not operated "as a producer benevolent society."  
24 If EGC's investments were primarily to benefit local gas producers, why then did

1 EGC propose to recover \$6.6 million dollars for costs related to improving its  
2 gathering system through the PGC from sales customers just four years ago? In its  
3 2004 PGC case, EGC testified that sales customers were the primary beneficiaries  
4 – and, thus, the primary reason that EGC was incurring the costs of these  
5 gathering facilities and improvements.

6 It seems that EGC’s new position – that producers and marketers are the  
7 primary beneficiaries/cost causers of its gathering facilities – started to take shape  
8 when EGC realized that it was more profitable to charge producers and marketers  
9 for its gathering facilities under “negotiated” rates with no ceiling, and EGC  
10 apparently concluded that the Commission would be less concerned about levels  
11 of lost and unaccounted for gas (“LUG”) on EGC’s gathering facilities if the  
12 LUG costs were being recovered primarily from producers rather than from  
13 sales customers through the PGC or from transportation customers.

14 It is interesting to read Mr. Dalena’s testimony and compare it with the  
15 testimony of Mr. Rafferty in the recent Equitable PGC cases. Mr. Dalena states  
16 that interstate and “other Appalachian supplies are noticeably less expensive” than  
17 Pennsylvania production. This statement is not only completely incorrect (as Mr.  
18 Crist describes in his surrebuttal testimony) but it raises the question why EGC  
19 invested in Pennsylvania gathering facilities to bring Pennsylvania gas to its end  
20 use customers. Reviewing Mr. Rafferty’s testimony over the last four years of  
21 gas cost cases provides the answer, which tells a much different story than Mr.  
22 Dalena’s.

1                   Let's begin with Mr. Rafferty's Direct Testimony (pp. 32-33) in EGC's  
2                   2005 PGC case at Docket R-00050272 discussing Equitable's investment in  
3                   Carnegie Natural Gas Company and its affiliated subsidiaries, and improvements  
4                   to that system:

5                   Q.     HAS EQUITABLE BEEN COMPENSATED  
6                   THROUGH RESIDENTIAL RATES FOR THIS  
7                   INFRASTRUCTURE INVESTMENT?

8                   A.     No. Nevertheless, in conjunction with the producing  
9                   community great strides have been made in increasing deliveries  
10                  into Equitable. For example, in 1997, Equitable purchased  
11                  approximately 3.2 Bcf of local Appalachian production. By 2003,  
12                  the local Appalachian production purchases more than doubled to  
13                  8.4 Bcf. We anticipate even greater increases in future years. I  
14                  mention this because as the level of local production increases, the  
15                  Western Pennsylvania economy also is stimulated with increases in  
16                  tax revenue, new employment opportunities for drillers and  
17                  pipeline crews and the resulting trickle down effect on this  
18                  increased deliverability. Every BCF of increased production adds  
19                  approximately \$6,000,000 into the community at today's prices for  
20                  natural gas.

21                  Q.     ARE THERE OTHER BENEFITS?

22                  A.     Yes. As the production ramps up, Equitable is able to  
23                  make plans to reduce its reliance on interstate pipeline supplies and  
24                  save on the variable costs associated with transporting this gas  
25                  from the Texas, Louisiana producing areas to Western  
26                  Pennsylvania. These avoided transportation costs are certainly a  
27                  benefit to our customers and in the future will allow the Company  
28                  to reduce its level of pipeline capacity it must maintain for such  
29                  transportation. This should translate into lower PGC costs.

30                  Next is Mr. Rafferty's Direct Testimony (p.10) in the 2006 PGC case, Docket R-  
31                  00061295:

32                  Q.     WHY HAVE THE COMPANY'S SUPPLY  
33                  SOURCES CHANGED?

34                  A.     The Company continues to increase the amount of  
35                  Appalachian-Direct supplies that it purchases. The  
36                  continuous improvements regarding the Company's

1 Northern Asset Optimization Project (“NAOP”) affords  
2 Equitable the opportunity to obtain additional low cost  
3 sources of supply and also reduces its dependency on  
4 upstream interstate pipelines.”

5 Next is Mr. Rafferty’s Direct Testimony (p. 9) in the 2007 PGC case,  
6 Docket R-00072111, making the exact same statement again:

7 Q. WHY HAVE THE COMPANY’S SUPPLY  
8 SOURCES CHANGED?

9 A. The Company continues to increase the amount of  
10 Appalachian-Direct supplies that it purchases. The  
11 continuous improvements regarding the Company’s  
12 Northern Asset Optimization Project (“NAOP”) affords  
13 Equitable the opportunity to obtain additional low cost  
14 sources of supply and also reduces its dependency on  
15 upstream interstate pipelines.”

16 Thus, Mr. Rafferty believes that “Appalachian-Direct” supplies (that is,  
17 Pennsylvania produced gas that enters EGC’s system through transmission or  
18 distribution or gathering facilities and does not come into EGC through an  
19 interstate pipeline) is lower in cost than interstate supplies. Mr. Dalena, on the  
20 other hand, claims that only producers benefit from EGC’s gathering facilities and  
21 that Appalachian gas from West Virginia delivered through Equitrans is a better  
22 buy for EGC’s ratepayers than Appalachian-Direct supplies. If Mr. Dalena is  
23 correct, then EGC’s reasons for increasing Appalachian-Direct supplies as Mr.  
24 Rafferty describes in the above quotes from the PGC cases make no sense and call  
25 into question the veracity of Equitable’s statements to the Commission that its  
26 purchases of Pennsylvania production comply with the Public Utility Code least  
27 cost gas procurement requirements. It seems obvious that Mr. Dalena’s testimony  
28 in this case is a contrived justification to help support Equitable’s proposal to  
29 recover all gathering facility investment from producers and marketers, rather

1 than a rejection of Mr. Rafferty's consistent and repeated testimony to the  
2 contrary in Equitable's PGC cases before Equitable had an interest in asserting  
3 otherwise.

4 As Mr. Dalena puts it, "Equitable's customers do not need IOGA's  
5 production." Dalena Rebuttal at 9. If that is the case, why did EGC invest in  
6 acquiring and improving gathering facilities? Mr. Dalena now says Equitable did  
7 so to benefit producers and marketers even though Mr. Dalena now also says  
8 Equitable is not a "producer benevolent society." Obviously, Equitable's  
9 customers did need IOGA's Pennsylvania production if we believe Mr. Rafferty's  
10 PGC testimony quoted above related to the years 2004-2007 and in the testimony  
11 of the other EGC witnesses in the 2004 PGC case referenced in my Direct  
12 Testimony.

13 The entire argument that producers and marketers should pay for all of  
14 EGC's gathering system comes down to this. EGC can make more money from  
15 its gathering facilities if it can charge rates with no ceiling to producers who have  
16 no other viable economic choices than it can charging end use customers under  
17 Commission rates that have a ceiling. Moreover, if it can collect more revenue by  
18 charging higher rates under Rate AGS than it projects in this filing at proposed  
19 rates, the additional revenues will flow to shareholders. In addition, if EGC is  
20 able to charge producers for EGC's high level of lost and unaccounted for gas  
21 ("LUFG") on its gathering facilities, then EGC does not have to worry about  
22 trying to reduce its gathering LUFG levels to a reasonable amount since the costs  
23 would be transferred to producers. The problem with EGC's plan from the

1 perspective of residential, commercial and industrial ratepayers is that EGC's  
2 proposal will result in less Pennsylvania production in the long term for customers  
3 which according to Mr. Rafferty will cost customers more money and be harmful  
4 to the Western Pennsylvania economy. The beneficiary of EGC's Rate AGS cost  
5 recovery proposal will only be EGC.

6 **Q. WHAT DOES MR. DALENA SAY ABOUT EQUITABLE'S 2004 SECTION**  
7 **1307(F) CASE?**

8 A. On pages 11-12 of his Rebuttal Testimony, Mr. Dalena discusses Equitable's  
9 2004 PGC case when EGC proposed a \$6.6 million six-year amortization of  
10 gathering system investment in the NAOP and states that "EGC did not seek base  
11 rate (whether as distribution or as gathering) treatment of these costs." He states  
12 that there were projected offsetting PGC gas cost savings.

13 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY?**

14 A. Mr. Dalena apparently fails to understand my point in raising the 2004 PGC case  
15 in this proceeding. The point of my discussion of the NAOP proposal by EGC  
16 was to show that EGC justified its investment in the NAOP gathering system  
17 capital projects because of benefits to end use customers of EGC, not because of  
18 benefits to Pennsylvania producers. Equitably stated in 2004 testimony that the  
19 NAOP improvements were made to benefit EGC's sales customers, and EGC  
20 sought recovery from PGC customers in the 2004 PGC case because EGC said  
21 the NAOP investments would reduce gas costs and so PGC customers should pay  
22 for the investments. Now, four years later, EGC has totally jettisoned that  
23 argument to support its argument in this proceeding that the costs of EGC's  
24 gathering system should be paid for solely by producers and marketers.

1 **Q. PLEASE COMMENT ON MR. DALENA'S STATEMENT THAT**  
2 **EQUITABLE GAS COMPANY IS A DISTRIBUTION COMPANY "FIRST**  
3 **AND FOREMOST."**

4 A. I find Mr. Dalena's statement contradictory. EGC's position is that it invested by  
5 its own count "\$19 million in gathering lines and other gathering related  
6 facilities" in the years 2000-2007 (Dalena Rebuttal at 4) and another \$13.8  
7 million in the Limestone Project in 2008 for plant that its says provides no  
8 significant benefit for its jurisdictional residential, commercial and industrial  
9 customers. If EGC is a distribution company "first and foremost," then these  
10 investments in the gathering system would make no sense. These investments  
11 only make sense if their purpose was to provide lower cost gas to Equitable's  
12 customers as IOGA submits, and as Mr. Rafferty has stated so many times in  
13 Equitable's PGC cases.

14 **Q. PLEASE COMMENT ON MR. DALENA'S TESTIMONY CONCERNING**  
15 **LOST AND UNACCOUNTED FOR GAS ON THE GATHERING**  
16 **SYSTEM.**

17 A. In his rebuttal testimony beginning on page 15, Mr. Dalena asserts that when  
18 Equitable acquired the Apollo gathering assets in 1999, Equitable was "unaware  
19 of any significant level of unaccounted for gas." Mr. Dalena had previously  
20 stated (p. 12 of his Rebuttal Testimony in this proceeding) that Equitable's NAOP  
21 cost recovery proposal in 2004 "was made several years before the high level of  
22 unaccounted for gas on gathering facilities was discovered." I note that Mr.  
23 Dalena refers only to "unaccounted for" gas and not "lost" gas, but I assume he  
24 means both. It seems that perhaps EGC did not look closely enough at the  
25 condition of the assets it acquired from Carnegie in 1999 and now wants another  
26 group, namely producers, to pay for the gas that is leaking from an old pipeline

1 system. As stated previously, no one forced EGC to purchase the Carnegie and  
2 Apollo systems. If EGC made a poor economic choice, its shareholders – not the  
3 jurisdictional customers of EGC and not producers – should pay for excessive  
4 quantities of lost and unaccounted for gas, and Equitable should have taken action  
5 to actually repair or replace these facilities years ago.

6 **Q. DOES MR. DALENA AGREE THAT PRODUCERS WILL BE ABLE TO**  
7 **SHIFT RATE AGS COSTS INTO GAS SUPPLY COSTS?**

8 A. No, Mr. Dalena says this will not happen because “Equitable will simply refuse to  
9 buy the gas.” This seems to be the theme of Mr. Dalena’s heavy handed  
10 approach. Either producers pay for EGC’s entire gathering system and eat the  
11 costs and not pass them along to customers, or else EGC will just stop buying  
12 Pennsylvania gas and switch to gas from West Virginia that must come into EGC  
13 through EGC’s affiliate, Equitrans. Western Pennsylvania producers made  
14 decisions to drill wells based on the economics at the time they drilled. Now,  
15 EGC is attempting to change the rules after the fact, i.e., to shift to producers the  
16 entire cost of EGC’s gathering system after producers have made their  
17 investments in wells and connected them to EGC’s system. Mr. Dalena is  
18 obviously content with having Pennsylvania producers pay the bill for a possible  
19 poor economic decision made by EGC to buy the old Apollo and Carnegie  
20 pipeline facilities that were and are in need of repair or replacement, rather than  
21 having EGC shareholders pay for this decision.

22 In summary, Mr. Dalena’s testimony conflicts with Mr. Rafferty’s  
23 testimony concerning what is in the best interest of EGC’s ratepayers regarding  
24 the purchase of Pennsylvania supplies. If EGC prevails based on Mr. Rafferty’s

1 and Mr. Dalena's current testimony and argument – that Equitable made  
2 investments in gathering facilities for the benefit of producers and marketers --  
3 then the Equitable Resources corporate family can be profitable either way. If  
4 producers are charged rates with no ceiling (and especially on increased volumes  
5 they may not accounted for in rates with respect to the Limestone project)  
6 Equitable Resources profits. In addition, if producer are charged for all the lost  
7 and unaccounted for gas on the gathering system, EGC shareholders are protected  
8 since they will not be paying for this gas. For those producers who refuse to pay  
9 the Rate AGS charges, EGC's corporate family will make additional profit  
10 through its affiliate when EGC buys West Virginia gas for storage on and delivery  
11 through Equitrans. The losers in this whole scheme are the end use customers of  
12 EGC that in the long term will lose the benefits of Pennsylvania production  
13 consistently and repeatedly described by Mr. Rafferty.

14 **Witness Quinn**

15 **Q. WHAT DOES MR. QUINN SAY IN HIS REBUTTAL TESTIMONY**  
16 **CONCERNING YOUR TESTIMONY?**

17 A. Mr. Quinn briefly discusses why he doesn't agree with my position on refunds of  
18 Rate AGS charges to producers delivering PA gas directly into the transmission or  
19 distribution system or into gathering lines not part of the 2003 acquisition. Since  
20 I discuss this issue in my earlier testimony concerning Mr. Rafferty, I will not  
21 repeat that discussion here. Mr. Quinn also mentions the January 1, 2006 base rate  
22 moratorium that I discussed in my direct testimony.

23 **Q. DO YOU HAVE ANY COMMENTS ON MR. QUINN'S RATE**  
24 **MORATORIUM TESTIMONY?**

1 A. Yes. While Mr. Quinn does not deny that EGC was in a rate moratorium during  
2 its 2004 PGC case, he wears his “producers are not customers” hat to argue that  
3 rate increases to recover the cost of plant investment and O&M expenses from  
4 producers and marketers was not part of the rate moratorium. As I mentioned in  
5 my Direct Testimony, EGC’s position on whether producers and marketers are  
6 “customers” depends on the situation. EGC has no problem with charging  
7 producers and marketers, as customers, for all of the costs allocated to its  
8 gathering system and all of the lost and unaccounted for gas on its gathering  
9 system, as it proposes in this proceeding, but Equitable otherwise does not  
10 consider producers to be customers. EGC cannot have it both ways. Producers  
11 and marketers cannot be customers for the purpose of cost recovery but not be  
12 customers when it is time to adhere to a rate moratorium or when it is time to  
13 provide producers with notice of rate increases, such as the lack of notice to  
14 producers and marketers in this proceeding.

15 In the spring of 2004, while EGC was agreeing to the rate moratorium, it  
16 was at the same time planning ways to recover gathering costs through Rate AGS  
17 and through a surcharge to the PGC rate based on a six year amortization of \$6.6  
18 million in NAOP costs. OTS witness Gruber argued in Equitable’s 2004 PGC  
19 case that Equitable’s PGC amortization proposal to recover gathering  
20 improvements through the PGC violated EGC’s rate moratorium. Apparently the  
21 OTS considered gathering investment to be part of the rate moratorium even  
22 though Mr. Quinn, now, does not. Exh. DMB-3 (Docket R00049154, Gruber  
23 Direct at 17).

1           Mr. Quinn also attempts in his argument to distinguish between gathering  
2 and distribution rate base, as if “gathering” rate base should not be part of a  
3 “distribution” rate moratorium. Quinn Rebuttal at 61. Equitable says now that at  
4 the time of the 2004 PGC case, assets classified to Production and Gathering Plant  
5 accounts and the associated operation and maintenance expense accounts were not  
6 part of the rate moratorium. Why EGC would have drawn such a distinction at  
7 that time is not clear since this Commission has a long history of treating  
8 Production and Gathering Plant in service no differently from Transmission,  
9 Distribution and General Plant in service for ratemaking purposes as it applies to  
10 rate moratoriums. Mr. Quinn’s distinction, however has served EGC well since  
11 Rate AGS provided over \$5 million dollars to EGC in the historic test year alone.

12           Even using EGC’s flawed logic as to what should be part of a rate  
13 moratorium, Mr. Quinn has still not explained why gas flowing directly into a  
14 transmission or distribution line should have been be charged Rate AGS.  
15 According to Mr. Quinn’s rate moratorium discussion: “There was nothing in  
16 effect that would limit the ability of Equitable to collect [sic] gathering rate  
17 unrelated to distribution service, not [sic] was there any discussion of a gathering  
18 rate moratorium at any time in the negotiating process.” What was or was not  
19 discussed during the negotiation process is irrelevant, as the rate moratorium  
20 language was clear and contained no such qualification as suggested by Mr.  
21 Quinn.

22           Mr. Quinn also offers no explanation at all as to why EGC should be  
23 recovering Rate AGS charges from producers who are not transporting gas

1 “through the gathering system” as expressly required in both the original Rate  
2 AGS and the currently effective Rate AGS. He also fails to explain why he would  
3 think that parties would carve out specific parts of rate base, such as gathering  
4 assets, in a settlement concerning a base rate moratorium, but not reduce the  
5 “carve-outs” to writing. Using Mr. Quinn’s logic, parties must list each unit of  
6 property that is part of a rate moratorium or else the unlisted property is fair game  
7 for rate increases.

8 **Witness Feingold**

9 **Q. WHAT DOES MR. FEINGOLD SAY IN HIS REBUTTAL TESTIMONY**  
10 **CONCERNING YOUR TESTIMONY?**

11 A. Mr. Feingold disagrees with my cost of service recommendation. He defends his  
12 apportionment of gathering facilities costs to a separate gathering rate, attempts to  
13 distinguish his cost allocation methods in the 1983 Peoples Gas case from the  
14 current proceeding, and uses the Federal Energy Regulatory Commission  
15 (“FERC”) and the State of Oklahoma to defend his position that he appropriately  
16 allocated gathering costs to producers and marketers instead of to the end use  
17 customers of EGC. Mr. Feingold apportions the costs of EGC’s gathering  
18 facilities to producers and marketers only under a service called Rate AGS. Mr.  
19 Feingold spends several paragraphs in his rebuttal defending his study and why it  
20 is reflective of cost causation principles. He also attempts to distinguish “cost  
21 causation” from “who benefits” from a service on page 27 of his Rebuttal.

22 **Q. WHAT ARE YOUR COMMENTS CONCERNING THIS TESTIMONY?**

23 A. Generally, a customer class that causes a cost to be incurred receives some benefit  
24 from the cost being incurred, but to be clear it is my position that the residential,

1 commercial and industrial end use customers of EGC caused Equitable to incur  
2 gathering facilities costs – capital investment and operation and maintenance  
3 expenses – and those same customer classes should pay for these costs. All end  
4 use customer classes of EGC make use of Pennsylvania gas, and the investments  
5 made in gathering facilities were made to serve those customers, notwithstanding  
6 the revisionist history in the rebuttal testimony of Mr. Rafferty and Mr. Dalena.  
7 The question to ask is “why did EGS incur the costs?” The answer obviously is to  
8 provide low cost gas supply to its customers.

9 Mr. Feingold’s attempts to distance himself from his testimony in the 1983  
10 Peoples Gas case at Docket R-832315 as if the gas industry then was a different  
11 world, but in fact he apparently was unaware that Peoples Gas was way ahead of  
12 the curve on gas unbundling. Peoples Gas was engaged in transportation services  
13 by another name in 1983 and soon thereafter began transportation service that is  
14 similar in many respects to the services in effect today. FERC Order 436 had  
15 little to do with what was happening at the distribution level as Western  
16 Pennsylvania gas companies fought to keep load on their systems during the  
17 demise of the basic iron and steel industry in Pittsburgh. Mr. Feingold, as the cost  
18 of service witness for Peoples in its 1983 base rate case, recommended that all of  
19 Peoples’ gathering facilities be paid for by end use customers. He never stated or  
20 recommended that producers and marketers pay for any cost related to Peoples’  
21 gathering system. His lengthy discussion in his rebuttal in this case on  
22 unbundling and FERC Order 436 really has nothing at all to do with the fact that  
23 he has changed his position as to who should pay the costs related to gathering

1 facilities of a state regulated natural gas utility – and nothing at all to do with why  
2 he has changed his position, which he does not explain.

3 Mr. Feingold says that “there was no rate class for the provision of  
4 gathering service and no opportunity for me to assign a proportionate share of  
5 Peoples’ total cost of service in its cost of service study to a rate class that didn’t  
6 exist.” Feingold Rebuttal at 29. What Mr. Feingold fails to mention, however, is  
7 that Mr. Feingold didn’t just testify on the issue of Peoples Gas gathering  
8 facilities in the 1983 case at Docket R-832315. He also was the Peoples Gas rate  
9 design witness in its next base rate case three years later after Peoples had already  
10 in place in its tariff unbundled transportation services such as Rate HTS-  
11 Interruptible Interstate Industrial Transportation Service. In the 1986 case for  
12 Peoples Gas at Docket R-860310, Mr. Feingold specifically recommended the  
13 creation of an unbundled gathering transportation rate for Peoples Gas to be  
14 charged to commercial and industrial transportation customers that utilized the  
15 Peoples Gas gathering facilities. Dockets R-850270 & R-860310, Feingold Direct  
16 at 30. His rate design also recovered gathering facilities costs through sales rates  
17 from residential and commercial customers.

18 Mr. Feingold’s arguments about how different the gas industry was in the  
19 mid-1980’s in Western Pennsylvania is not relevant to his complete change of  
20 position as to who should be responsible for paying the costs of gathering  
21 facilities owned and operated by a state regulated natural gas utility, and to a large  
22 degree is also not an accurate factual historical account of the Western  
23 Pennsylvania market. Peoples did have unbundled services in the 1980’s and did

1 have transportation services in the 1980's and Mr. Feingold never at any time then  
2 suggested or recommended that producers or marketers should pay for the cost of  
3 gathering facilities in either of the cases he was involved in for Peoples Gas. As  
4 stated earlier, he has changed his position in this proceeding without any  
5 explanation.

6 In rebuttal of Mr. Donkin for the OCA in Peoples' 1986 base rate case at  
7 R-860310, Mr. Feingold stated that "the process of rate design before the FERC  
8 does not involve anything comparable to the interclass element of rate design at  
9 the state level." Thus, it surprising that Mr. Feingold talks so much about FERC  
10 policies in trying to rebut my testimony in this proceeding regarding interclass  
11 cost of service. Mr. Feingold also fails to point out that even after FERC Order  
12 436 and after the unbundling of gathering systems at the federal level, this  
13 Commission still continued to approve the recovery of gathering facility costs  
14 from end use customers in this Commonwealth in base rate cases up to the  
15 present.

16 Finally, as to the argument that a case in Oklahoma supports his position, I  
17 do not have to look to the State of Oklahoma to support my position. I can just  
18 look at the thirty years of history of ratemaking in this Commonwealth. In each  
19 base rate case that I am aware of where a natural gas utility has gathering  
20 facilities, gathering system costs have been recovered through rates from  
21 residential, commercial and industrial customers. Mr. Feingold has offered no  
22 legitimate reason why this Commission should change that ratemaking principle.

Witness Kalcic

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**Q. WHAT DOES MR. KALCIC SAY IN HIS REBUTTAL TESTIMONY CONCERNING ISSUES YOU HAVE ADDRESSED?**

A. Mr. Kalcic, as with Mr. Watkins (OCA) and Mr. Gruber (OTS), has taken the position in his direct testimony that the Company's Rate AGS cost recovery proposal is acceptable. In rebuttal, Mr. Kalcic has now changed his position somewhat by saying that with respect to the gathering facilities "producers and marketers should pay a portion of the associated costs." Kalcic Rebuttal at 15.

**Q. DO YOU HAVE ANY COMMENT ON MR. KALCIC'S CHANGE IN POSITION?**

A. Yes. Ironically Mr. Kalcic believes that my position – that end use of customers of EGC should pay for the gathering facilities - to be unreasonable, even though it is exactly the same position that OSBA has taken in base rate cases involving other gas utilities in this state that have gathering facilities, namely National Fuel Gas Distribution ( "NFGD" or "National Fuel") and Peoples Natural Gas ("Peoples Gas"). Mr. Kalcic makes no mention of why Equitable's gathering facilities should be treated differently for ratemaking purposes than the gathering facilities of Peoples Gas or National Fuel. Mr. Kalcic just offers the Company's standard but illogical argument that the gathering system helps bring producers' Pennsylvania gas to market. Under such a theory and taken to its logical conclusion, why should end use customers pay for any costs at all, since ultimately transmission and distribution lines and facilities also help get interstate gas to market, so interstate pipelines should also pay those costs.

**Q. DOES MR. KALCIC ADDRESS ANY OTHER IOGA ISSUES?**

1 A. Yes. Mr. Kalcic also comments on IOGA's alternative position that if this  
2 Commission makes a policy decision that producers and marketers should now  
3 and going forward help pay a portion of intrastate gathering facilities owned and  
4 operated by Pennsylvania regulated natural gas distribution utilities, IOGA's  
5 proposed alternative to its primary position of a maximum rate of 27 cents/dth to  
6 be charged to producers and marketers should be adopted. As I described earlier  
7 in my testimony, this alternative was calculated under a mistaken assumption and  
8 thus is overstated because the numerator of the fraction of gathering throughput to  
9 total deliveries was overstated. So the correct percentage is lower than 30%. I  
10 stated in my Direct Testimony in this proceeding that if EGC's full requested  
11 revenue requirement is reduced, IOGA's share of costs and the alternative rate  
12 (which is now lower than 27 cents) should be reduced accordingly using the  
13 formula described.

14 Mr. Kalcic takes issue with my use of "total system deliveries" in the  
15 denominator of the calculation. His recommended change to my calculation is as  
16 follows: "Rate AGS's share of such costs should be determined by dividing  
17 gathering throughput by the sum of gathering throughput and total volumes  
18 consumed by customers that are served from Equitable's gathering lines." Kalcic  
19 Rebuttal at 16. Since residential, commercial and industrial customers make use  
20 of local gas, the use of total deliveries as a denominator in the calculation is  
21 appropriate. But is not just 3620 customers on EGC's system that use local gas, it  
22 is all of EGC's customers. My calculation is an attempt to calculate the  
23 percentage of all deliveries that use the gathering system. Mr. Kalcic's

1 recommendation and his revised formula would require producers to pay nearly  
2 all the costs assigned to Rate AGS and is just not rational. He makes this  
3 recommendation even though it is completely inconsistent with OSBA's position  
4 in the NFGD and Peoples Gas base rate cases mentioned earlier and Equitable's  
5 consistent and repeated testimony in its PGC cases. Mr. Kalcic's  
6 recommendation makes no sense and should be rejected.

7 **Q. IN CONCLUSION, PLEASE SUMMARIZE YOUR SURREBUTTAL**  
8 **TESTIMONY.**

9 A. The Company and the OSBA have offered no reasons why this Commission  
10 should depart from its long held views as to the role of Pennsylvania supply in  
11 satisfying the needs of Pennsylvania consumers. They also have offered no  
12 reasons why this Commission should change its position that end use customer  
13 classes are responsible for the costs of gathering facilities owned and operated by  
14 natural gas utilities in this Commonwealth. Pennsylvania consumers have come  
15 to depend on Pennsylvania supply and this case is not the time to jeopardize the  
16 future of Pennsylvania gas supplies or the cost of that supply to help Equitable  
17 Gas realize additional revenue by authorizing a "negotiated" rate mechanism that  
18 has no ceiling and for which there will be little if any oversight once approved.

19 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY.**

20 A. Yes, but I reserve the right to respond in oral rejoinder to the surrebuttal  
21 testimony of other parties concerning these issues.

## **Exhibit DMB-8**

Equitable's Responses to:

IOGA Set 1-9

1-10

Docket No. R-2008-2029325  
Item: IOGA-I-9  
Respondent: Robert M. Narkevic  
Position: Manager, Rates

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-9

Please provide the future test year gathering system throughput and the historic test year gathering throughput separately for: (a) system supply and (b) transportation.

Response:

The future test year gathering system throughput and the historic test year gathering throughput were not tracked by system supply and transportation.

Docket No. R-2008-2029325  
Item: IOGA-I-10  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-10

Please provide the gathering system throughput for each calendar year 2002 through 2006 separately for: (a) system supply and (b) transportation.

Response:

	System Supply (MMDth)	Transportation (MMDth)
2002	2.4	6.0
2003	1.0	8.1
2004	2.0	11.7
2005	5.0	10.6
2006	8.5	8.4

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hawley  
ufk*

**DIRECT TESTIMONY**

**OF**

**KEITH MANGINI**

**On Behalf of**

**The Independent Oil and Gas Association of Pennsylvania**

**Topics Addressed**

Facilities Subject to Rate AGS  
New Meter Tap & Meter Approval Process  
Operational Issues

October 8, 2008

**RECEIVED**

NOV 25 2008

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME, AND DESCRIBE BY WHOM YOU ARE**  
2 **EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is Keith Mangini. I am the President of Huntley & Huntley, Inc., with its  
4 headquarters located at the Penn Office Building, Suite 100, 4314 Old William Penn  
5 Highway, Monroeville, PA. I have worked at Huntley & Huntley for about thirty (30)  
6 years and have held a succession of positions.

7 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A. I have a B.S. in Geology from West Virginia University, and I have completed post-  
9 graduate work in Petroleum Engineering at the University of Pittsburgh.

10 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

11 A. The overall purpose of my testimony is to support the positions of the Independent Oil  
12 and Gas Association of PA ("IOGA") in this matter. More specifically, I show that  
13 Huntley & Huntley operates its own gathering system and does not rely on the gathering  
14 lines operated by Equitable Gas Company ("Equitable" or "utility") for which Equitable  
15 has charged us under Rate AGS. I explain how Equitable has denied us access to its  
16 pipeline facilities by failing to install new taps and meters on a timely basis. Initially,  
17 Equitable refused to set the taps unless Huntley & Huntley agreed to pay a fifty cent per  
18 Dth (\$0.50/Dth) "gathering charge" plus a five percent (5%) shrinkage or retainage fee  
19 under Rate AGS, and then Equitable demanded higher rates. Huntley & Huntley does not  
20 believe that such charges are either reasonable or justified under Equitable's tariff, and  
21 accordingly does not believe it can or should agree to such contracts. Equitable's refusal  
22 to set new taps unless we agree to these terms and conditions amounts to an attempt to  
23 coerce us to accept these terms if we want to be able to sell our gas for the benefit of  
4 Equitable's customers and, of course, Huntley & Huntley and its investors. Having

1 invested substantial capital in a series of five new wells, Huntley & Huntley has been  
2 unable to produce any gas from these new wells. Even if Equitable belatedly installs new  
3 meters and taps and allows these wells to begin production, Huntley & Huntley and its  
4 investors have already suffered and will continue to suffer irreparable losses as a result of  
5 Equitable's actions.

6 Most recently, Equitable has said it cannot accept new gas because its pipelines  
7 are allegedly operating at full capacity. I show why this does not apply to our new meter  
8 tap locations and does not justify Equitable's continuing refusal to set the new taps we  
9 have requested. Finally, I also explain how Equitable's operational actions have  
10 unreasonably restricted the flow of Huntley & Huntley's local production and otherwise  
11 adversely affected Huntley & Huntley's operations on Equitable's system.

12 **Q. PLEASE DESCRIBE HUNTLEY & HUNTLEY AND ITS OPERATIONS.**

13 A. Huntley & Huntley is a relatively large volume producer of Pennsylvania natural gas and  
14 a member of IOGA. We employ about 16 people in Western Pennsylvania. We  
15 currently have approximately three hundred (300) active wells feeding gas into  
16 Equitable's distribution pipeline system. Many of Huntley & Huntley's wells are located  
17 within Equitable's service area and are extremely close to end users. In one instance,  
18 Huntley & Huntley delivers gas into the utility's distribution lines at a location that is  
19 approximately 100 to 150 feet away from an electric generation station that is a very  
20 large gas consumer. Furthermore, many of Huntley & Huntley's wells are located in  
21 towns or boroughs that are suburban in character and are located in the greater Pittsburgh  
22 area. These wells are located in parks, golf courses, cemeteries, industrial sites, and other  
23 areas within Equitable's service territory. None of Huntley & Huntley wells in western  
24 Pennsylvania are connected to any other pipeline system. Out of Huntley & Huntley's

1 300 existing wells, about 225 are nowhere near any other gas pipeline system.

2 Realistically, these 225 wells are completely captive to Equitable.

3 Our 300 wells collectively produced approximately six (6) million BTUs  
4 (“MMBTUs”) of gas per day in 2007. This equates to roughly 2.1 to 2.2 Billion  
5 Decatherms (“Dth”) of Pennsylvania natural gas delivered into Equitable's system during  
6 2007. At the present time, Huntley & Huntley sells about fifty percent (50%) of its  
7 Pennsylvania gas directly to Equitable. Huntley & Huntley sells the remaining fifty  
8 percent (50%) of its output to a leading natural gas marketer (Hess Corporation) that  
9 operates on the Equitable distribution system.

10 **Q. WHY DOES EQUITABLE BUY YOUR GAS, IN YOUR OPINION?**

11 A. Use of Pennsylvania gas increases the reliability of service for end users on Equitable’s  
12 distribution system. The gas is less likely to be interrupted because it is produced locally  
13 and does not have to be transported long distances in an interstate pipeline. Moreover,  
14 Huntley & Huntley typically sells gas to Equitable at about one-half of the utility’s  
15 delivered all-in price to residential consumers and less than the all-in cost of interstate  
16 supply. Of course, when Huntley & Huntley delivers gas directly into Equitable’s  
17 distribution lines, the utility is only required to transport the gas a very short distance to  
18 end users. Only a small amount of utility infrastructure is required to move this gas to  
19 consumers. Accordingly, as Equitable has indicated in testimony to the PUC, if more gas  
20 could be produced in western Pennsylvania and delivered to end users located on  
21 Equitable’s system, the utility’s costs should be further reduced, which ultimately should  
22 benefit Equitable’s ratepayers.

23 **Q. PLEASE DESCRIBE HUNTLEY & HUNTLEY’S FACILITIES AND**  
4 **CONNECTIONS TO EQUITABLE’S PIPELINE FACILITIES.**

1 A. With the possible exception of four meters, all 300 wells that Huntley & Huntley operates  
2 in western Pennsylvania feed into the Equitable's distribution pipelines, or what we call  
3 "Old Equitable" pipe, meaning Equitable's system before it began reacquiring gathering  
4 facilities. Huntley & Huntley has connections to Equitable's distribution lines in North  
5 Huntington Township, and in many areas within Allegheny County, including North  
6 Versailles Township, Monroeville, Wall Borough, Trafford, Oakmont Borough and  
7 Springdale Borough. Huntley & Huntley typically hooks into Equitable lines that are  
8 approximately four (4) inches to twenty (20) inches in diameter and that operate at a  
9 pressure of 25 pounds per square inch ("psi"). This 25 psi pressure is one of the utility's  
10 distribution operating pressures, not a gathering pressure. As to those four meters, two of  
11 them are inactive. The other two move only maybe 250 Mcf/day into Equitable's system  
12 and only one of these, in my opinion, is connected to the Crooked Creek facilities.

13 **Q. DOES HUNTLEY & HUNTLEY USE ANY GATHERING FACILITIES IN ITS**  
14 **OPERATIONS?**

15 A. Yes, but with the possible exception of the two active meters noted above, none of  
16 Huntley & Huntley's wells connect to "gathering" lines operated by Equitable. Instead,  
17 Huntley & Huntley operates its own gathering system. This system includes roughly fifty  
18 (50) miles of gas pipeline. Our coverage area in western Pennsylvania is roughly twenty  
19 (20) miles long and five (5) miles wide. These lines feed into distribution lines operated  
20 by Equitable, which are used to serve end users located in Equitable's system. Huntley &  
21 Huntley's gathering lines typically operate at pressures of fifty (50) to one hundred  
22 twenty (120) psi. Regulators are used to reduce the pressure as gas moves from Huntley  
23 & Huntley's gathering lines into Equitable's distribution lines. Huntley & Huntley

1 regulators generally allow gas to flow freely through the Huntley & Huntley gathering  
2 system and into Equitable's distribution lines at a pressure set point of 25 psi.

3 **Q. HAS EQUITABLE CHARGED HUNTLEY & HUNTLEY UNDER RATE AGS?**

4 A. Yes. Reluctantly, Huntley has been paying a \$0.25/Dth "gathering" fee to Equitable  
5 under Rate AGS for approximately the last two and one-half (2.5) years. We did not  
6 negotiate this fee. Equitable just called us and said this is what we had to pay to move  
7 our gas. From September 2005 production through the June 2008 production month, the  
8 fee has generated \$994,740 for Equitable, but has produced no direct or known benefits  
9 for Huntley & Huntley. We have questioned the utility's representatives as to the basis  
10 for these charges. Equitable's representatives (including Steve Rafferty and Willy Drane)  
11 have indicated to me and to my colleagues that the gathering charges are required to  
12 support improvements to the utility's gathering system. Yet we have pointed out that  
13 Huntley & Huntley's wells are not located on gathering lines operated by Equitable (with  
14 the one or two exceptions noted above). We also have explained that, to our knowledge,  
15 any improvements to the utility's gathering lines are in Armstrong County and Clarion  
16 County, which are not areas in which Huntley & Huntley has any wells.

17 **Q. DOES HUNTLEY & HUNTLEY HAVE PRODUCTION CONNECTED TO**  
18 **OTHER GAS UTILITIES?**

19 A. Yes. We have two sites on Old Equitable pipe in which production exists and flows to  
20 Dominion Peoples' system. Otherwise, none of Huntley & Huntley wells in western  
21 Pennsylvania are connected to any other pipeline system. Out of Huntley & Huntley's  
22 300 existing wells, about 225 are nowhere near any other gas pipeline system.

23 Realistically, these 225 wells are completely captive to Equitable.

1 **Q. PLEASE DESCRIBE HOW HUNTLEY & HUNTLEY DETERMINES**  
2 **WHETHER TO DRILL NEW WELLS FOR CONNECTION TO EQUITABLE'S**  
3 **SYSTEM.**

4 A. Before drilling new wells in the vicinity of Equitable's distribution lines, Mike  
5 Hillebrand, Vice-President of Huntley & Huntley, or I generally confer with Equitable's  
6 officers and employees for the purpose of ensuring that the utility will be able to accept  
7 and transport the new gas. Among other things, these consultations focus on the distance  
8 from any new wells to Equitable's 25 psi distribution lines, on whether these lines have  
9 the capacity needed to accept additional gas, and on whether new easements or rights-of-  
10 way are needed in order to link the new wells to Equitable's lines. Typically, we contact  
11 Stephen C. Rafferty of Equitable by telephone, and we identify the area where we are  
12 planning to drill new wells. Much of Huntley & Huntley's drilling activity is located in  
13 areas designated by Equitable as Region A or Region B, with Region B being the most  
14 common area. Typically, Mr. Rafferty then authorizes Huntley & Huntley's  
15 representatives to meet with Equitable's representatives at the utility's local office. For  
16 Region B production, the assigned office is located in McKeesport, Pennsylvania. A  
17 meeting is then held, and the participants review the available maps and diagrams,  
18 determine the distances to Equitable's 25 psi lines, assess whether Equitable's lines have  
19 enough capacity, evaluate whether any additional rights-of-way must be acquired, and  
20 address other logistical or engineering issues.

21 **Q. YOU STATED EARLIER THAT EQUITABLE HAS REFUSED TO SET NEW**  
22 **METER TAPS AND METERS FOR SOME NEW WELLS. WHY DID HUNTLEY**  
23 **& HUNTLEY DRILL THESE NEW WELLS?**

24 A. Huntley & Huntley does not proceed with well drilling within Equitable's service  
25 territory unless the Equitable representatives have indicated in advance that it will be  
26 feasible to connect the well(s) into Equitable's lines. Accordingly, consistent with the

1 process described above, in August or September of 2007, Huntley & Huntley's  
2 representatives contacted Mr. Rafferty at Equitable regarding plans for five new wells in  
3 Region B. Consistent with past practice, Mr. Rafferty encouraged us to meet in  
4 Equitable's McKeesport office with Mr. Willy Drane and Mr. Bill Brown. Mr. Mike  
5 Hillebrand and Mr. Eric Finley of Huntley & Huntley then met with the utility's  
6 representatives at this office. Equitable's representatives indicated that the utility would  
7 be able to take the gas from these new wells. Each of the new wells was found to be  
8 close to the existing 25 psi on the utility's distribution lines, and these lines had the  
9 capacity to move this gas. The participants recognized that acquisition of additional  
10 rights-of-way was not required. They also recognized that four new taps could be used  
11 for these five new wells. (One of the taps could be used by two nearby wells. The other  
12 three taps would each be used for one well.) Based upon this meeting and the position  
13 taken by the utility, Huntley & Huntley decided to move forward with the drilling of  
14 these new wells.

15 **Q. WHEN WERE THESE NEW WELLS COMPLETED?**

16 A. We completed the installation of these five new wells, which are located within  
17 Equitable's service territory and near Equitable's distribution lines, at the end of 2007 in  
18 November and/or December.

19 **Q. DID HUNTLEY & HUNTLEY REQUEST NEW METER TAPS AND METERS**  
20 **FOR THESE NEW WELLS?**

21 A. Yes, consistent with our past practice, I requested the installation of taps on Equitable's  
22 website. I also contacted Steve Rafferty of Equitable and requested installation of new  
23 meter taps for these wells. Consistent with the prior discussions described above, I asked  
4 Equitable to install four taps that would be used to service the five new wells. Copies of

1 the website receipts covering Huntley & Huntley's requests for taps are attached as  
2 Exhibit KM-1.

3 **Q. WHAT WAS EQUITABLE'S RESPONSE TO YOUR REQUESTS?**

4 A. Equitable's representatives initially indicated to me and to my colleagues that these taps  
5 would not be installed unless Huntley & Huntley agreed to pay a fifty cent (\$0.50)  
6 gathering charge and a five percent (5%) shrinkage (or retainage) amount. Then  
7 Equitable demanded higher rates, and most recently Equitable has said it cannot accept  
8 our new gas because its gathering pipelines allegedly are operating at full capacity.

9 **Q. IN YOUR OPINION, IS EQUITABLE'S MOST RECENT REASON FOR ITS**  
10 **REFUSAL TO INSTALL YOUR NEW TAPS A VALID REASON?**

11 A. No. I have no reason or basis to believe that this applies to our requested meter tap  
12 locations or that Equitable's distribution pipelines, to which our wells are connected  
through our own gathering lines, are operating at full capacity. On the basis of a  
14 discovery response, Equitable has now agreed. IOGA asked Equitable whether our new  
15 meter tap request sites were located on any portion of Equitable's system that is operating  
16 at full capacity, and Equitable's response is no. Our taps are (a) through (e) on the  
17 discovery response, which is attached as Exhibit KM-2.

18 **Q. IN VIEW OF THIS RESPONSE, HAS EQUITABLE NOW AGREED TO**  
19 **INSTALL YOUR NEW TAPS?**

20 A. No, Equitable has not contacted us to tell us that it will install them.

21 **Q. ARE YOU AWARE OF ANY OTHER VALID REASON FOR EQUITABLE'S**  
22 **REFUSAL TO INSTALL THESE NEW TAPS?**

23 A. No. According to Equitable's answer to IOGA's amended complaint and Equitable's  
24 discovery responses, Equitable has imposed a "moratorium" on new meter taps because  
5 of its concern that adding incremental gas to the gathering system will increase

1 Equitable's level of lost and unaccounted for ("LUF") on the gathering system. As the  
2 production from these five new wells will not flow through Equitable's gathering system,  
3 that reason does not justify Equitable's continued refusal to install these new taps.  
4 Moreover, Equitable has installed new meter taps since this so-called moratorium has  
5 been in place.

6 **Q. IS THE COST OF INSTALLING THE NEW METER TAPS PREVENTING**  
7 **EQUITABLE FROM INSTALLING THEM?**

8 A. No. Huntley & Huntley purchases and supplies the meters meeting Equitable's  
9 specifications. Typically, Huntley & Huntley also purchases and supplies any gas  
10 regulators needed to reduce the pressure of the gas moving from its gathering lines  
11 (which have one maximum allowable operating pressure), if necessary, to Equitable's  
12 distribution lines (which have a lower maximum allowable operating pressure). Huntley  
; & Huntley also supplies additional gas treatment equipment to improve the quality of the  
14 gas for end users, if necessary.

15 **Q. IS THE TIME FOR INSTALLATION OF NEW TAPS AND METERS**  
16 **PREVENTING EQUITABLE FROM INSTALLING THEM?**

17 A. Not in my opinion. Installation of a new tap and a new meter typically is completed by  
18 Equitable within one work day.

19 **Q. ARE ADDITIONAL OPERATIONAL COSTS FOR THE NEW METERS**  
20 **PREVENTING EQUITABLE FROM INSTALLING THE TAPS?**

21 A. No. Once the new meter is installed, the utility should bear little or no additional  
22 operating costs. Utility personnel do read the meters periodically, but that is not a  
23 difficult or time-consuming task. In fact, it is no more difficult than reading one of  
24 Equitable's customer meters.

5 **Q. WHAT HAS BEEN THE EFFECT ON HUNTLEY & HUNTLEY OF**  
26 **EQUITABLE'S REFUSAL TO INSTALL THESE NEW TAPS?**

1 A. Equitable’s actions have harmed Huntley & Huntley in numerous ways. To start with, if  
2 the utility is allowed to impose a \$0.50 “gathering charge” on all production from our  
3 company’s wells, this would equate to a cost of roughly \$1.0 – \$1.1 million per year.  
4 Likewise, if imposed on all production from Huntley & Huntley’s wells, Equitable’s 5%  
5 “shrinkage” or “retainage” fee would produce a direct cost of another \$1.0 to \$1.1  
6 million. These new charges, together with the delays caused by Equitable’s refusal to  
7 install new meter taps, have harmful economic effects. In fact, by itself, additional delay  
8 in the installation of new taps significantly reduces the return earned by Huntley &  
9 Huntley and by its investors. This in turn will discourage new investment in natural gas  
10 production in Pennsylvania. As investors recognize that there are delays in starting  
11 production and that such delays could be of unknown duration, investors will view these  
12 projects as having increased risks and uncertainties. This will inevitably make it more  
13 difficult to attract new investment for exploration and drilling. As risks increase,  
14 investors will also seek a higher rate of return. In my view, this will inevitably tend to  
15 discourage exploration and drilling within Equitable’s service territory. In fact, we have  
16 several leases on old Equitable pipe that we have intentionally not drilled due this  
17 situation.

18 Additionally, during the period in which the wells are installed but are not  
19 producing gas, Huntley & Huntley must make quarterly “shut-in” payments to the  
20 landowners who own the land on which the wells are installed. As a result, Huntley &  
21 Huntley incurs additional costs, but receives no operating revenue from these wells.  
22 While the landowners receive “shut-in” payments, their compensation is far lower than it  
23 would be if the wells were in production. When production begins, the landowners are

1 entitled to royalty payments, which are based upon a share of the gross sales proceeds on  
2 the gas. As of this date, however, the landowners who signed the leases for these five  
3 new wells are not receiving any royalty payments. Like Huntley & Huntley, the  
4 landowners are suffering economic losses as a direct result of Equitable's refusal to  
5 install the necessary taps and meters. This in turn damages Huntley & Huntley's  
6 relationships with the landowners, thereby discouraging other property owners from  
7 entering into leases with our company.

8 In all probability, as this delay continues, it will also cause physical deterioration  
9 in the gas fields. After a well is drilled, water generally is injected into the well for the  
10 purpose of stimulating gas flow. Water and sand are used to break up the sandstone rock  
11 and allow the gas to flow more freely. If production does not actually begin, however,  
12 the water is not removed in the usual way and will damage the surrounding gas reservoir.  
13 The water often will cause swelling in the clay found in pores within these formations.  
14 This reduces porosity, which frequently reduces the volume of gas that can be produced.

15 Equitable's refusal to set meter taps for our new Pennsylvania production wells  
16 harms us in other ways as well. First, in some areas, our new wells draw gas from fields  
17 also used by other producers. New production wells must be connected as soon as  
18 possible because every day that the new meter taps are not set we lose the ability to draw  
19 the natural gas that other producers are drawing from the same source. Second, in  
20 addition to losing an undeterminable amount of gas to other producers, under the "rule of  
21 capture" we have no right to claim damages against these other producers for taking the  
22 gas from the common field. Third, our ability to fulfill our contractual obligations to  
23 Hess Corporation is jeopardized, creating the possibility of a permanent loss of goodwill.

1 Fourth, the utility's refusal to set these meter taps has impaired our ability to lock in  
2 favorable prices through hedging. Since there is uncertainty with respect to Huntley &  
3 Huntley's production volume, it is extremely difficult, if not impossible, to engage fully  
4 in physical hedging. The overall effect of Equitable's refusal to set meter taps for our  
5 new Pennsylvania production wells is to reduce our revenues, weaken our competitive  
6 position in the market, and diminish the Pennsylvania natural gas supply available on  
7 Equitable's system and in Western Pennsylvania.

8 As stated above, at no time has Equitable told Huntley & Huntley that it cannot  
9 install our new production meter taps due to safety or reliability concerns. Evidently, the  
10 utility is seeking to increase its own revenue without regard to the economic injuries  
11 attributable to its actions.

12 **Q. HAS EQUITABLE TAKEN ANY ACTIONS THAT HAVE AFFECTED  
HUNTLEY & HUNTLEY'S OPERATIONS?**

14 A. Yes. In recent years, the utility has set Huntley & Huntley's regulators to operate at a  
15 pressure of 23.5 psi. Yet Equitable sets its own regulators to operate at the 25 psi  
16 maximum allowable operating pressure, thereby allowing Equitable's systems to have  
17 primary flow. As a result, during very cold temperatures, and especially at night, the  
18 Huntley & Huntley gas either does not flow or does not flow at a rate anywhere close to  
19 capacity, while gas on Equitable's own gathering lines continues to flow. Equitable has  
20 refused to install taps and meters required for new wells, and also has failed to respond  
21 on a timely basis to requests for meter replacement. In a number of instances, Huntley &  
22 Huntley has informed the utility that particular meters are inoperative and has requested  
23 installation of replacement equipment. Many times, however, Equitable has simply  
1 refused to respond to these requests. Recently, the utility also has refused to share its

1 meter readings with Huntley & Huntley. In the past, Equitable would provide the  
2 monthly meter readings to Huntley & Huntley and would identify the specific day within  
3 the month on which production would begin (the "on day") and the specific day on which  
4 monthly production would end (the "off day"). Now the utility refuses to provide this  
5 information, which makes it considerably more difficult for Huntley & Huntley to  
6 accurately track monthly production and to check the figures supplied by Equitable.

7 **Q. WHAT IS YOUR UNDERSTANDING OF EQUITABLE'S RATE AGS COST**  
8 **RECOVERY PROPOSAL IN THIS PROCEEDING?**

9 A. Equitable is requesting to be able to continue charging producers for transportation over  
10 what Equitable calls its gathering system, and is seeking to recover an additional \$7.5  
11 million, or over 124%, in additional Rate AGS revenue.

12 **Q. IF EQUITABLE'S RATE AGS COST RECOVERY PROPOSAL IS ADOPTED**  
13 **BY THE COMMISSION, HOW WILL IT EFFECT HUNTLEY & HUNTLEY'S**  
14 **GAS OPERATIONS IN WESTERN PENNSYLVANIA?**

15 A. If the Commission approves Equitable's proposal but agrees with us that our production  
16 is not subject to Rate AGS, approval will not adversely affect us. However, if the  
17 Commission rules that our production is subject to Rate AGS and Equitable is able to  
18 increase our gathering rates, production flowing through those meters may no longer be  
19 profitable to produce, depending on the price of gas. We are already considering moving  
20 as much of our gas from Equitable's system and not drilling on their pipe in the future, so  
21 subjecting our production to higher charges under Rate AGS could be the last straw.

22 **Q. WHAT SHOULD THE COMMISSION DO ABOUT THE RATE AGS CHARGES**  
23 **HUNTLEY & HUNTLEY HAS ALREADY PAID?**

24 A. The Commission should order Equitable to refund all these charges, with interest.

25 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

26 A. Yes.

**Exhibit KM-1**

Your request has been submitted. Please print this information for your records.

### Meter Tap Request

Date: 12/28/2007  
Request Type: New meter set  
Total Estimated Vol: 100  
Pressure: 150  
Gas Quality: C1100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillebrand  
Company Address: 4314 Old William Penn Highway Monroeville, PA 15146  
Company Phone: 4123802355  
Company Fax: 4123804003  
Company Email: htricc@h Huntley Inc.com  
Location State: PA  
Location County: Westmoreland  
Location Quad: McKeesport  
Location Township: North Huntingdon  
Location Site: Bridges Investment Company  
Location District: Equitable Gas  
Location Pipeline Num:  
GPS Latitude: 40.351864  
GPS Longitude: 79.768258  
Requested Turn In Date: 01/15/2008  
Additional Info:  
Attached File: Bridges Tap.bmp  
Checked: TRUE  
Acknowledgement:



Your request has been submitted. Please print this information for your records.

### Meter Tap Request

Date: 12/28/2007  
Request Type: New meter set  
Total Estimated Vol: 100  
Pressure: 150  
Gas Quality: 1100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillebrand  
Company Address: 4314 Old William Penn Highway Monroeville, PA 15146  
Company Phone: 4123802355  
Company Fax: 4123804003  
Company Email: btrice@huntleyinc.com  
Location State: PA  
Location County: Allegheny  
Location Quad: Braddock  
Location Township: Monroeville  
Location Site: Market #1  
Location District: Equitable Gas  
Location Pipeline Num:  
GPS Latitude: 40.396806  
GPS Longitude: 79.797489  
Requested Turn In Line Date: 01/15/2008  
Additional Info:  
Attached File: Market.bmp  
Checked: TRUE  
Acknowledgement :

Your request has been submitted. Please print this information for your records.

### Meter Tap Request

Date: 12/28/2007  
Request Type: New meter set  
Total Estimated Vol: 100  
Pressure: 150  
Gas Quality: <1100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillebrand  
Company Address: 4314 Old William Penn Highway Monroeville, PA 15146  
Company Phone: 4123802355  
Company Fax: 4123804003  
Company Email: btrice@huntleyinc.com  
Location State: PA  
Location County: Allegheny  
Location Quad: Murrysville  
Location Township: Monroeville  
Location Site: Weiss 1&2  
Location District: Equitable Gas  
Location Pipeline  
Num:  
GPS Latitude: 40.401711  
GPS Longitude: 79.749408  
Requested Turn In  
Time Date: 01/15/2008  
Additional Info:  
Attached File: Weiss 1&2.bmp  
Checked: TRUE  
Acknowledgement:

**Brianne Trice**

---

**From:** DoNotReply@cql.com  
**nt:** Friday, December 28, 2007 10:12 AM  
**o:** btrice@huntleyinc.com  
**Subject:** New Meter Tap Request

Your request has been submitted. Please print this information for your records.

Meter Tap Request  
meter: 1222872001  
Request Type: New meter set  
Total Estimated Vol: 100  
Pressure: 50  
Est. quantity: 51100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillebrand  
Company Address: 414 Old William Penn Highway  
Dunsmuir, CA 95826  
Company Phone: 4123892355  
Company Fax: 4123894002  
Company Email: m.a.hillebrand@huntleyinc.com  
Location State: PA  
Location County: Westmoreland  
Location Tract: Westport  
Location Township: North Eastington  
Location Lot: English Investment Company  
Location District: Repliable Cor.  
Location Parcel Name:  
GPS Lat/Long: 40.181264  
GPS Long/Lat: 79.768784  
Request Form in Use Date: 01/15/2008  
Additional Info:  
Attached File: NewMeterTap.bmp  
Include Acknowledgment: TRUE

**Brianne Trice**

**From:** DoNotReply@eqt.com  
**Int:** Friday, December 28, 2007 10:05 AM  
**To:** btrice@huntleyinc.com  
**Subject:** New Meter Tap Request

Your request has been submitted. Please print this information for your records.  
Meter Tap Request

Order: 171572008  
Request Type: New meter tap  
Total Estimated Vol: 100  
Pressure: 150  
Gas Quality: 4100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillebrand  
Company Address: 4314 Old William Penn Highway  
Newportville, PA 15146  
Company Phone: 4123502255  
Company Fax: 4123504003  
Company Email: btrice@huntleyinc.com  
Location State: PA  
Location County: Allegheny  
Location Quad: Bradlock  
Location Township: Newportville  
Location Section: 0600-01  
Location District: Equi-Lodge Gas  
Location Pipeline Name:  
CR Number: 101297517  
VPR Number: 791802498  
Requested Tap In Line Date: 01/15/2008  
Additional Info:  
Attached Files: Order Amp  
Checked Acknowledgement: 1 171572008

**Brianne Trice**

---

**From:** DeNotReply@cql.com  
**Int:** Friday, December 28, 2007 9:56 AM  
**To:** btrice@huntleyinc.com  
**Subject:** New Meter Tap Request

Your request has been submitted. Please print this information for your records.

Meter Tap Request  
Date: 12/28/2007  
Request Type: New meter req  
Total Estimated Vol: 100  
Pressure: 150  
Gas Quality: 41100  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillenbrand  
Company Address: 4314 Old William Penn Highway  
Monroeville, PA 15146  
Company Phone: 4123802355  
Company Fax: 4123804000  
Company Email: hcrice@huntleyinc.com  
Location State: PA  
Location County: Allegheny  
Location Quad: Roadcock  
Location Township: Monroeville  
Location Site: Barrel #1  
Location District: Equitable Gap  
Location Pipeline Name:  
GIS Location: 40.794706  
GIS Longitude: -79.127449  
Requestor Form In Line Date: 01/19/2008  
Additional Info:  
Attached Files: Backe-Map  
Send Acknowledgement: TRUE

**Brianne Trice**

---

**From:** DoNotReply@eqt.com  
**nt:** Friday, December 28, 2007 9:27 AM  
**To:** btrice@huntleyinc.com  
**Subject:** New Meter Tap Request

Your request has been submitted. Please print this information for your records.  
New Meter Tap Request

Date: 12/28/2007  
Request Type: New meter set  
Total Estimated cost: 100  
Pressure: 150  
Gas Quality: C1400  
Meter Number:  
Company Name: Huntley & Huntley, Inc  
Company Contact: Michael A. Hillbrand  
Company Address: 4314 Old William Penn Highway  
Murrysville, PA 15146  
Company Phone: 4123862355  
Company Fax: 4123804004  
Company Email: btrice@huntleyinc.com  
Location State: PA  
Location County: Allegheny  
Location Quad: Murrysville  
Location Township: Monroeville  
Location Meter: Wains 1&2  
Location District: Equitable Gas  
Location Pipeline Dept:  
GPS Latitude: 40.401711  
GPS Longitude: 79.7429405  
Requested Turn In Date: 01/15/2008  
Additional Info:  
Linked Files: Wains\_D&P.bmp  
Linked Acknowledgment: TRUE

## **Exhibit KM-2**

Docket No. R-2008-2029325  
Item: IOGA-V-5  
Prepared by: Thomas P. Wiggers  
Title: Director Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-V-5

Are any of the following new meter tap request sites located on any portion of the pipeline system identified in your response to No. 1 above? If so, for each new meter tap site please identify the particular pipeline portion and provide a pipeline map indicating these sites.

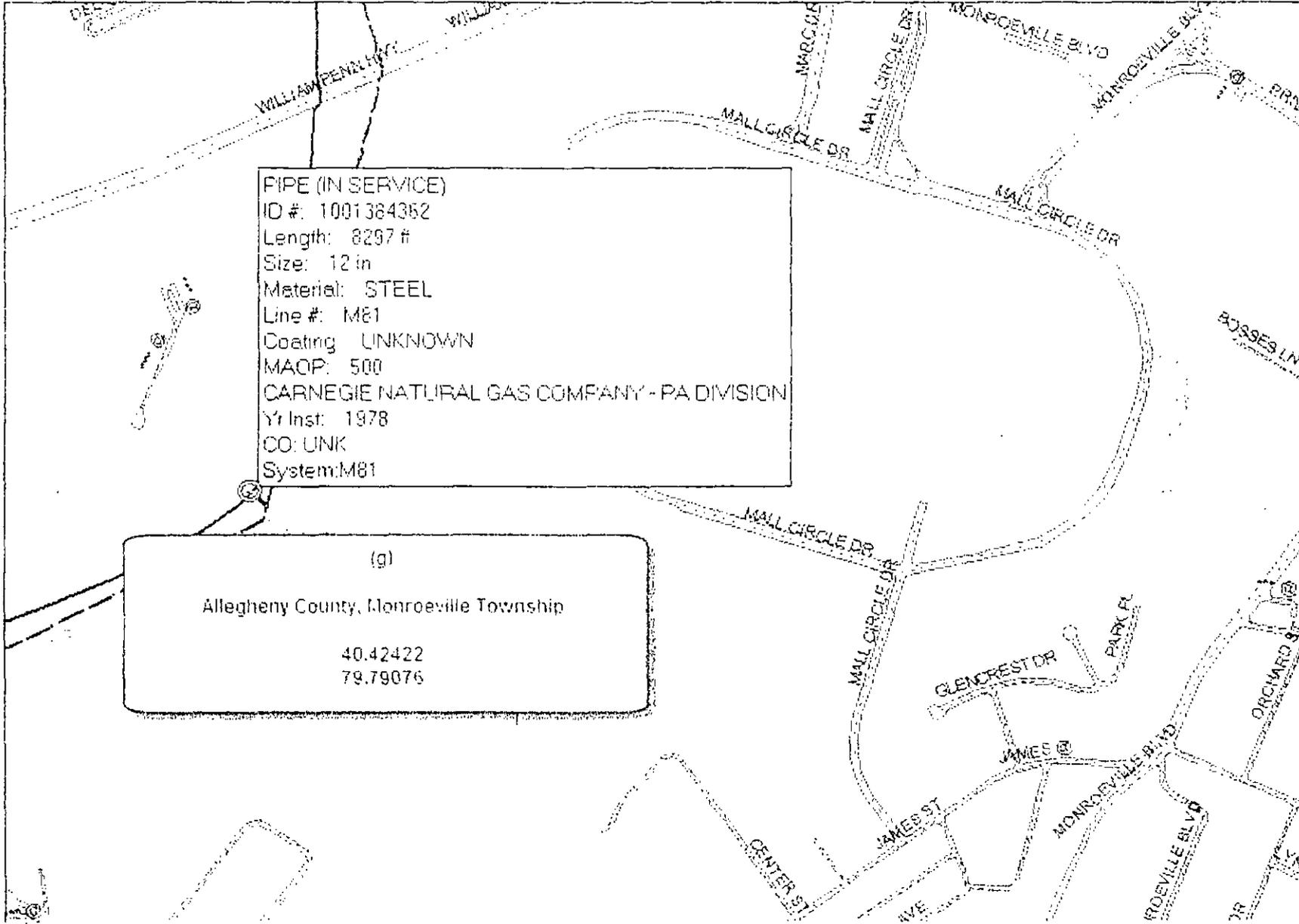
- (a) Westmoreland County, North Huntingdon Township  
GPS Latitude: 40.351864  
GPS Longitude: 79.768258
- (b) Allegheny County, Monroeville Township  
GPS Latitude: 40.397542  
GPS Longitude: 79.802494
- (c) Allegheny County, Monroeville Township  
GPS Latitude: 40.401711  
GPS Longitude: 79.749408
- (d) Allegheny Township, Monroeville Township  
GPS Latitude: 40.396806  
GPS Longitude: 79.797489
- (e) Allegheny County, White Oak Borough Township  
GPS Latitude: 40.329778  
GPS Longitude: 79.784189
- (f) Westmoreland County, Trafford Borough  
GPS Latitude: 40.381279  
GPS Longitude: 79.756125
- (g) Allegheny County, Monroeville Township  
GPS Latitude: 40.42422  
GPS Longitude: 79.79076
- (h) Allegheny County, South Versailles Township  
GPS Latitude: 40.36047  
GPS Longitude: 79.79698

Response:

Yes. The meter tap request identified in part (g) is located on a portion of the pipeline system identified in the response to IOGA-V-1. Please see the attached map for more detail.



- Annotation
  - Reg Sta Labels
- Check Meters
- Leaks
  - Leaks Per Mile
  - Main Leaks
  - Service Line Le
- Open Dig Requests
  - Label
  - Dig Request Lt
- Completed Dig Req
  - Label
  - Dig Request Lt
- Customer Service Z
- Construction Project
- Apollo/Carnegie
- CIPCO W/M & M
- Redlines
- Distribution
  - Pipe End
  - Well
  - Outside Well
  - Bridge Crossing
  - Valve
    - Emergency Va
    - Valve
  - Regulator Sta
  - Drop Tanks
  - Low Pressure M
    - Plastic
    - Cast Iron
    - Wrought Iron
    - Steel



(g)  
 Allegheny County, Monroeville Township  
 40.42422  
 79.79076

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Handy  
WPH*

**DIRECT TESTIMONY**

**OF**

**MIKE HILLEBRAND**

**On Behalf of**

**The Independent Oil and Gas Association of Pennsylvania**

**Topics Addressed**

Facilities Subject to Rate AGS  
New Meter Tap & Meter Approval Process  
Operational Issues

October 8, 2008

1 **Q. PLEASE STATE YOUR NAME, AND DESCRIBE BY WHOM YOU ARE**  
2 **EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is Mike Hillebrand. I am the Vice-President of Huntley & Huntley, Inc.  
4 ("Huntley & Huntley"). I have worked at Huntley & Huntley for about eleven (11) years,  
5 and I have worked in natural gas exploration and production since 1986.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

7 A. I have a B.S. in Petroleum And Natural Gas Engineering from Pennsylvania State  
8 University.

9 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

10 A. The purpose of my testimony is support IOGA's position in this matter and to cooperate  
11 the testimony of my colleague, Keith Mangini, concerning Equitable Gas Company's  
12 ("Equitable" or "utility") refusal to install our new taps and the adverse effects of  
13 Equitable's actions on Huntley & Huntley, Equitable's customers and the western  
14 Pennsylvania economy.

15 **Q. PLEASE DESCRIBE HUNTLEY & HUNTLEY AND ITS RECENT WELL**  
16 **DRILLING ACTIVITIES.**

17 A. As Mr. Mangini explains, Huntley & Huntley is a leading natural gas producer in western  
18 Pennsylvania. Our company completed the construction of five new production wells in  
19 the last two months of 2007. Huntley & Huntley, however, has been unable to begin  
20 production from these wells because Equitable has refused to install the required meters  
21 and taps.

22 **Q. WHY HAS EQUITABLE REFUSED TO INSTALL THESE TAPS?**

23 A. I spoke directly to Stephen C. Rafferty, an Equitable Vice-President (at least at that time)  
24 regarding the utility's actions. Eric Finley, an engineer who reports to me, also has  
spoken directly to an Equitable field manager or field supervisor, Willy Drane. Mr.

1 Rafferty and Mr. Drane stated that Equitable will not install any new meters or taps  
2 unless Huntley & Huntley agrees to pay a \$0.50 per Decatherm “gathering charge,” plus  
3 a 5% “retainage fee” or “shrinkage fee.”

4 **Q. WHAT WAS YOUR RESPONSE?**

5 A. I explained to Equitable’s representatives that, with the possible exception of the two  
6 active meters noted by Mr. Mangini, Huntley & Huntley does not transport any gas  
7 through gathering lines operated by the utility. Instead, our gas flows through Huntley &  
8 Huntley’s own gathering lines. The utility’s representatives have never denied this basic  
9 fact. Furthermore, as I have explained to Equitable’s representatives, a 5% “retainage” or  
10 “shrinkage” charge under Rate AGS cannot possibly be justified on gas delivered directly  
11 into distribution lines. “Shrinkage” should be minimal or non-existent on gas moving  
12 short distances in distribution lines. In addition, I have explained that there is no  
13 justification for charging both producers under Rate AGS and end users under Tariff Rule  
14 11.4 for “shrinkage” on the same lines. Here again, in my conversations with the utility’s  
15 representatives, they have never adequately addressed these fundamental points.

16 **Q. WHERE ARE HUNTLEY & HUNTLEY’S WELLS LOCATED?**

17 A. Many of Huntley & Huntley’s wells are located in boroughs and townships within  
18 Allegheny County, in areas close to Pittsburgh. Our wells are located in city parks, golf  
19 courses, cemeteries, industrial areas, and in other areas. As a result, Huntley & Huntley  
20 is producing gas in areas that are very near to end users located on Equitable’s  
21 distribution lines.

22 **Q. HOW IS HUNTLEY & HUNTLEY’S PENNSYLVANIA PRODUCTION**  
23 **DELIVERED TO EQUITABLE’S PIPELINES?**

1 A. The gas produced by Huntley & Huntley is delivered through Huntley & Huntley's  
2 gathering lines and into Equitable's distribution system. To my knowledge, no gas  
3 produced by Huntley & Huntley is delivered through gathering lines owned or operated  
4 by the utility or its affiliates, other than possibly the two active meters mentioned above.

5 **Q. HAS EQUITABLE'S REFUSAL TO SET THESE NEW TAPS AFFECTED**  
6 **HUNTLEY & HUNTLEY'S OPERATIONS?**

7 A. Yes. As explained in Mr. Mangini's affidavit, Equitable's refusal to allow production by  
8 these wells has directly harmed Huntley & Huntley. To start with, the utility's actions  
9 have temporarily prevented the company from generating any revenue on these five  
10 wells. Even if these wells are eventually hooked up to the utility and even if they still  
11 have approximately 20 years of production, which is uncertain, revenue produced at the  
12 back end of this 20 year lifespan has a substantially lower present value than revenue that  
could have been produced now or during the last few months.

14 By preventing the production of natural gas from these new wells, Equitable's  
15 actions have damaged Huntley & Huntley's relationships with landowners, especially  
16 with the landowners who entered into leases authorizing the installation of these wells.  
17 Based upon our company's prior track record, these landowners expected to receive  
18 royalty payments from Huntley & Huntley within a short period of time after the wells  
19 were installed; however, royalty payments are tied to the gross sales proceeds from the  
20 wells, and royalties are due only when the wells are actually producing gas. In  
21 accordance with the leases, Huntley & Huntley is making shut-in payments to these  
22 landowners, but these payments are much lower than the royalties that the landowners  
23 would receive if Equitable had installed the necessary taps and meters. Accordingly, due  
to Equitable's refusal to install these taps, Huntley & Huntley's reputation in the

1 landowner community is being damaged, which will make it more difficult to obtain  
2 leases in the future.

3 The utility's refusal to install the required meters and taps also has impaired  
4 Huntley & Huntley's ability to engage in hedging. Where appropriate, Huntley &  
5 Huntley uses physical hedges to lock in natural gas prices. With respect to the five wells  
6 left untapped by Equitable, however, since the initial production date and the volume of  
7 gas that will be produced are highly uncertain, it is extremely difficult, if not impossible,  
8 to make hedging decisions. Effectively, this means that Huntley & Huntley has been  
9 denied the ability to lock in sales prices in the usual manner.

10 Additionally, the utility's delay will in all likelihood produce physical  
11 deterioration in the gas reservoirs. Consistent with Huntley & Huntley's standard  
12 practice, fresh water was injected into these wells in order to stimulate production. The  
13 wells are drilled in sandstone formations. Water and sand are pumped in to crack or  
14 break up the rock. Typically, at least half of the water is then pumped out when  
15 production begins. Yet these five wells are now inactive. As a result, much more of this  
16 water will be absorbed into the clay found in pores within the sandstone formation. This  
17 will actually reduce the porosity of the sandstone and will impair Huntley & Huntley's  
18 ability to reach the maximum production levels.

19 Furthermore, the utility's actions have harmed and will continue to harm Huntley  
20 & Huntley's relationships with its investors. Historically, for most wells, our investors  
21 have supplied two-thirds or three-quarters of the necessary capital. Their participation is  
22 absolutely critical to further exploration and drilling in western Pennsylvania. As  
23 investors become aware of the risks associated with Equitable's refusal to install essential

1 taps and meters, they will be more reluctant to invest in future wells and may insist upon  
2 a higher rate of return. In either case, the number of new wells will almost certainly  
3 decline, and production in western Pennsylvania will be lower than it would otherwise  
4 be.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes.**

7

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hendy  
WJH*

**DIRECT TESTIMONY**

**OF**

**D. MARC JACOBS, JR.**

On Behalf of

The Independent Oil and Gas Association of Pennsylvania

**Topics Addressed**

Rate AGS Negotiated Rates  
New Meter Tap & Meter Approval Process

October 8, 2008

**RECEIVED**  
NOV 25 2008  
UTILITY COMMISSION  
SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME, AND DESCRIBE BY WHOM YOU ARE  
EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is D. Marc Jacobs, Jr. I am a Vice President of Penneco Oil Company  
4 ("Penneco"), whose headquarters is located at 6608 Route 22, P.O. Box 300, Delmont,  
5 PA. I have worked at Penneco for about 23 years in various positions.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.**

7 A. I have a BS degree in Theology from Hyles Anderson College.

8 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

9 A. The overall purpose of my testimony is to support the positions of the Independent Oil  
10 and Gas Association of PA ("IOGA") in this matter. More specifically, the purpose of  
11 my testimony is to explain Penneco's operations on Equitable Gas Company's  
12 ("Equitable") system and our dealings with Equitable concerning requests for new meter  
13 taps and meters for our new production. I also explain the harm caused by Equitable's  
14 refusal to set our requested new meter taps and meters, and the adverse consequences to  
15 our company, Equitable's customers and the development of new Pennsylvania  
16 production on Equitable's system if Equitable's Rate AGS cost recovery proposal is  
17 approved.

18 **Q. PLEASE DESCRIBE PENNECO AND ITS OPERATIONS.**

19 A. Penneco is a Commission-licensed natural gas supplier (A-125104) and a producer of  
20 Pennsylvania natural gas through wells located on the pipeline system of Equitable as  
21 well as on the systems of other PUC-regulated utilities. Penneco is a member of IOGA.  
22 We employ about 50 people in our gas operations. Penneco currently has about 145 local  
23 production wells located on Equitable's pipeline system. About 115 of these wells are  
24 nowhere near any other gas pipeline so, realistically, these wells are completely captive

1 to Equitable. At the present time, we sell nearly 100% of our Pennsylvania production on  
2 Equitable's system to Equitable for system supply. We transport a very small amount of  
3 our own gas on Equitable's system and sell it to end users.

4 **Q. DOES EQUITABLE CHARGE PENNECO UNDER RATE AGS?**

5 A. Yes. Equitable charges us under Rate AGS and deducts the charges from its payments to  
6 us for our gas.

7 **Q. DO YOU HAVE AN OPINION WHY EQUITABLE BUYS YOUR GAS?**

8 A. Yes. My understanding is that gas utilities in Pennsylvania are required to purchase the  
9 least cost gas. Our Pennsylvania production is traditionally a lower cost, more reliable  
10 supply compared to gas delivered through the interstate pipelines. We sell our gas to  
11 Equitable based on the DTI index, so the costs do not include interstate pipeline charges.

12 **Q. DOES PENNECO HAVE PENNSYLVANIA PRODUCTION CONNECTED TO  
OTHER GAS UTILITIES?**

14 A. Yes, we have about 800 wells connected to the pipelines of other utilities, including  
15 Dominion Peoples, T.W. Phillips Oil and Gas Company, Columbia Gas Company of PA  
16 and Columbia Gas Transmission Corporation.

17 **Q. ARE YOU FAMILIAR WITH EQUITABLE'S RATE AGS COST RECOVERY  
18 PROPOSAL IN THIS PROCEEDING?**

19 A. Yes.

20 **Q. WHAT IS YOUR UNDERSTANDING OF EQUITABLE'S PROPOSAL?**

21 A. Equitable wants to charge producers and marketers, rather than end-use customers, for  
22 what Equitable calls its gathering system. Equitable is seeking over \$7 million, or over  
23 124%, in additional Rate AGS revenue, from producers and marketers.

24 **Q. HAS PENNECO NEGOTIATED THE CHARGES IT PAYS UNDER RATE AGS?**

1 A. No. Equitable just calls us and tells us what the new rates are when our gas purchase  
2 agreements are nearing their expiration.

3 **Q. IF EQUITABLE'S PROPOSAL IS ADOPTED BY THE COMMISSION, HOW**  
4 **WILL IT EFFECT PENNECO'S GAS OPERATIONS IN WESTERN**  
5 **PENNSYLVANIA?**

6 A. If Equitable is able to increase our gathering rates by 124%, production flowing through  
7 those meters may no longer be profitable to produce depending on the price of gas. If gas  
8 is no longer profitable to produce on Equitable's system, Penneco would have to move its  
9 local production off Equitable's system or shut it in. This would adversely affect  
10 Equitable's customers by depriving them of traditionally lower priced and more reliable  
11 Pennsylvania production. Also, in view of the significant investment to drill a well,  
12 reduced volumes and revenues would also require us to scale back our development of  
13 new Pennsylvania production on Equitable's system or stop altogether. Finally,  
14 significantly reduced volumes and revenues would have adverse consequences for our  
15 employees and the economy in Western Pennsylvania.

16 **Q. DID PENNECO DRILL ANY NEW WELLS RECENTLY FOR CONNECTION**  
17 **TO EQUITABLE'S SYSTEM?**

18 A. Yes. During 2007, we drilled a local production well (Trafford Borough #1) located in  
19 Westmoreland County, Pennsylvania, that was ready for connection to Equitable's  
20 pipeline system (also located in Westmoreland County) in early 2008. Another well  
21 (Emmick Unit/Rusnak) located in South Versailles Twp, Allegheny County was finished  
22 on August 28, 2008 and is also ready for connection to the nearby Equitable pipeline  
23 system. We also planned on drilling another local production well (Pedula) in 2008 for  
24 connection to Equitable's pipeline system. Other producers, which include an Equitable  
5 affiliate in the case of our Emmick Unit (Rusnak) well, operate in relative close

1 proximity to these new wells and therefore could draw gas from the same geological  
2 horizons.

3 **Q. WHY DID PENNECO DECIDE TO DRILL THESE WELLS?**

4 A. In accordance with past practice, I made “market inquiries” to Equitable before we  
5 decided to drill these new wells. A market inquiry is simply a request to Equitable to  
6 confirm that the area in which Penneco wants to drill has pipelines with the capacity to  
7 receive the new production, meaning that there is a market for the gas and no pipeline  
8 system constraints. Usually I fax a map detailing Penneco’s area of interest and  
9 Equitable will fax back either my map with the available pipelines drawn in – often with  
10 notes about pipeline size and capacity, and system pressure – or a corresponding  
11 Equitable map showing this information.

12 If Equitable responds signifying that there is a pipeline with available capacity,  
13 we proceed to make arrangements to drill the well and request a meter tap and a “turn in  
14 line” (TIL) date. We currently have 7 wells (5 in Allegheny County and 2 in Armstrong  
15 County) for which significant “pre-drilling” actions have been initiated as a result of such  
16 responses.

17 **Q. HAVE THESE WELLS BEEN COMPLETED?**

18 A. Yes. The Trafford Borough #1 well was completed June 19, 2008. The Emmick Unit  
19 (Rusnak) well was “drilled in” August 28, 2008. The Pcdula well has not been drilled,  
20 although we are ready to drill it in the next month or two.

21 **Q. DID ANY OF YOU ASK EQUITABLE TO INSTALL NEW METER TAPS AND  
22 METERS FOR THIS NEW PRODUCTION?**

23 A. Yes. In accordance with Equitable's procedure, as summarized above, Penneco online  
4 requests through Equitable's website for three (3) new meter taps for the Trafford

1 Borough # 1, Pedula and Rusnak (unitized as Emmick Unit) production wells on January  
2 31, 2008 (Trafford Borough #1, requested TIL date 5/1/08) and on April 1, 2008 (Pedula  
3 and Rusnak, requested TIL dates 6/1/08). Copies of the market inquiries, Equitable's  
4 responses, the online meter tap requests, and emails identifying the purchaser of the gas  
5 and estimated daily volume for each of these new wells are attached as Exhibit DMJ-1. I  
6 have since learned that the request for the Pedula tap included a map correctly showing  
7 the location, but the GPS coordinates were incorrect. The correct GPS coordinates for  
8 this meter tap location are Latitude 40.405359, Longitude 79.767694.

9 **Q. WHAT WAS EQUITABLE'S RESPONSE TO YOUR REQUESTS?**

10 A. As in the past, we did not receive any written approval or denial from Equitable in  
11 response to these online meter tap requests. In the past, after the online requests the next  
12 correspondence from Equitable is generally the invoice for the tap materials and  
13 installation. The only time we have received a written response to an online meter tap  
14 request was when Equitable denied a tap request after Equitable had confirmed in its  
15 written response to our market inquiry that the Equitable pipeline "appeared to be a  
16 viable alternative" for our new production.

17 **Q. WHAT DID YOU DO AFTER RECEIVING NO RESPONSE FROM EQUITABLE  
18 TO YOUR REQUESTS.**

19 A. After we received no responses whatsoever to the Trafford Borough #1, Pedula and  
20 Rusnak meter tap requests, I called Willy Drane, my contact at Equitable, during the first  
21 week of August 2008 for an update. The gist of our discussion was that there is a  
22 "moratorium" on new meter taps because of the then-ongoing negotiations between  
23 Equitable and IOGA concerning IOGA's complaint against Rate AGS, and that they  
4 would be glad to set the new taps when they were given the "green light" from

1 headquarters. On August 14, 2008, I faxed another request for the taps to Willy Drane  
2 and asked what rate was required to set these taps. Equitable has not responded.

3 **Q. HAVE THESE TAPS BEEN INSTALLED?**

4 A. No.

5 **Q. ARE YOU AWARE OF ANY REASONS OTHER THAN THE MORATORIUM**  
6 **WHY THESE TAPS HAVE NOT BEEN INSTALLED?**

7 A. Yes. We learned in the beginning of September 2008 that Equitable is claiming that it  
8 cannot set our requested taps because its gathering pipelines are operating at full capacity.

9 **Q. WHAT IS YOUR RESPONSE?**

10 A. Even if that is true for some portions of Equitable's system, we do not believe that reason  
11 applies to our three (3) requested taps. In a discovery response, Equitable stated that the  
12 Trafford Borough and Rusnak taps are **not** located in areas of full capacity, but identified  
the Pedula tap as located on a pipeline operating at full capacity. A copy of Equitable's  
14 response is attached as Exhibit DMJ-2. However, as I stated above, the GPS coordinates  
15 for this tap that we provided to Equitable were incorrect. We believe that if Equitable  
16 had the correct GPS coordinates, which it now does because we also resubmitted our  
17 Pedula request online with the correct coordinates on September 30, 2008 , its response  
18 concerning the Pedula tap location would have been the same as for the other two  
19 because it is in the vicinity of the other two tap request locations.

20 **Q. WHAT IS THE EFFECT ON PENNECO'S GAS OPERATIONS OF**  
21 **EQUITABLE'S REFUSAL TO SET THESE NEW METER TAPS?**

22 A. Equitable's refusal to set meter taps for these new wells harms Penneco in the following  
23 ways. First, our new wells will draw gas from fields to which other producers have  
24 access. These fields include wells owned by Equitable's production affiliates. So, any

1 delay in flowing gas from our new wells reduces the volumes we can draw because the  
2 wells have limited useful lives.

3 Second, we lose an undeterminable amount of gas to other producers. Under the  
4 "rule of capture" we have no right to claim damages against these other producers for  
5 taking the gas from our common field.

6 Third, after a well is drilled, water generally is injected into the well for the  
7 purpose of stimulating gas flow. Water and sand are used to fracture and prop open the  
8 sandstone rock to allow the gas to flow more freely from beyond the wellbore. This is  
9 known in the industry as a "frac" job. However, if production does not actually begin,  
10 the water is not removed in the usual way and can damage the surrounding gas reservoir.  
11 The water often will cause swelling in the clay found in pores within these formations.  
12 This can reduce porosity and permeability, which would diminish the volume of gas that  
13 can be produced. Thus, the physical deterioration of the surrounding gas reservoir of  
14 Trafford Borough #1 will increase the longer frac water remains because no gas is  
15 flowing, which will continue to reduce the volume of gas that can be produced (Emmick  
16 Unit had a natural flow negating the need to frac for the time being).

17 Fourth, Penneco's ability to use its new production to lock in favorable prices  
18 through hedging is impaired because we are uncertain of our production volumes.

19 **Q. PLEASE SUMMARIZE PENNECO'S POSITION.**

20 A. The overall effect of Equitable's Rate AGS cost recovery proposal, if adopted, and  
21 Equitable's refusal to set meter taps for our new Pennsylvania production wells, will be to  
22 decrease our revenues and financial resources and thus weaken our competitive position  
23 in the market, force us to shift our drilling program off of the Equitable system, and

1           diminish the non-Equitable affiliated Pennsylvania natural gas supply available on  
2           Equitable's system and in Western Pennsylvania.

3   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4   **A.    Yes.**

# **Exhibit DMJ-1**

Your request has been submitted. Please print this information for your records.

Meter Tap Request	
Date:	1/31/2008
Request Type:	New meter set
Total Estimated Vol:	75
Pressure:	30
Gas Quality:	<1100
Meter Number:	
Company Name:	Penneco Oil Company
Company Contact:	D. Marc Jacobs, Jr.
Company Address:	6608 Rte. 22, Delmont, PA 15626
Company Phone:	7244688232
Company Fax:	7244688230
Company Email:	dmarcj@penneco.com
Location State:	PA
Location County:	Westmoreland
Location Quad:	Braddock
Location Township:	Trafford Borough
Location Site:	Trafford Borough #1
Location District:	Equitable Gas
Location Pipeline Num:	
GPS Latitude:	40.381279
GPS Longitude:	79.756125
Requested Turn In Line Date:	05/01/2008
Additional Info:	2" plastic on 3rd Street or Homewood Avenue (per Bill Brown map and field visit)
Attached File:	
Checked Acknowledgement :	TRUE

## Marc Jacobs

---

**From:** Matt Jacobs  
**Sent:** Thursday, January 31, 2008 2:53 PM  
**To:** 'TWiggers@eqt.com'  
**Cc:** 'tpetersen@eqt.com'; Marc Jacobs  
**Subject:** New Tap Request

Tom,

Please be advised that Equitable Gas will be the marketer for the following new tap request:

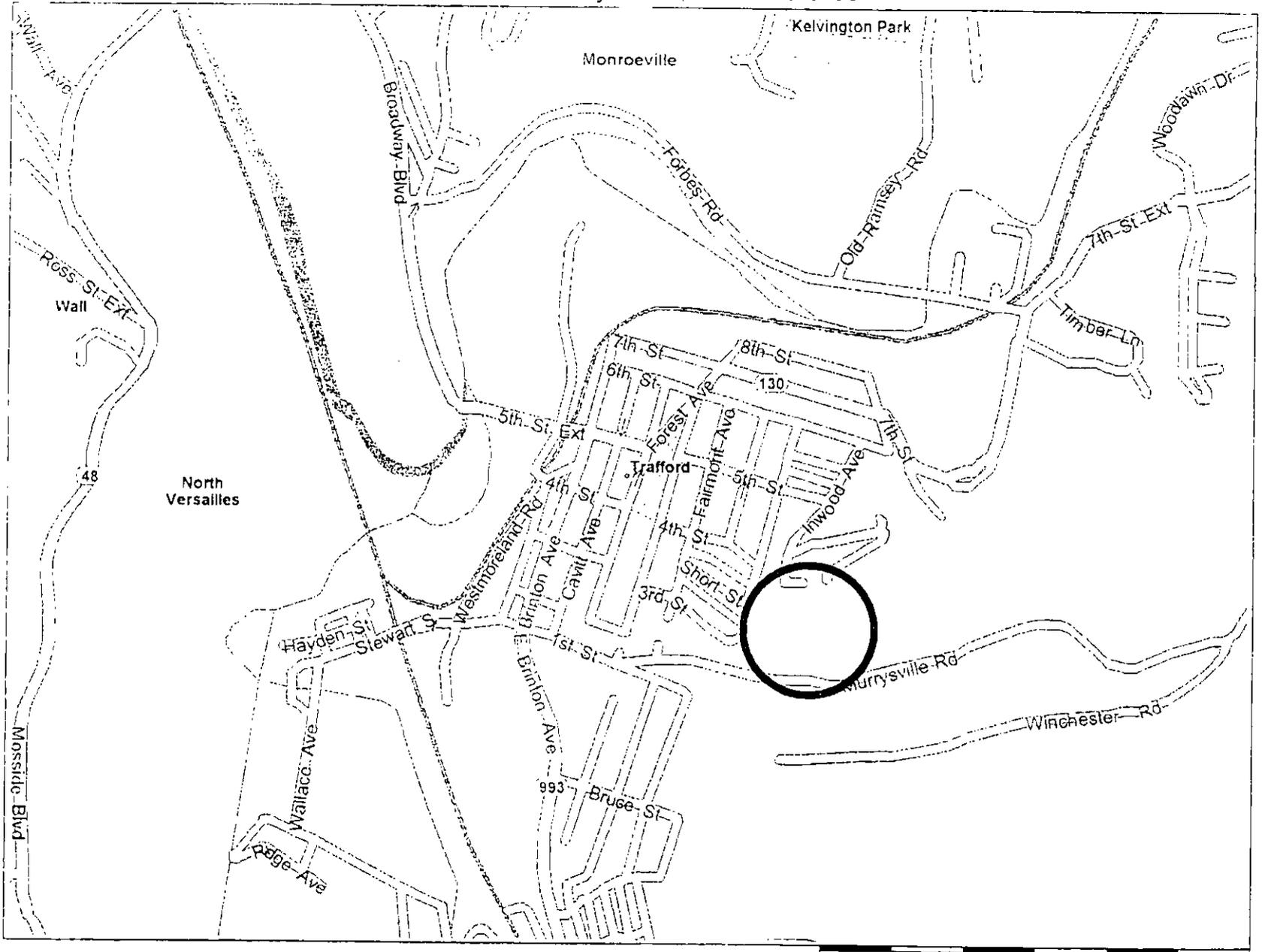
Well Name: Trafford Borough #1  
Township: Trafford Borough  
County: Westmoreland  
Est. Daily Volume: 75 mcf  
Requested Turn In Date: 5/1/08  
Shipper: Equitable Gas  
Shipper Contact: Tom Wiggers  
Shipper Phone #: (412) 395-3347

Thanks,

*Mathew S. Jacobs*

Penneco Oil Company  
6608 Rt. 22, P. O. Box 300  
Pittsboro, PA 15626  
1) 468-8232 - (Phone)  
2) 468-8230 - (Fax)

Trafford, Pennsy. a, United States



Trafford Borough, Westmoreland Co.

(724)468-8232 office (724)468-8230 fax  
dmarcj@penneco.com

**PENNECO OIL  
COMPANY, INC.**

# Fax

**To:** Bill Brown - Equitable Gas

**From:** D. Marc Jacobs, Jr.

**Fax:** 412-395-3655

**Pages:** 2

**Phone:**

**Date:** 7/19/2007

**Re:** Market Inquiry - Trafford Borough,  
Westmoreland Co.

**CC:**

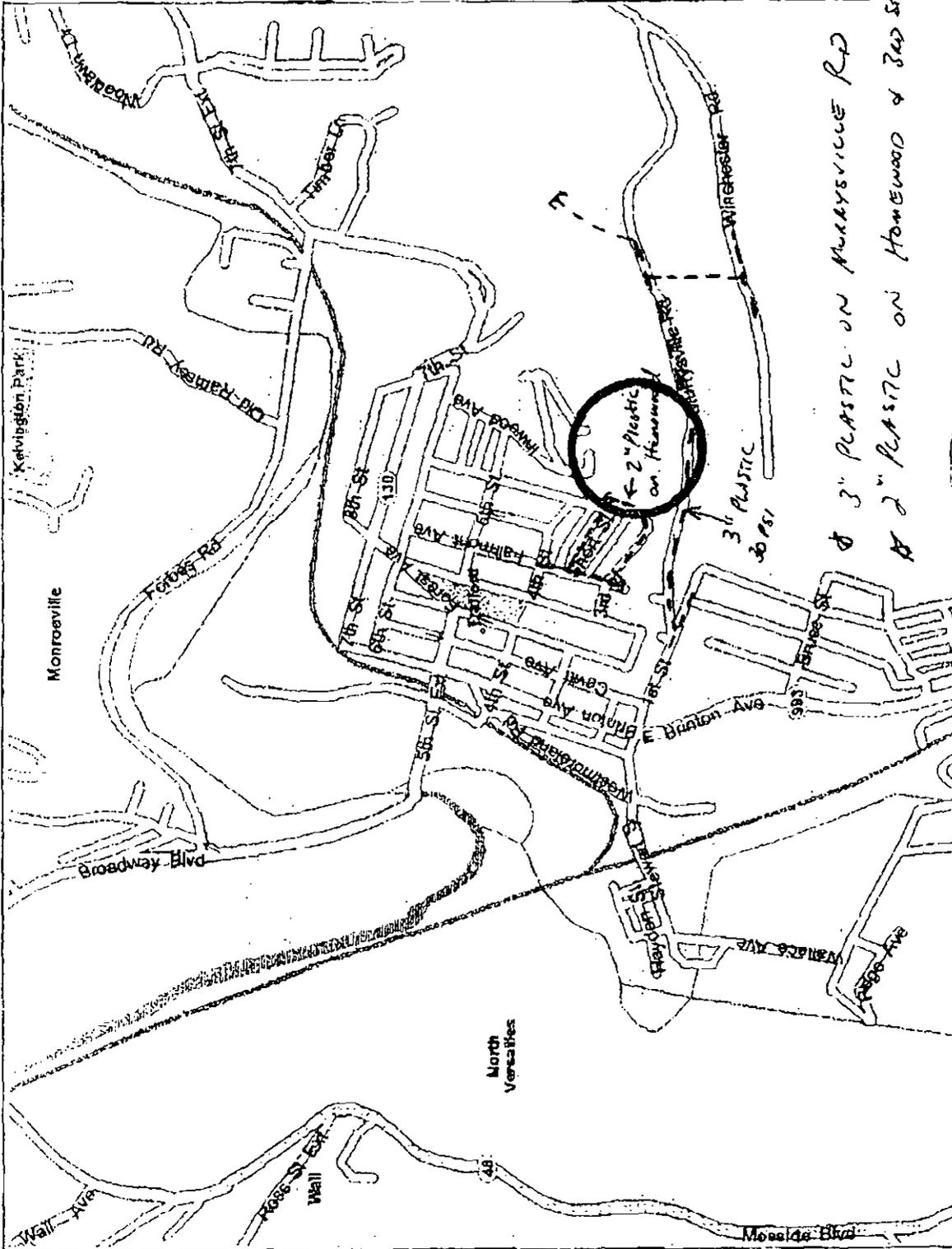
**Urgent**     **For Review**     **Please Comment**     **Please Reply**     **Please Recycle**

• **Comments:** Do you represent any pipelines w/ capacities to receive production gas in or around the area identified on the attached map (**Trafford Borough, Westmoreland Co.**) ? Please advise.



# Trafford Borough, Westmoreland Co.

Trafford, Pennsylvania, United States



2" PLASTIC ON MONROSVILLE RD  
 & 3" PLASTIC ON HONEWOOD & 3RD ST.  
 & 2" PLASTIC ON HONEWOOD & 3RD ST.

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# EQUITABLE GAS

Delivering Everyday Excellence™

833 E Pgh-McKeesport Blvd  
North Versailles, PA 15137

FAX (412) 395 3655

TO: MARK JACOBS

COMPANY: \_\_\_\_\_ FAX # \_\_\_\_\_

FROM: Bruce Bran DATE: 7-20-07

TOTAL PAGES (including cover sheet): 2

COMMENTS:

- 3" PLASTIC ON MURKYSVILLE RD
- 2" PLASTIC ON HANWOOD AVE & 7RD ST.
- BOTH ARE 30 PSI SYSTEMS.

Your request has been submitted. Please print this information for your records.

Meter Tap Request	
Date:	4/1/2008
Request Type:	New meter set
Total Estimated Vol:	50
Pressure:	20
Gas Quality:	<1100
Meter Number:	
Company Name:	Penneco Oil Company
Company Contact:	D. Marc Jacobs, Jr.
Company Address:	6608 Route 22, Delmont, PA 15626
Company Phone:	7244688232
Company Fax:	7244688230
Company Email:	dmarcj@penneco.com
Location State:	PA
Location County:	Allegheny
Location Quad:	McKeesport
Location Township:	South Versailles
Location Site:	Rusnak (Emmick)
Location District:	Equitable Gas
Location Pipeline Num:	
GPS Latitude:	40.36047
GPS Longitude:	79.79698
Requested Turn In Line Date:	06/01/2008
Additional Info:	
Attached File:	
Checked Acknowledgement :	TRUE

**Marc Jacobs**

---

**From:** Matt Jacobs  
**Sent:** Tuesday, April 01, 2008 3:11 PM  
**To:** 'lpetersen@eqt.com'  
**Cc:** Marc Jacobs  
**Subject:** FW: New Tap Request

fyi

*Mathew S. Jacobs*

Penneco Oil Company  
6608 Rt. 22, P. O. Box 300  
Delmont, PA 15626  
(724) 468-8232 - (Phone)  
(724) 468-8230 - (Fax)

---

**From:** Matt Jacobs  
**Sent:** Tuesday, April 01, 2008 3:10 PM  
**To:** 'TWiggers@eqt.com'  
**Subject:** New Tap Request

Tom,

Please be advised that Equitable Gas will be the marketer for the following new tap request:

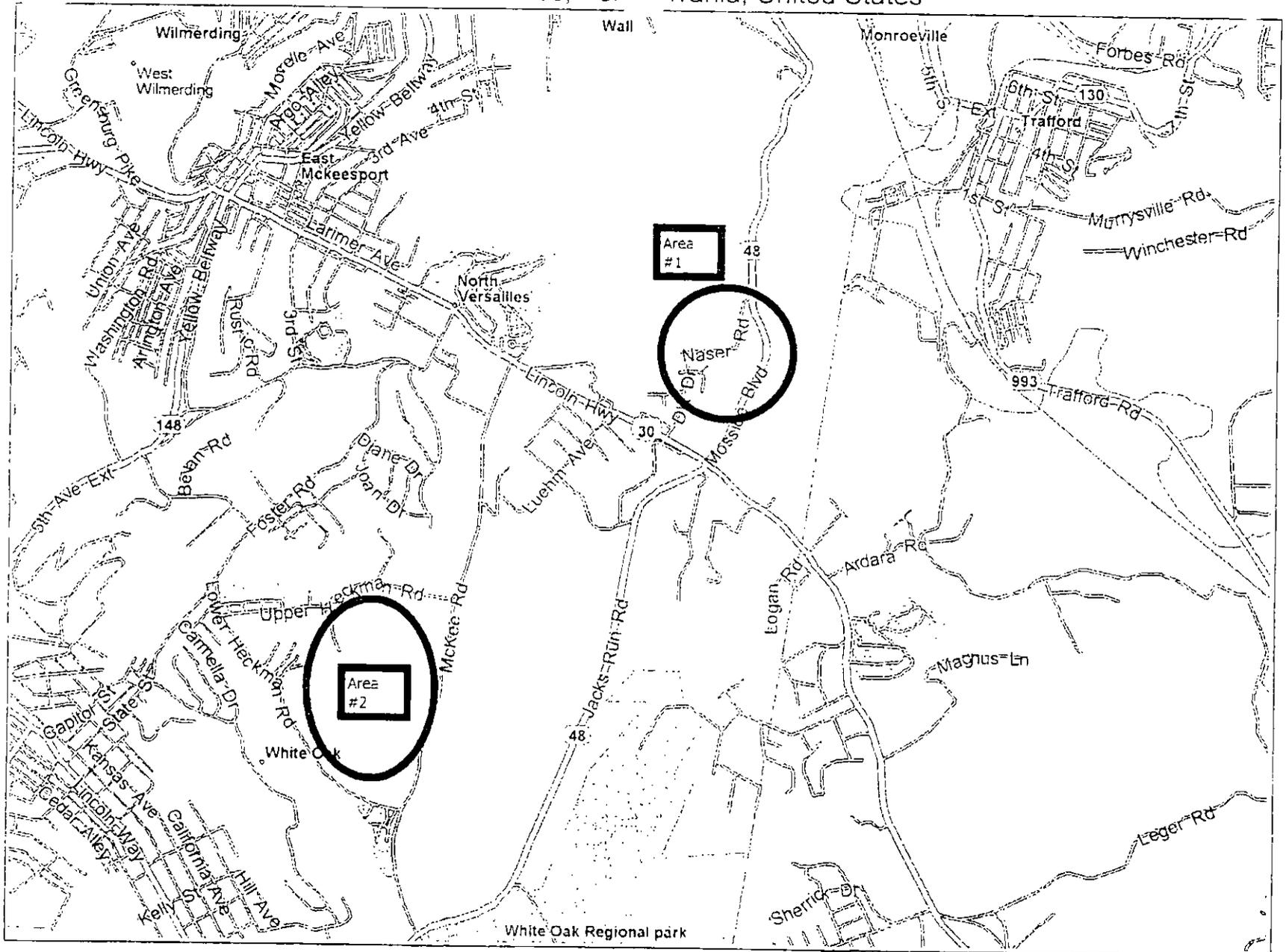
Well Name: Rusnak #1  
Location: South Versailles  
County: Allegheny  
Est. Daily Volume: 50 mcf  
Requested Turn In Date: 6/1/08  
Shipper: Equitable Gas  
Shipper Contact: Tom Wiggers  
Shipper Phone #: (412) 395-3347

Thanks,

*Mathew S. Jacobs*

Penneco Oil Company  
6608 Rt. 22, P. O. Box 300  
Delmont, PA 15626  
(724) 468-8232 - (Phone)  
(724) 468-8230 - (Fax)

North Versailles, Pennsylvania, United States



*Residential  
Commercial  
Truck Routes*

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**Marc Jacobs**

---

**From:** DoNotReply@eqt.com  
**Sent:** Tuesday, April 01, 2008 1:53 PM  
**To:** Marc Jacobs  
**Subject:** New Meter Tap Request

Your request has been submitted. Please print this information for your records.

**Meter Tap Request**

**Date:** 4/1/2008  
**Request Type:** New meter set  
**Total Estimated Vol:** 50  
**Pressure:** 20  
**Gas Quality:** <1100  
**Meter Number:**  
**Company Name:** Penneco Oil Company  
**Company Contact:** D. Marc Jacobs, Jr.  
**Company Address:** 6608 Route 22, Delmont, PA 15626  
**Company Phone:** 7244688232  
**Company Fax:** 7244688230  
**Company Email:** dmarcj@penneco.com  
**Location State:** PA  
**Location County:** Allegheny  
**Location Quad:** McKeesport  
**Location Township:** South Versailles  
**Location Site:** Rusnak  
**Location District:** Equitable Gas  
**Location Pipeline Num:**  
**GPS Latitude:** 40.36047  
**GPS Longitude:** 79.79698  
**Requested Turn In Line Date:** 06/01/2008  
**Additional Info:**  
**Attached File:**  
**Checked Acknowledgement :** TRUE

EQUITABLE  
GAS

Delivering Everyday Excellence

260 Allegheny Center Mall  
Pittsburgh, PA 15212-5252  
www.etcga.com

Facsimile Transmittal

To: MARK JACOBS

Company: \_\_\_\_\_ Fax Number: \_\_\_\_\_

From: Bill Brown

Department: \_\_\_\_\_ Phone: \_\_\_\_\_

Total Pages (including cover sheet): 4 Date: 3/14/06

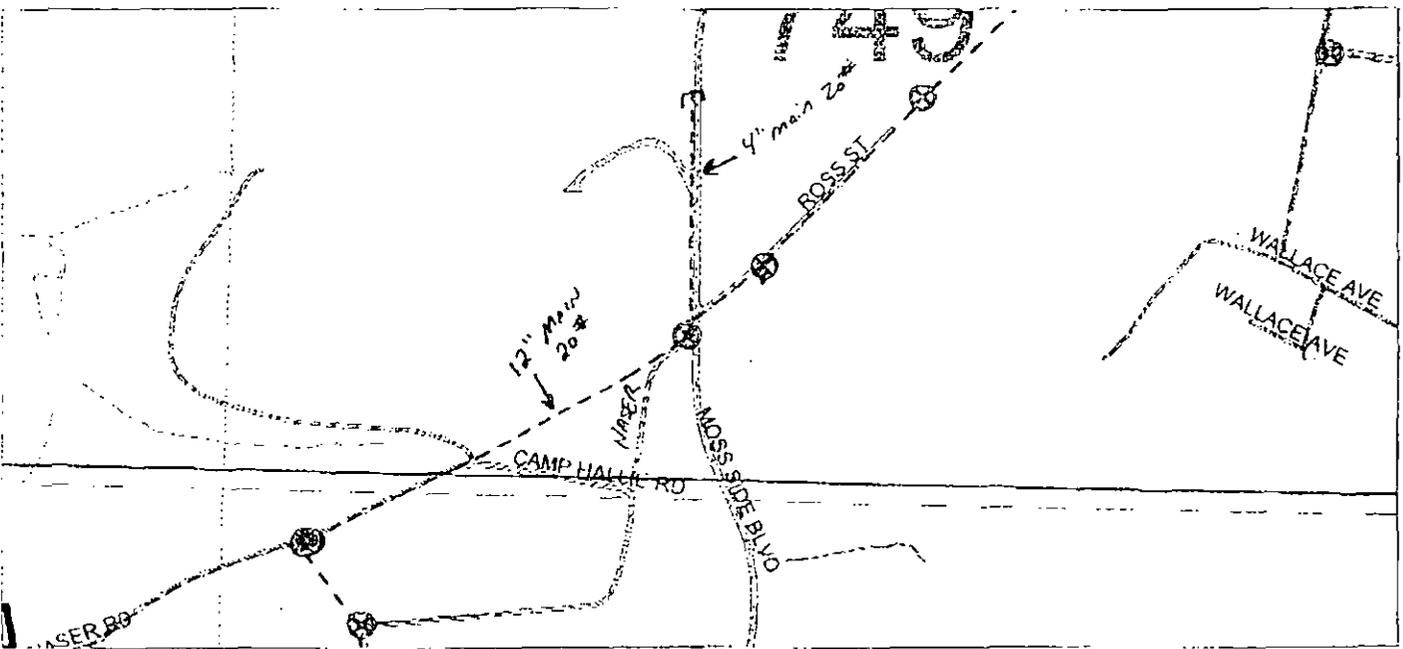
Comments: \_\_\_\_\_

*See Attached maps*

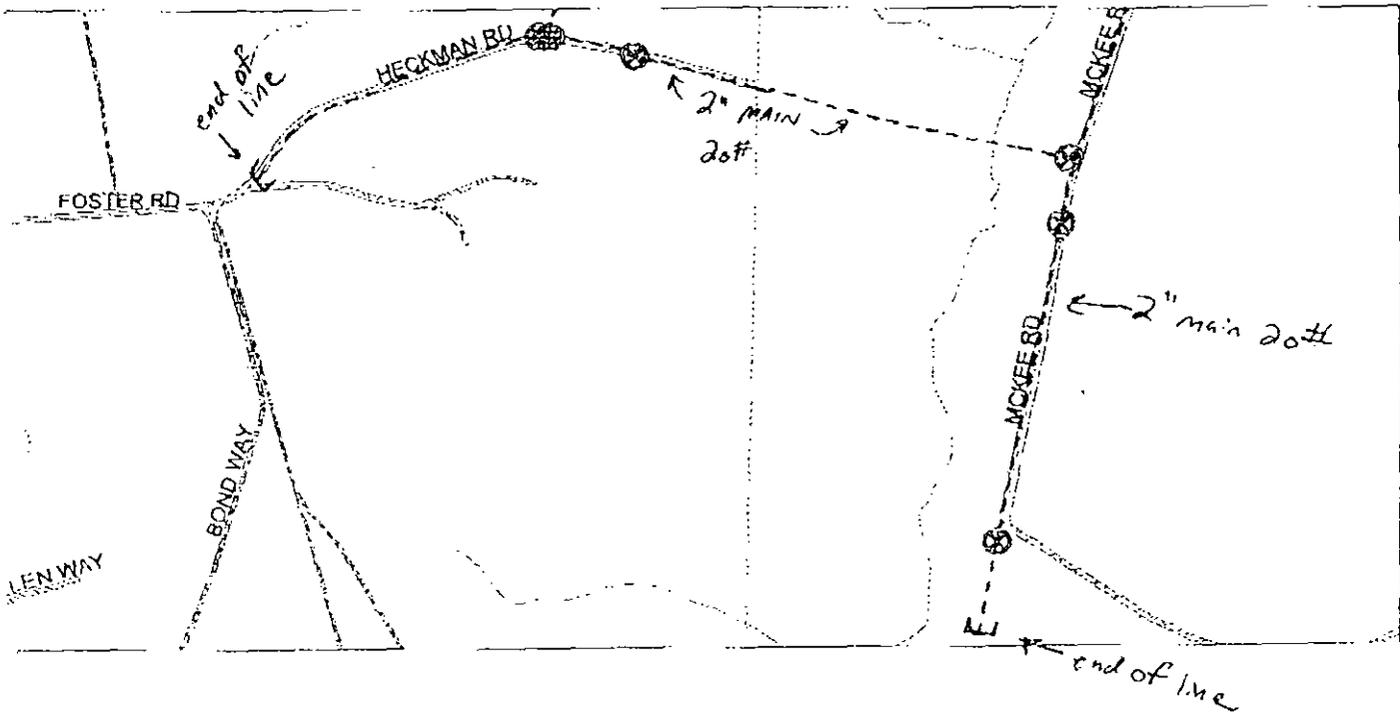
- Urgent
- Please Deliver ASAP
- Please Retire
- Reply ASAP
- Please Comment

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AREA # 1



Area # 2



Your request has been submitted. Please print this information for your records.

Meter Tap Request	
Date:	4/1/2008
Request Type:	New meter set
Total Estimated Vol:	50
Pressure:	20
Gas Quality:	<1100
Meter Number:	
Company Name:	Penneco Oil Company
Company Contact:	D. Marc Jacobs, Jr.
Company Address:	6608 Route 22, Delmont, PA 15626
Company Phone:	7244688232
Company Fax:	7244688230
Company Email:	dmarcj@penneco.com
Location State:	PA
Location County:	Allegheny
Location Quad:	Braddock
Location Township:	Monroeville
Location Site:	Pedula
Location District:	Equitable Gas
Location Pipeline Num:	
GPS Latitude:	40.42422
GPS Longitude:	79.79076
Requested Turn In Line Date:	06/01/2008
Additional Info:	
Attached File:	
Checked Acknowledgement :	TRUE

## Marc Jacobs

---

**From:** Matt Jacobs  
**Sent:** Tuesday, April 01, 2008 3:12 PM  
**To:** 'lpetersen@eqt.com'  
**Cc:** Marc Jacobs  
**Subject:** FW: New Tap Request

fyi

*Mathew S. Jacobs*

Penneco Oil Company  
6608 Rt. 22, P. O. Box 300  
Delmont, PA 15626  
(724) 468-8232 - (Phone)  
(724) 458-8230 - (Fax)

---

**From:** Matt Jacobs  
**Sent:** Tuesday, April 01, 2008 3:07 PM  
**To:** 'TWiggers@eqt.com'  
**Subject:** New Tap Request

Tom,

Please be advised that Equitable Gas will be the marketer for the following new tap request:

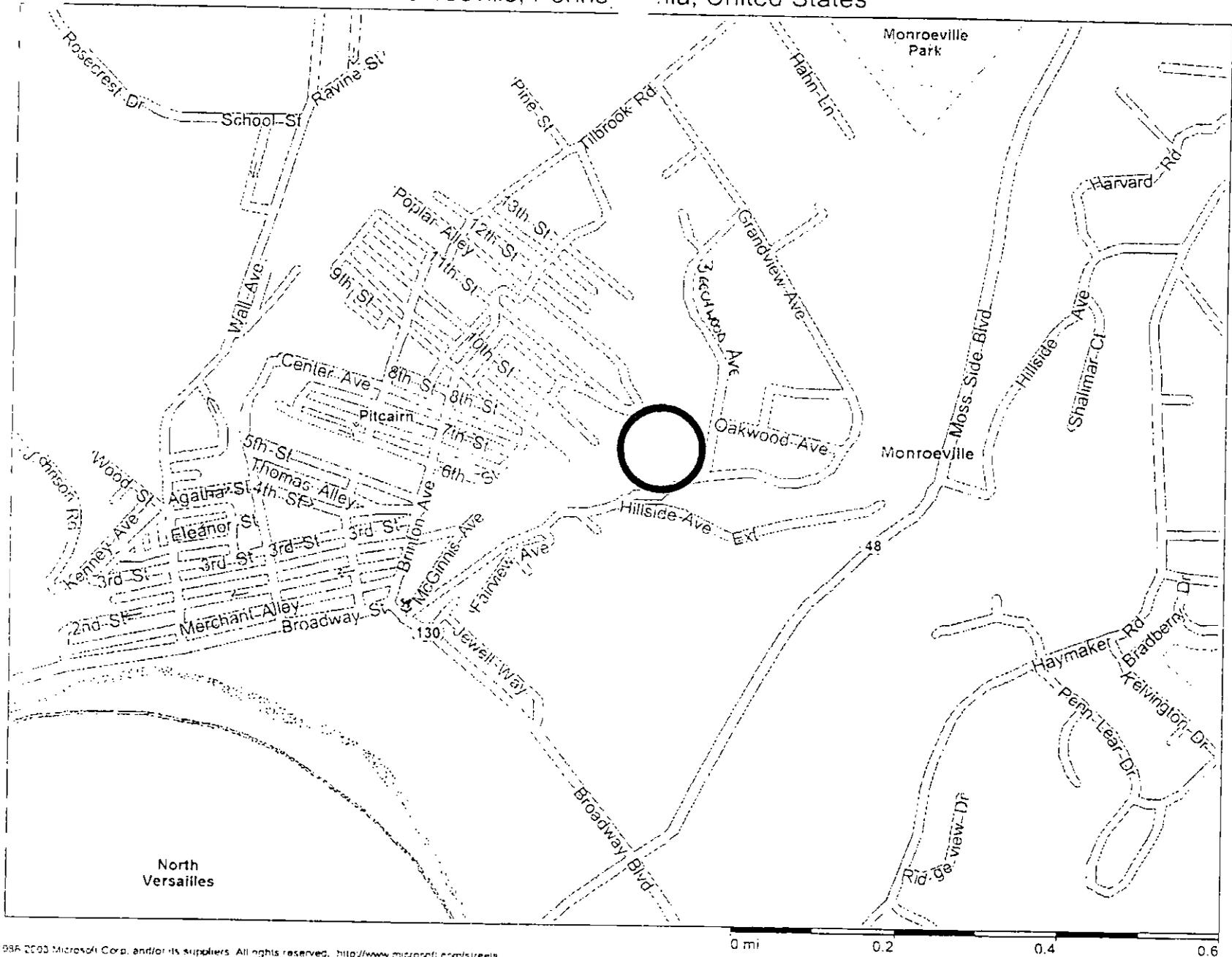
Well Name: Pedula #1  
Address: Monroeville  
County: Allegheny  
Est. Daily Volume: 50 mcf  
Requested Turn In Date: 6/1/08  
Shipper: Equitable Gas  
Shipper Contact: Tom Wiggers  
Shipper Phone #: (412) 395-3347

Thanks,

*Mathew S. Jacobs*

Penneco Oil Company  
6608 Rt. 22, P. O. Box 300  
Delmont, PA 15626  
(724) 468-8232 - (Phone)  
(724) 468-8230 - (Fax)

Monroeville, Pennsylvania, United States

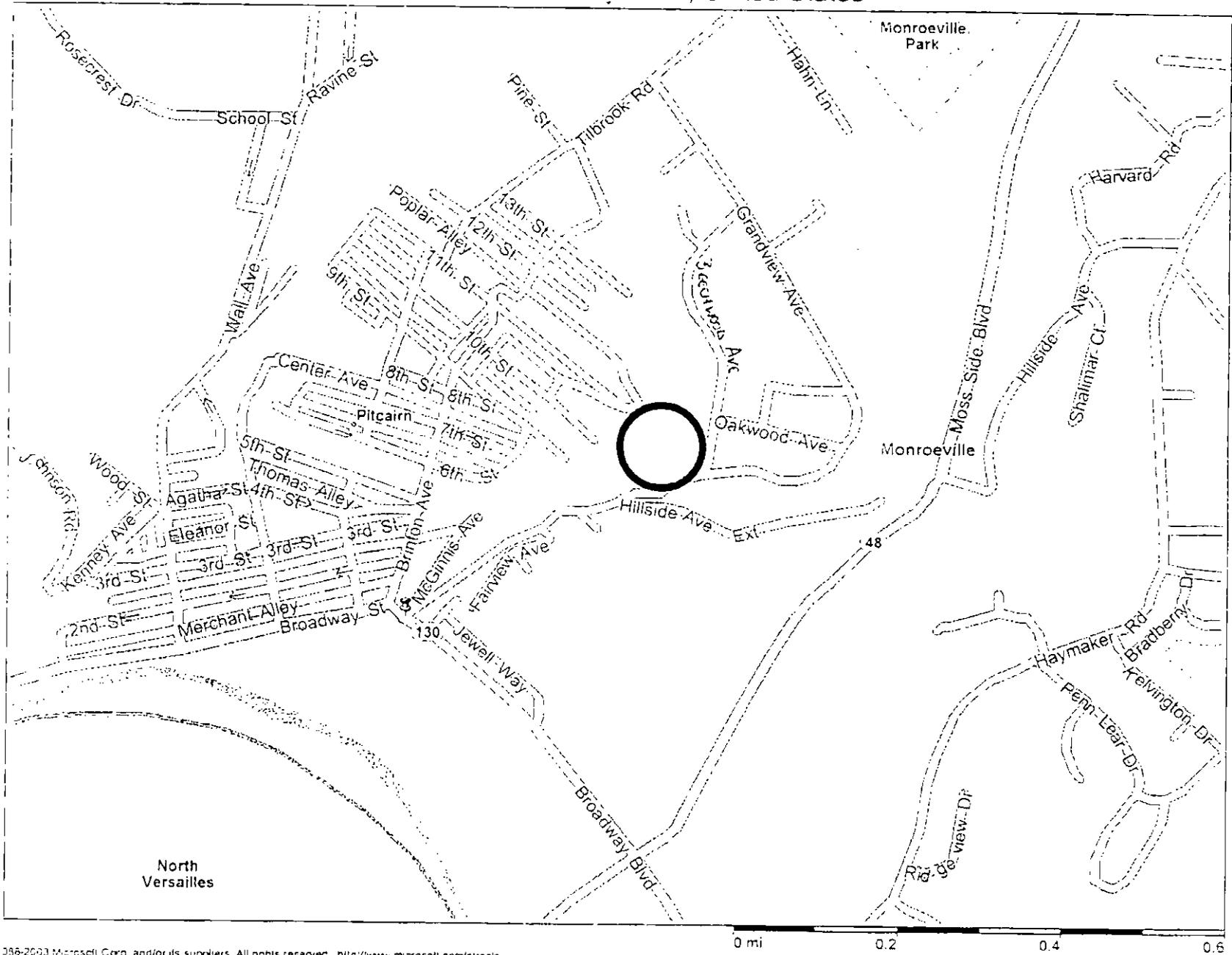


Monroeville/Pitcairn, Allegheny Co.

Pedula

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Monroeville, Penns., nia, United States



Monroeville/Pitcairn, Allegheny Co.

Pedula

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Marc Jacobs

---

.m: DoNotReply@eqt.com  
Sent: Tuesday, April 01, 2008 1:41 PM  
To: Marc Jacobs  
Subject: New Meter Tap Request

Your request has been submitted. Please print this information for your records.

Meter Tap Request

Date: 4/1/2008

Request Type: New meter set

Total Estimated Vol: 50

Pressure: 20

Gas Quality: <1100

Meter Number:

Company Name: Penneco Oil Company

Company Contact: D. Marc Jacobs, Jr.

Company Address: 6608 Route 22, Delmont, PA 15626

Company Phone: 7244688232

Company Fax: 7244688230

Company Email: dmarcj@penneco.com

Location State: PA

Location County: Allegheny

Location Quad: Braddock

Location Township: Monroeville

Location Site: Pedula

Location District: Equitable Gas

Location Pipeline Num:

GPS Latitude: 40.42422

Longitude: 79.79076

Requested Turn In Line Date: 06/01/2008

Additional Info:

Attached File:

Checked Acknowledgement : TRUE

(724)468-8232 office (724)468-8230 fax  
dmrcj@penneco.com

**PENNECO OIL  
COMPANY, INC.**

# Fax

**To:** Bill Brown – Equitable Gas

**From:** D. Marc Jacobs, Jr.

**Fax:** 412-395-3655

**Pages:** 2

**Phone:**

**Date:** 8/3/2007

**Re:** Market Inquiry – Monroeville/Pitcairn

**CC:**

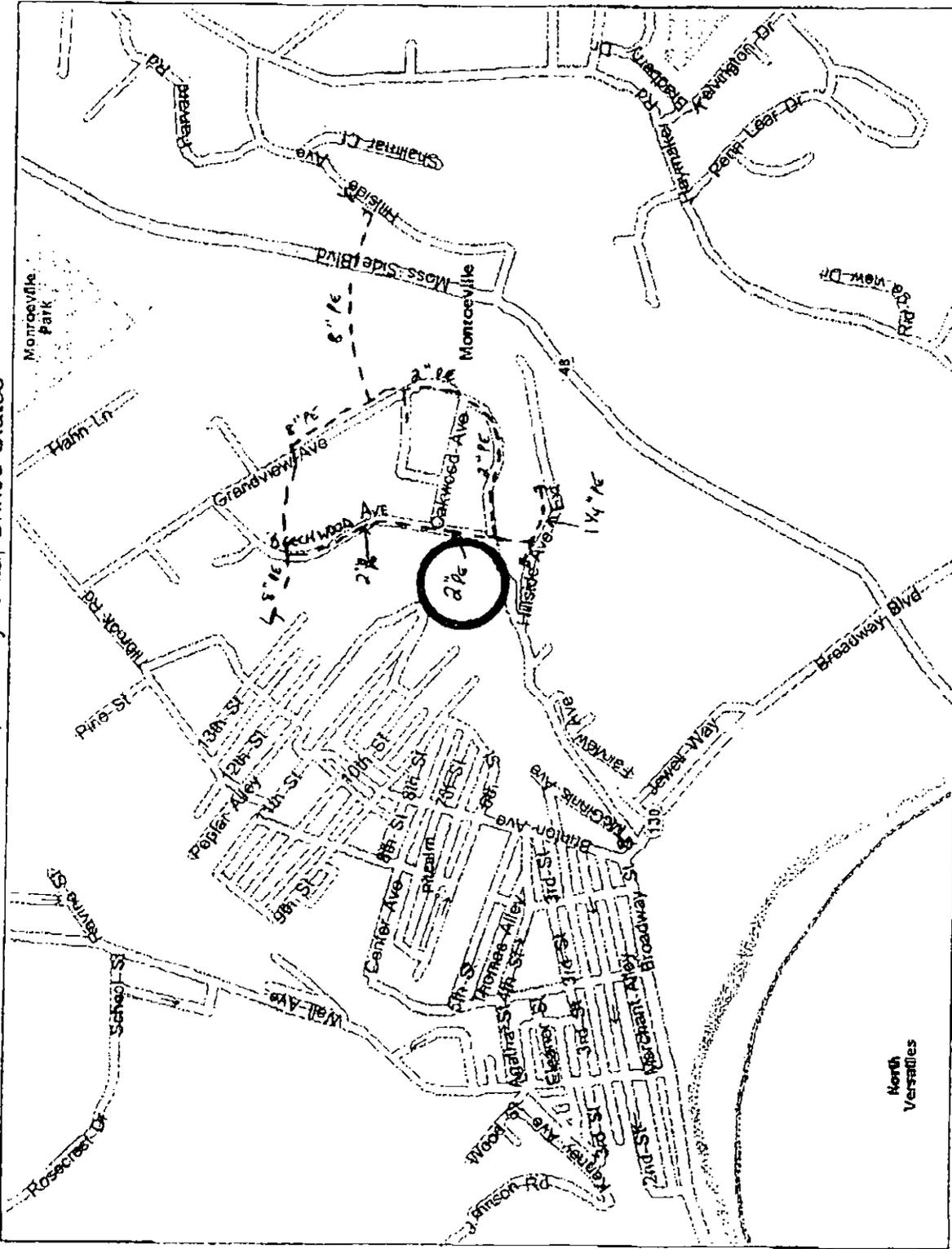
**Urgent**     **For Review**     **Please Comment**     **Please Reply**     **Please Recycle**

• **Comments:** Do you represent any pipelines w/ capacities to receive production gas in or around the area identified on the attached map (Monroeville/Pitcairn area, near the intersection of Beechwood and Grandview Avenues)? Please advise.



# Monroeville/Pitcairn, Allegheny Co.

Monroeville, Pennsylvania, United States



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North  
Versatiles



833 E Pgh-McKeesport Blvd  
North Versailles, PA 15137

FAX (412) 395 3655

TO: MARC JACOBS

COMPANY: \_\_\_\_\_ FAX # \_\_\_\_\_

FROM: BOB BROWN DATE: 8-3-07

TOTAL PAGES (including cover sheet): 2

COMMENTS:

2" PE MAINLINE (20#) ON BELTWOOD  
8" PE MAINLINE (20#) ON GRANDVIEW

## **Exhibit DJM-2**

Docket No. R-2008-2029325  
Item: IOGA-V-5  
Prepared by: Thomas P. Wiggers  
Title: Director Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-V-5

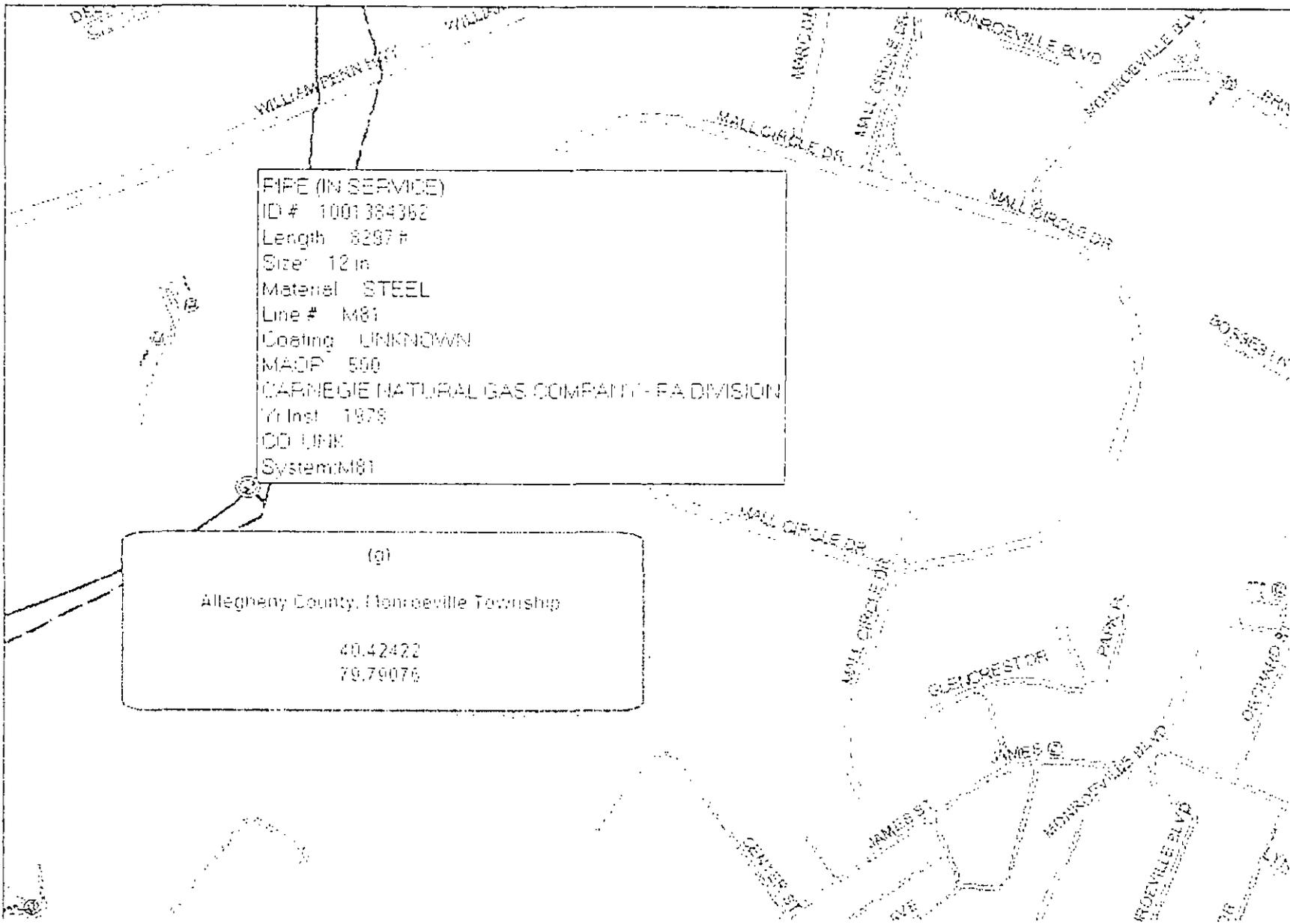
Are any of the following new meter tap request sites located on any portion of the pipeline system identified in your response to No. 1 above? If so, for each new meter tap site please identify the particular pipeline portion and provide a pipeline map indicating these sites.

- (a) Westmoreland County, North Huntingdon Township  
GPS Latitude: 40.351864  
GPS Longitude: 79.768258
- (b) Allegheny County, Monroeville Township  
GPS Latitude: 40.397542  
GPS Longitude: 79.802494
- (c) Allegheny County, Monroeville Township  
GPS Latitude: 40.401711  
GPS Longitude: 79.749408
- (d) Allegheny Township, Monroeville Township  
GPS Latitude: 40.396806  
GPS Longitude: 79.797489
- (e) Allegheny County, White Oak Borough Township  
GPS Latitude: 40.329778  
GPS Longitude: 79.784189
- (f) Westmoreland County, Trafford Borough  
GPS Latitude: 40.381279  
GPS Longitude: 79.756125
- (g) Allegheny County, Monroeville Township  
GPS Latitude: 40.42422  
GPS Longitude: 79.79076
- (h) Allegheny County, South Versailles Township  
GPS Latitude: 40.36047  
GPS Longitude: 79.79698

Response:

Yes. The meter tap request identified in part (g) is located on a portion of the pipeline system identified in the response to IOGA-V-1. Please see the attached map for more detail.

- Annotation
- Reg Sta Labels
- Check Meter
- Leaks
  - LeaksPerMile
  - Main Leak
  - Service Line Leak
- Open Dig Requests
  - Label
  - Dig Request Loc
- Completed Dig Request
  - Label
  - Dig Request Loc
- Customer Service
- Construction Project
- Apollo/Carnegie
  - CIPCO W/S/M
- Redline
- Distribution
  - Pipe End
  - Well
  - Outside Well
  - Bridge Crossing
  - Valves
    - Emergency Valve
    - Valve
  - Regulator Station
  - Drip Tanks
  - Low Pressure
    - Plastic
    - Cast Iron
    - Wrought Iron
    - Steel



**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Henry  
WJH*

**SURREBUTTAL TESTIMONY**

**OF**

**D. MARC JACOBS, JR.**

**On Behalf of**

**The Independent Oil and Gas Association of Pennsylvania**

**Topics Addressed**

Benefits of Gathering Facilities  
 New Meter Tap & Meter Approval Process  
 Negotiation of Rate AGS Charges

November 14, 2008

**RECEIVED**  
 NOV 25 2008  
 PA PUBLIC UTILITY COMMISSIO.  
 SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND DESCRIBE BY WHOM YOU**  
2 **ARE EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is D. Marc Jacobs, Jr. I am a Vice President of Penneco Oil Company  
4 (“Penneco”), whose headquarters is located at 6608 Route 22, P.O. Box 300, Delmont,  
5 PA. I have worked at Penneco for about 23 years in various positions.

6 **Q. HAVE YOU PROVIDED TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, I provided direct testimony explaining Penneco’s operations on Equitable Gas  
8 Company’s (“Equitable”) system and our dealings with Equitable concerning Rate AGS  
9 and our requests for new meter taps for our new Pennsylvania production. I also  
10 explained the harm caused by Equitable’s refusal to install our new meter taps and the  
11 adverse effects of approval of Equitable’s Rate AGS cost recovery proposal.

12 **Q. PLEASE STATE THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY.**

13 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Mr.  
14 Stephen C. Rafferty of Equitable.

15 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

16 A. Contrary to Mr. Rafferty’s attempts to justify Equitable’s Rate AGS, Mr. Rafferty’s  
17 testimony actually makes LOGA’s point and shows why producers should not pay for all  
18 of Equitable’s initial investment in its gathering facilities or the cost of past capital  
19 improvements to these facilities in Rate AGS charges going forward. According to Mr.  
20 Rafferty, producers have already paid for much of these investments, even though while  
21 producers were making those payments Equitable was telling the PUC that these  
22 investments primarily benefited its sales customers. With respect to meter tap refusals,  
23 Mr. Rafferty ignores my testimony that Equitable had indicated to Penneco many months  
24 ago that our requested new meter tap locations were “viable” as a result of the positive

1 and specific “market inquiry” responses, suggesting that pipelines with available capacity  
2 and a market (demand) exist, and despite Mr. Rafferty’s testimony, that has not changed.  
3 Finally, contrary to Mr. Rafferty’s testimony, I have no “memory lapse” of negotiations  
4 with him concerning charges under Rate AGS because, as I stated in my direct testimony,  
5 we had no such negotiations.

6 **Q. PLEASE DESCRIBE MR. RAFFERTY’S TESTIMONY CONCERNING**  
7 **EQUITABLE’S GATHERING FACILITY INVESTMENTS AND THEIR**  
8 **BENEFITS.**

9 A. Mr. Rafferty asserts that certain 2002-03 projects (Hill Station, Fisher Station) and the  
10 NAOP improvements in 2004-05 provided benefits to producers delivering gas directly  
11 into the distribution system as well as producers delivering into these gathering facilities.  
12 For these reasons, he says that it is appropriate that all producers, regardless of where  
13 they deliver their gas, were properly assessed charges under Rate AGS in the past and are  
14 properly assessed these charges going forward.

15 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY?**

16 A. I do not dispute that Mr. Rafferty has worked diligently to address the concerns of local  
17 producers with overcoming system constraints to increasing the volumes of Pennsylvania  
18 production on Equitable’s system. However, Penneco always viewed Mr. Rafferty’s  
19 efforts as motivated first by what’s best for Equitable Resources, not what is best for  
20 producers. Penneco certainly appreciates Mr. Rafferty’s efforts, but that should not be  
21 viewed as support for Equitable’s argument that producers should pay for all gathering  
22 system investments and that gathering charges are appropriate on all Pennsylvania  
23 production delivered directly into Equitable’s distribution system. My understanding has  
24 been that Rate AGS applied only to Pennsylvania production transported through the  
25 gathering facilities, although I have not been sure exactly what those facilities are. But I

1 do know that much of our production, including the production that would flow through  
2 the new meter taps we have requested, flows directly into the distribution system.

3 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT PENNECO'S CAPTIVE WELLS?**

4 A. On pages 18 and 19 of his rebuttal testimony, Mr. Rafferty disputes that Penneco has  
5 wells that are captive to Equitable on the basis that there are other pipelines in Western  
6 Pennsylvania.

7 **Q. DO YOU HAVE ANY COMMENT ON MR. RAFFERTY'S TESTIMONY ON**  
8 **THIS POINT?**

9 A. His general statement that Equitable is not the only pipeline in Western Pennsylvania to  
10 which producers have access is based only upon Huntley & Huntley's testimony  
11 describing where Huntley's wells are located. I don't believe this general statement  
12 rebuts my specific testimony that over 115 of Penneco's wells are captive to Equitable.  
13 Mr. Rafferty also fails to address the fact that after a well has been drilled and  
14 interconnected to Equitable, that production is captive to Equitable if the rates or  
15 operational considerations change after interconnection in a way that makes that  
16 production unprofitable to Penneco, and there are no other viable pipelines close enough  
17 with different cost and operational considerations to make that production profitable with  
18 a new interconnection.

19 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT HOW PRODUCERS DECIDE**  
20 **WHERE TO DRILL.?**

21 A. On pages 19-20 of his rebuttal testimony, Mr. Rafferty describes what factors producers  
22 consider when determining where to drill and which pipeline to connect to their new  
23 production.

24 **Q. DO YOU HAVE ANY COMMENT ON MR. RAFFERTY'S DISCUSSION OF**  
25 **THESE FACTORS?**

1 A. While Mr. Rafferty does a good job of summarizing and describing what factors  
2 producers consider, he fails to appreciate that these are the very factors that render a well  
3 captive once the well has been drilled and then the rate changes or the accessibility to the  
4 pipeline changes.

5 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT THE DOMINION PEOPLES**  
6 **PRODUCTION ENHANCEMENT SERVICE PROGRAM?**

7 A. On pages 21-22 of his rebuttal testimony, Mr. Rafferty describes the Dominion Peoples  
8 Production Enhancement Service (“PES”) program as showing agreement by IOGA  
9 producers to pay for gathering related facilities and investments that increase the  
10 production and movement of IOGA producers’ Pennsylvania production. He then says  
11 this indicates IOGA’s agreement with Equitable’s Rate AGS cost recovery proposal in  
12 this case.

13 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY?**

14 A. The problem with Mr. Rafferty’s analogy is that the Dominion People PES charges are  
15 project specific. IOGA and Dominion Peoples first collaborate to identify operational  
16 constraints to increased PA production or throughput and then discuss measures to  
17 alleviate the constraints. Dominion Peoples does the necessary studies and engineering  
18 work and then IOGA producers discuss whether the project makes sense from a  
19 cost/benefits analysis, considering the rate necessary to reimburse Dominion Peoples for  
20 the cost of the investment and/or improvements. If the project makes sense based on the  
21 cost/benefit analysis, IOGA producers vote on whether to approve the project and rates.

22 This program differs significantly from Equitable’s proposal in this case, which is  
23 to assess Rate AGS charges on all production delivered into both the gathering and  
24 distribution facilities, but the charges are not credited to any particular gathering

1 investment. In other words, Equitable is proposing system-wide charges that are neither  
2 uniform, project specific, nor limited in duration.

3 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT YOUR TESTIMONY THAT THE**  
4 **RATE AGS CHARGES PENNECO PAYS WERE NOT NEGOTIATED?**

5 A. On pages 23-24 of his rebuttal testimony, Mr. Rafferty questions my sincerity in not  
6 being able to recall meetings that supposedly occurred during which he and I negotiated  
7 gathering and retainage charges under Rate AGS.

8 **Q. DO YOU HAVE ANY COMMENT ON THIS TESTIMONY?**

9 A. Yes. I do not have a "memory lapse" with respect to the rate negotiations because we did  
10 not have any. My direct testimony was forthright and sincere, and I stand by my  
11 testimony that I did not negotiate the Rate AGS charges that Penneco has been paying to  
12 Equitable because Equitable simply calls us and tells us what the rate is going to be when  
13 the contracts are up for renewal. Mr. Rafferty rhetorically asks if our rates were not  
14 negotiated, why would not Equitable simply have charged Penneco the highest fees  
15 possible (\$1 for gathering and 7.5% retainage). My response is that I do not know why  
16 Equitable told us the charges they did.

17 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT YOUR TESTIMONY**  
18 **CONCERNING EQUITABLE'S REFUSAL TO INSTALL PENNECO'S NEW**  
19 **METER TAPS?**

20 A. On pages 24-25, Mr. Rafferty supports Equitable's refusal to set specific meter taps that  
21 we requested earlier this year for new PA production by saying that Penneco was aware  
22 of flow restrictions on that portion of their system before drilling those particular wells,  
23 so we drilled those wells at our own risk.

24 **Q. DO YOU HAVE ANY COMMENT ON THIS TESTIMONY?**

1 A. Yes. Mr. Rafferty attaches correspondence he says shows Penneco's recognition of flow  
2 restrictions on the pipelines where our new meter taps were requested. The problem is  
3 that this correspondence relates to Equitable's distribution system in the Oakmont area,  
4 whereas our tap requests were to connect to Equitable's distribution system in the  
5 Monroeville area. The flow restrictions he is talking about and that we discussed were on  
6 the Oakmont segment of Equitable's distribution system, and the relief that I asked about  
7 in that correspondence was in response to Equitable's telling me that they were doing  
8 some system improvements in the Murrysville area that they believed would alleviate the  
9 flow restrictions in the Oakmont area. I certainly was not acknowledging any flow  
10 restrictions related to the Monroeville area where our requested taps are located, and I  
11 still do not believe Equitable has provided any legitimate operational reason why these  
12 taps cannot be made.

13 Their most recent assertion in the rebuttal testimony of Mr. Rafferty and Mr.  
14 Dalena is that their base load demand served by Pennsylvania production has reached the  
15 saturation point throughout their whole system. I acknowledge that there are limits on  
16 how much PA production the Apollo gathering facilities can accommodate, but I do not  
17 agree that this necessarily affects the available capacity for Pennsylvania production  
18 downstream of Apollo. As Mr. Rafferty and Mr. Dalena acknowledge, the bulk of the  
19 Pennsylvania production enters Equitable's system in the north, upstream of Penneco's  
20 production that flows directly into the distribution system, including the Monroeville  
21 area. Instead of backing off or shutting in Pennsylvania production downstream of  
22 Apollo as a result of increased throughput on Apollo, Equitable could back off some of  
23 its interstate supplies and maintain the regulation set points at the feed points on the

1 downstream distribution pipelines at the operating line pressure to permit more  
2 Pennsylvania production on these distribution pipes, which are closer to the customer  
3 demand on the distribution system.

4 On page 25, Mr. Rafferty also disputes that Equitable approved Penneco's tap  
5 requests for the Monroeville area. However, in my direct testimony (page 4 lines 4-11), I  
6 detail the cooperative procedure (referred to as "market inquiry") that has been  
7 established over the years for identifying pipelines with capacities to receive production  
8 gas on the Equitable system. A positive response from our Equitable contact always  
9 signified that the "pre-drilling" operations could begin. But Mr. Rafferty doesn't view  
10 this as "official" prior approval. The problem with Mr. Rafferty's prior approval  
11 approach is that Equitable wants information on the tap applications that cannot be  
12 provided until after preliminary engineering and site work is done and site selection is  
13 done, and that cannot be done until after it is determined that a location includes a viable  
14 pipeline. I think Mr. Rafferty's description of the factors producers consider when  
15 deciding whether and where to drill shows this. That is why we make market inquiries  
16 initially and ask Equitable whether our desired site is in the vicinity of a viable pipeline.  
17 As I stated in my direct testimony (page 4 line 12), if Equitable responds positively, then  
18 we proceed to do the other preliminary work to drill the well and obtain the information  
19 so we can make our tap request. The procedure that Mr. Rafferty is suggesting is not the  
20 procedure that actually occurs, and is not a workable procedure either. The real problem  
21 here is that Equitable has not communicated to producers a uniform meter tap  
22 application, review and approval process. It is apparent from the testimony of Huntley &  
23 Huntley and Kriebel that Equitable's tap review process is not uniform.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hainly  
efh*

DIRECT TESTIMONY

OF

MILISSA BAUER

On Behalf of

The Independent Oil and Gas Association of Pennsylvania

**Topics Addressed**

Rate AGS Negotiated Rates  
New Meter Tap & Meter Process  
Three Rivers Pipeline  
Limestone Project  
Operational Issues

October 8, 2008

**RECEIVED**  
NOV 25 2008  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

1 **Q. PLEASE STATE YOUR NAME, AND DESCRIBE BY WHOM YOU ARE**  
2 **EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is Milissa Bauer. I am the Vice President of Administration for Kriebel  
4 Minerals, Inc. ("Kriebel"), which is located at 633 Mayfield Road, Clarion, PA. I have  
5 worked at Kriebel for about 18 years and have held a succession of positions.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

7 A. I have a Bachelor of Science Degree in Business Administration from Clarion University  
8 of Pennsylvania.

9 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR GAS TESTIMONY.**

10 A. The overall purpose of my testimony is to support the positions of the Independent Oil  
11 and Gas Association of PA ("IOGA") in this matter. More specifically, the purpose of  
12 my testimony is to explain our operations on Equitable Gas Company's ("Equitable")  
13 system, our dealings with Equitable concerning a request for a new meter tap and meter  
14 for our new production on the Three Rivers Pipeline, and Equitable's charges for the use  
15 of its new Limestone Project pipeline. I also point out the adverse consequences to our  
16 company, Equitable's customers and the development of new Pennsylvania production  
17 on Equitable's system if Equitable's Rate AGS cost recovery proposal is approved.  
18 Finally, I also describe actions Equitable has taken that restrict the flow of Kriebel's  
19 Pennsylvania production on Equitable's system.

20 **Q. PLEASE DESCRIBE KRIEBEL AND ITS OPERATIONS.**

21 A. The overall purpose of my testimony is to support the positions of the Independent Oil  
22 and Gas Association of PA ("IOGA") in this matter. More specifically, the purpose of  
23 my testimony is to explain our operations on Equitable Gas Company's ("Equitable")  
4 system, our dealings with Equitable concerning a request for a new meter tap and meter

1 for our new production on the Three Rivers Pipeline, and Equitable's charges for the use  
2 of its new Limestone Project pipeline. I also point out the adverse consequences to our  
3 company, Equitable's customers and the development of new Pennsylvania production in  
4 western Pennsylvania if Equitable's Rate AGS cost recovery proposal is approved.

5 Finally, I also describe actions Equitable has taken that restrict the flow of Kriebel's  
6 Pennsylvania production on Equitable's system.

7 **Q. PLEASE DESCRIBE KRIEBEL AND ITS OPERATIONS.**

8 A. Kriebel is a producer of Pennsylvania natural gas in Western Pennsylvania and a member  
9 of IOGA. We employ about 70 people working directly and indirectly in our gas  
10 operations. We currently have approximately 317 active wells feeding gas into  
11 Equitable's pipeline system. Out of our 317 existing wells, about 96 are nowhere near  
12 any other gas pipeline system so, as a practical matter and a matter of economics, these  
13 96 wells are completely captive to Equitable. The rest of our wells are located such that  
14 we have Dominion Peoples as a viable alternative pipeline system for our Pennsylvania  
15 production.

16 Our wells on Equitable's system collectively produced approximately 3,050 Mcf  
17 of gas per day in 2007. This equates to roughly 1,093,400 or Mcf of Pennsylvania  
18 natural gas delivered into Equitable's system during 2007. At the present time, we sell  
19 approximately 15% to 20% of our Pennsylvania gas to Equitable for system supply,  
20 depending upon whether or not Equitable permits our gas to flow. We sell our remaining  
21 production to natural gas marketers that operate on other systems, such as Dominion  
22 Peoples, Columbia Gas of PA, DTI and TCO.

23 **Q. DOES EQUITABLE CHARGE KRIEBEL UNDER RATE AGS?**

1 A. Yes. Equitable charges us under Rate AGS on our production sold to Equitable and  
2 deducts these charges from its payments to us for our gas.

3 **Q. WHY, IN YOUR OPINION, DOES EQUITABLE BUY YOUR GAS?**

4 A. I believe gas utilities in Pennsylvania have an obligation to purchase the least cost gas.  
5 Our Pennsylvania production can be purchased at reduced rates due to the need to not pay  
6 transportation charges into the state or from other local distribution systems. Our gas is  
7 generally sold to Equitable based on the NYMEX price plus a small increment basis, and  
8 the cost is generally lower than the delivered cost of interstate supply. Also, use of  
9 Pennsylvania produced gas increases the reliability of the product to the end users on  
10 Equitable's system. The gas is less likely to be interrupted because it is produced locally  
11 and does not have to be transported long distances in an interstate pipeline.

12 **Q. DOES KRIEBEL HAVE PENNSYLVANIA PRODUCTION CONNECTED TO**  
13 **OTHER GAS UTILITIES?**

14 A. Yes, we have about 983 wells connected to Dominion Peoples' system.

15 **Q. ARE YOU FAMILIAR WITH EQUITABLE'S RATE AGS COST RECOVERY**  
16 **PROPOSAL IN THIS PROCEEDING?**

17 A. Yes.

18 **Q. PLEASE PROVIDE YOUR UNDERSTANDING OF EQUITABLE'S PROPOSAL.**

19 A. Equitable is asking for producers and marketers to pay for its entire investment in what  
20 Equitable calls its gathering system, but Equitable is not proposing any particular  
21 gathering or retainage rates under Rate AGS. Instead, Equitable wants the provisions in  
22 Rate AGS permitting these charges to be determined by negotiation to continue  
23 unchanged. Equitable is seeking over \$7 million in additional annual revenue from  
24 producers and marketers under Rate AGS, an increase of 124%.

25 **Q. HAS KRIEBEL NEGOTIATED THE CHARGES IT PAYS UNDER RATES AGS?**

1 A. Yes, in part. We have been able to negotiate these charges for our production that has  
2 Dominion Peoples as an alternative. Otherwise, when our gas purchase agreements with  
3 Equitable for our captive wells have approached expiration, many times we have not  
4 known our new rates until we receive our production statement from Equitable about two  
5 months after the production month – basically a “take it or leave it” situation.

6 **Q. IF EQUITABLE’S PROPOSAL IS ADOPTED BY THE COMMISSION, HOW**  
7 **WILL IT EFFECT KRIEBEL’S GAS OPERATIONS IN WESTERN**  
8 **PENNSYLVANIA?**

9 A. If the PUC permits Equitable to increase its rates by up to 124%, then Kriebel will move  
10 its gas from Equitable, where it is not captive, to Dominion Peoples, where it will flow at  
11 much lower costs. Where Kriebel has gas that is captive to Equitable, Kriebel will leave  
12 those wells producing to Equitable however, this will make that area unattractive for  
13 future drilling. Not only will Equitable lose future local gas, but due to the declining  
14 nature of a gas well, Equitable’s revenue will fall to the point where they may not be able  
15 to recover the additional \$7.5 million plus that they are requesting. I believe it is more  
16 sound business sense to have Equitable’s gathering rates competitive with Dominion  
17 Peoples, so that Equitable would continue to be a viable option to producers. Then  
18 producers would continue their natural gas drilling in areas where Equitable has existing  
19 lines, so Equitable would not only increase their throughput but also increase their  
20 gathering revenue stream by increased volumes, not fees. Further, Pennsylvania  
21 landowners will lose value of their gas lease assets because Equitable’s fees are not  
22 competitive with the fees charged by other local distribution companies. This would be a  
23 loss for the Pennsylvania landowner who will not receive royalties, a loss for  
24 Pennsylvania producers, and a loss for Equitable and its customers because producers  
25 will not use their facilities. Equitable will be spending money and not recovering it due

1 to a lack of or decline in natural gas throughput. Finally, significantly reduced volumes  
2 and revenues to Kriebel because of Equitable's gathering fee would have adverse  
3 consequences for our employees and the economy in western Pennsylvania where they  
4 live and work.

5 **Q. DID KRIEBEL DRILL ANY NEW WELLS RECENTLY FOR CONNECTION TO**  
6 **EQUITABLE'S SYSTEM?**

7 A. Yes, in 2007 we completed installation of a new well for connection to the Three Rivers  
8 Pipeline which we understood, based on an order of the Federal Energy Regulatory  
9 Commission ("FERC"), was going to be sold to Equitable Gas.

10 **Q. DID YOU ASK EQUITABLE TO INSTALL A NEW METER TAP AND METER**  
11 **FOR THIS NEW PRODUCTION?**

12 A. Yes, we made this request (D. Miller tap) via Equitable Gas's online process on  
13 September 27, 2007.

14 **Q. DID YOU RECEIVE RESPONSE TO YOUR ONLINE REQUEST?**

15 A. Yes, eventually we received a written approval letter on December 12, 2007, and an  
16 invoice from Equitable requesting payment of \$7,050. That invoice also directed us to  
17 make the payment to Equitable Gathering, LLC, but we made the payment to Equitable  
18 Gas because the address for Equitable Gathering was the same as for Equitable Gas, so  
19 our accounting department thought it was the same company. A copy of that invoice is  
20 attached as Exhibit MB-1, and copies of my correspondence with Mr. Rafferty on behalf  
21 of Equitable Gas are attached as Exhibit MB-2.

22 **Q. DID THAT LETTER STATE WHEN THE D. MILLER TAP WOULD BE**  
23 **INSTALLED?**

24 A. No, but in response to my email inquiry concerning what I thought at the time was an  
5 unrelated matter, Mr. Steve Rafferty on October 31, 2007, told me Equitable received the

1 FERC order approving the abandonment of the Three Rivers Pipeline and stated that “we  
2 are moving ahead (quickly) with installing taps.” A copy of that email response is  
3 attached as Exhibit MB-3.

4 **Q. WAS THAT NEW TAP AND METER INSTALLED QUICKLY?**

5 A. No it wasn't, even though we remitted payment quickly on January 3, 2008.

6 **Q. ARE YOU AWARE OF ANY REASONS WHY IT WASN'T INSTALLED**  
7 **QUICKLY?**

8 A. Yes. In that same October – November 2007 timeframe Equitable, through Mr. Rafferty,  
9 sent us and other producers a proposed producer “aggregation” agreement under Rate  
10 AGS and a letter stating that effective November 1, 2007, Equitable was going to begin  
11 assessing an “aggregation” fee of \$0.50/Dth on “direct feed” Pennsylvania productions.  
12 Equitable said we had to sign the new agreement agreeing to this new Rate AGS  
13 aggregation fee for our gas to continue flowing. The unrelated matter I mentioned above  
14 was my question to Mr. Rafferty asking where in Equitable’s tariff it stated this \$0.50  
15 rate. This was a much higher rate than the rate in our existing and expiring contracts, but  
16 Mr. Rafferty was including in this new \$.50 rate all of our gas meters feeding to the  
17 Equitrans Crooked Creek area to put them at \$0.50 per Dth also, from \$0.4656/Dth plus  
18 6.68% retainage. Because Mr. Rafferty changed the Equitrans Crooked Creek gas and  
19 the Equitable/Apollo gas at \$0.50, we would have had a total savings of approximately  
20 \$4,000 per month in gathering charges. Kriebel signed an agreement on November 14th,  
21 2007 with Equitable at the \$0.50 rate, but with an exception stating that once an  
22 agreement or understanding between IOGA and Equitable was negotiated, Kriebel’s rate  
23 would be consistent with the IOGA and Equitable negotiated rate. Then on January 10th,  
4 2008, Equitable sent us new contracts and said they were not going to honor the contract

1 signed on November 14th, 2007, and that we must sign this new agreement which  
2 reverted all the meters back to the previous rates. Kriebel was upset that after the gas had  
3 fed from November through January, with Kriebel expecting to pay the rates in the  
4 contact signed on November 14th, 2007. Kriebel had no choice but to sign the new  
5 agreement, so Kriebel added a clause to the agreement stating that Kriebel would pay the  
6 rate eventually negotiated by IOGA and Equitable. Kriebel sent the agreement to  
7 Equitable and they initialed that clause and returned a signed agreement to Kriebel. After  
8 this, I sent many emails to Equitable asking when the D. Miller tap would be installed,  
9 but despite extensive communications, I received no answer when it would be installed or  
10 why it hadn't been installed.

11 **Q. HAS THAT TAP BEEN INSTALLED?**

12 A. No, not as of the date of my testimony, and just recently (on October 6, 2008) we were  
13 informed us that our meter would not be set until December due to "the line not being  
14 operational."

15 **Q. WHO INFORMED YOU OF THIS?**

16 A. Equitable Gas did, through Tanya Yolton, Senior Gas System Analyst.

17 **Q. BUT WASN'T KRIEBEL DIRECTED IN DECEMBER 2007 TO REMIT**  
18 **PAYMENT FOR THE TAP TO EQUITABLE GATHERING?**

19 A. Yes, but I didn't attach significance to that because we were dealing with Mr. Rafferty  
20 and other Equitable Gas people whom we had always dealt with on Equitable Gas meter  
21 issues. So I wasn't surprised when Ms. Yolton told us this last week when our tap would  
22 be set. Also, I just learned from an Equitable discovery response received by IOGA on  
23 October 6, 2008, that the Three Rivers Pipeline was sold to Equitable Gathering, LLC  
4 rather than Equitable Gas. A copy of that discovery response is attached as Exhibit MB-

1 4. We have no reason to distinguish between the Equitable companies, based on our  
2 dealings with them. We had an agreement with Equitable Gas through Mr. Rafferty for  
3 the gathering rate on the Three Rivers Pipeline. It seemed that our \$7,050 cost for the D.  
4 Miller tap increased to approximately \$10,000, then to over \$16,000 after Equitable  
5 Gathering was involved and the contracts were received. Because of a significant  
6 increase in the cost of another tap (DiCesare) and increased gathering rates demanded by  
7 Equitable for that production, we moved production from the DiCesare well to Dominion  
8 Peoples. At a meeting in April 2008, Mr. Rafferty and the other Equitable people said  
9 the tap would be approximately \$10,000. At this meeting Mr. Rafferty and the other  
10 Equitable people did and said nothing to indicate they were not Equitable Gas. We do not  
11 know when dealing with Equitable whether Rafferty is wearing his "Equitable Gas" hat  
12 or "Equitable Gathering" hat or Equitable Midstream" hat or some other Equitable  
13 company hat. Finally, Mr. Rafferty told Ms. Yolton, who we have dealt with many times  
14 on Equitable meter issues, to get involved with the D. Miller tap contracts – and we're  
15 glad to the extent it moved things along – but we are confused why Mr. Rafferty would  
16 be doing this if it was Equitable Gathering's pipeline.

17 **Q. ARE YOU AWARE OF EQUITABLE'S NEW LIMESTONE PROJECT**  
18 **PIPELINE?**

19 A. Yes, it is an interconnection with Dominion Transmission's (DTI) interstate pipeline.

20 **Q. DOES KRIEBEL HAVE PENNSYLVANIA PRODUCTION AVAILABLE FOR**  
21 **TRANSPORTATION OVER THE NEW LIMESTONE PROJECT PIPELINE?**

22 A. Yes.

23 **Q. HAS KRIEBEL AGREED TO ANY CHARGES FOR TRANSPORTATION OF**  
24 **GAS OVER THE NEW LIMESTONE PROJECT PIPELINE?**

1 A. Yes, we agreed to what Equitable described as an “incremental gathering” charge of  
2 \$0.25/Dth.

3 **Q. HAS KRIEBEL PAID THIS CHARGE?**

4 A. No. Although Equitable told me in April 2008 that this new pipeline would be in service  
5 in May 2008, it was not, and Equitable hasn’t told me since when this new pipeline will  
6 be placed in service and our production will flow.

7 **Q. DO YOU HAVE ANY REASON TO DOUBT THAT KRIEBEL’S PRODUCTION**  
8 **WILL FLOW ON THIS NEW PIPELINE AND KRIEBEL WILL PAY ONLY**  
9 **THAT INCREMENTAL CHARGE?**

10 A. Yes. This pipeline was to be in service to relieve pressures in the pipelines north of  
11 Allegheny County, the former Apollo system described by Equitable Gas as the PA-  
12 North Gathering System, and to save Equitable money on their long haul fees. The  
13 reason the incremental charge was only \$0.25 was because Equitable said they would be  
14 saving money on their fees they paid for gas availability from other interstate pipeline  
15 systems. It was to be a “win/win” for Equitable and local producers. Equitable  
16 approached Kriebel on this win/win opportunity for local production moving off of  
17 Equitable and offsetting their other fees. Kriebel was requested to sign the agreement  
18 and email it Mr. Rafferty so that he would be able to show Mr. Crawford that Kriebel was  
19 willing to pay the \$0.25 increment fee and this would make the project a win/win for all  
20 constituents. However, since we signed this agreement in 2007, Equitable has abandoned  
21 their desire to work with the local producers and we no longer have faith that they will  
22 continue the “win/win” spirit of negotiations. Since our existing contracts are expiring  
23 soon, we are concerned that Equitable will try to extract additional incremental gathering  
24 charges indirectly on our production that flows to the Limestone Project.

1 Q. HAS EQUITABLE TAKEN ANY ACTIONS THAT HAVE AFFECTED  
2 KRIEBEL'S GAS OPERATIONS?

3 A. Yes, quite a few.

4 Equitable changed their statements to no longer show the specific day within the  
5 month on which production would begin (the "on day") and the specific day on which  
6 monthly production would end (the "off day"). By Equitable making this change,  
7 Kriebel is no longer able to easily verify Equitable's reading against the Kriebel meter set  
8 beside the Equitable gas meter for specific production. Without this information, it is  
9 considerably more difficult and inefficient to accurately track monthly production and to  
10 check Equitable's figures against the producer's figures.

11 We submitted on-line requests for the Greene Mountain (T5085) and Leechburg  
12 Apollo (T3001) meters to be changed from chart recorder to electronic measurement on  
13 6/2/08. We are requesting this change so that we can see corrected readings, in order to  
14 accurately compare our master meter readings to the sales purchase meter. We spoke  
15 with Jeff Davis at some point after this request, and was told the request could be  
16 completed. However, Mr. Davis has since left Equitable, and the meters have not been  
17 changed.

18 We requested to receive our monthly production statements via an electronic  
19 format in order to expedite our processes to analyze the data. This request was refused.

20 In May, 2008 we received prior period adjustments totaling a negative  
21 \$49,261.84. Most of these adjustments, or \$44,713.63, were from variances we reported  
22 from August and September, 2006 production. The adjustments were paid with  
23 December, 2006 and January, 2007 statements. The reasoning behind the large  
1 adjustment was Equitable needed to adjust all other meters because of a change in our

1 overall average price received with the change in our incremental production. This  
2 negative prior period adjustment came 17 and 18 months after the original adjustments  
3 were posted.

4 On our July, 2008 statement (May production), we found the rate incorrect. We  
5 notified Eileen Merlina on 7/21/08 and was told the trigger did not pull correctly. This  
6 resulted in an overpayment of \$23,799.99. This adjustment has not been made yet. We  
7 notified Equitable again on 8/18/08 and 9/18/08, and was told we would see the  
8 adjustment on the October, 2008 statement.

9 On our August, 2008 statement, we were paid for 15,813 Dth on the Beatty #1  
10 meter (16012) for May, 2008 production. It would take us roughly 9 months to produce  
11 that volume of gas through the meter, as the average production is 1650 Dth/month. We  
12 were told it was a mistake and since there was a trigger on our gas, the Beatty and all  
13 other meters would be adjusted the following month by Ms. Merlina on 8/18/08. When  
14 we received the September, 2008 statement, we received a negative adjustment of 15,813  
15 Dth on only the Beatty meter. We requested all meters be adjusted correctly via an e-  
16 mail to Ms. Merlina on 9/18/08, and received a response from her on 9/22/08 stating she  
17 would contact appropriate departments within Equitable and respond back to us. We  
18 have not heard anything from her since.

19 On our September, 2008 statement, we were paid on the Highland School District  
20 #1 meter (16131). We never set a meter here. We were paid for 3 Dth. We notified Ms.  
21 Merlina 9/18/08, and adjustment should be netted against October, 2008 payment.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 **A. Yes.**

**Exhibit MB-1**

# INVOICE

225 North Shore Drive  
Pittsburgh, PA 15212-5861  
www.eqt.com

DATE:  
12/07/2007

INVOICE #  
EG-20070002

Bill To:  
Don Sprouse  
Kriebel Minerals, Incorporated  
633 Mayfield Drive  
Clarion, PA 16214

DESCRIPTION	AMOUNT
Tap, meter installation and appurtenant facilities (D Miller)	\$ 7,050.00
<p>Payment is due 90 days from invoice date. Late payment will result in immediate revocation of capacity/tap approval(s) and require resubmission of any associated capacity/tap requests. Payment of this invoice constitutes acceptance of (1) the terms and conditions contained in the Company's interconnection and gathering agreements and/or (2) the terms and conditions of service contained in any applicable tariff, breach of which may result in termination of service.</p>	
TOTAL	\$ 7,050.00

Make all checks payable to Equitable Gathering

Please return payment to:  
Equitable Gathering  
Attn: Eileen Merlina  
Gas Acquisition Department  
225 North Shore Drive - 3rd Floor  
Pittsburgh, PA 15212-5861

**Exhibit MB-2**

## Summary of H-156 Correspondence

8/21/07 Emailed Steve Rafferty      *Sent Message: Last update we heard on the H-156 line was that the 60-day waiting period with the Abandonment Filing should be complete in September. Then Equitable would turn this line into a Gathering line and it would probably be called D-156?? Is that still accurate information? Any idea of the timeline approving a meter request, how much a tap would be, any costs, shrink, gathering, etc.??*

8/22/07 Steve Rafferty replied      *Replied Message: the line designation is irrelevant...we are still waiting for FERC to approve the abandonment (we're expecting it to be sometime in Sept.)...not sure what the final operating pressures will be...I'm thinking around 100 - 150 psig...if you have a location(s) for a tap request, submit it...we are approving them...I expect them to be in-service as early as October/November this year....tap costs should be \$5,000 - \$10,000 retainage/shrink will be ~2.5% gathering charges will be ~\$0.70/dth ...let me know your thoughts...*

8/28/07 Emailed Steve Rafferty      *Sent Message: Gathering seems high? Can we get fees similar to our other Equitable meters?*

8/28/07 Steve Rafferty replied      *Replied Message: no...we need to pay for the line and make investments to enable the gas to be moved various places...other producers are willing to pay something close to these numbers....the lowest I would consider is \$0.60/dth and 2.5% retainage...*

8/28/07 Emailed Steve Rafferty      *Sent Message: JB is thinking more like .50 -- like Pa Pep. Tap Costs: Clarification on if it is \$5,000 - \$10,000??*

8/28/07 Steve Rafferty Replied      *Replied Message: This isn't part of Pa Pep...as I stated earlier, we are making a significant investment in acquiring these facilities, including compression...It's possible if there are enough commitments, over time, I can lower the rate...I suggest some type of re-opener after 2 years....*

8/28/07 Steve Rafferty Replied      *Replied Message: I think the tap costs should be closer to \$5,000...I'm waiting for confirmation on this...*

8/29/07 Emailed Steve Rafferty      *Sent Message: What is the operating pressure?*

8/29/07 Steve Rafferty Replied      *Replied Message: not final yet...we're thinking the maximum operating pressure will be 250 psig.....I suggest making your assumptions based on the 250 psig if you plan on delivering gas year-round....*

8/28/07 Steve Rafferty replied      *Replied Message: I think the tap costs should be closer to \$5,000...I'm waiting for confirmation on this*

### **9/27/07 Don Sprouse applied on line for DiCesare Family Partership and D Miller taps**

10/31/07 Emailed Steve Rafferty      *Sent Message: (forwarded Don's tap request email from 9/27/07) Any updates on these meter requests on H-156? We need to drill the DiCesare well within the next few weeks or we will lose the lease...but we need to know we'll have the meter before drilling the well*

10/31/07 Steve Rafferty replied            *Replied Message: Let's discuss tomorrow am?*

11/1/07 JB and I called Steve Rafferty .. .. .

12/7/07 Emailed Steve Rafferty            *Sent Message: At the beginning on November we talked about the 2 meter tap requests we made for H-156, and you told me we were approved. We haven't received any further documentation or letters regarding those. What is the next step for us?*

**No answer**

12/12/07 Received letter and \$7,050 invoice from Equitable approving the D Miller Tap Request and DiCesare Family Partnership Tap Request.

12/12/07 Sent \$7050 to Equitable for DiCesare Family Partnership invoice (Tap, Meter installation and appurtenant facilities)

1/3/08 Sent \$7050 to Equitable for D Miller invoice (Tap, Meter installation and appurtenant facilities)

1/4/08 Emailed Steve Rafferty            *Sent Message: What are the gas quality requirements for our new meter taps on H-156? When the line is switched from Equitrans to Gathering, will it have a higher moisture content?*

1/7/08 Emailed Steve Rafferty            *Sent Message: We also need to know the line pressure on this line.*

1/14/08 Steve Rafferty replied            *Replied Message: attached is the interconnect agreement that will be used for H-156 deliveries. Please review and call me after you have reviewed. The MAOP (maximum allowable operating pressure) will be 400 psig....*

2/14/08 Emailed Steve Rafferty            *Sent Message: Over the last couple of days, we've been trying to contact Dave Spencer regarding setting the new meters, but haven't had much luck getting a response. Also yesterday we ran into a couple of your field guys in the area and they are not aware of the new meters. JB is getting concerned. Can you please give me an update?*

*D Miller  
DiCesare Family Partnership*

2/14/08 Steve Rafferty Replied            *Replied Message: I have a call into him...the field guys may not be aware of this but they will be shortly....*

2/22/08 Steve Rafferty Replied            *Replied Message: Hope to have the interconnect agreement and the drawings/schematics to you next week. They are in the process of being approved.... For your records...the rates for the 3 Rivers pipeline have changed somewhat....final rates are as follows.... retainage = 4% gathering charge = \$0.60/dth Originally, I think I told you the rates were around 2.5% retainage and \$0.70/dth gathering charge.... Let me know if this meets your approval and we can get moving on the gas purchase contract....Thanks!*

2/22/08 Emailed Steve Rafferty            *Sent Message: In your email below on 8/28/07, you told us 2.5% retainage That is the amount we told Milissa and Jim Kriebel to get these wells approved Now we have to go back to them and explain an increase in our costs We'd prefer to be able to rely on the amounts that we were originally quoted*

2/22/08 Steve Rafferty Replied *Replied Message: The retainage went up but the gathering charge went down.....based on \$8 gas the difference is immaterial....we can discuss if you need to??*

2/22/08 Emailed Steve Rafferty *Sent Message: The gathering you quoted on 8/27/07 was \$ 60 ...no change. Why did the retainage go up?*

*No response*

2/25/08 Emailed Steve Rafferty *Sent Message: Go ahead and process the Agreements for our 2 meter taps into H-156*

2/25/08 Steve Rafferty Replied *Replied Message: Please confirm you are agreeable to the \$0.60/dth gathering charge and 4% retainage.....*

2/25/08 Emailed Steve Rafferty *Sent Message: Yes.*

3/17/08 Emailed Steve Rafferty *Sent Message: Any update on getting the Agreements completed for us?*

3/25/08 Emailed Steve Rafferty *Sent Message: Milissa and JB have requested that I email again asking for the Agreements. Is there a problem with the Agreements. or should we expect them soon?*

3/25/08 Steve Rafferty Replied *Replied Message: This week...they are being finalized..sorry it is taking so long.*

4/21/08 *We were invited to a meeting at Equitable's office to review H-156 information. It was at this meeting that we were told the fees will have an additional \$.20 and 3.72% shrink. (this is in addition to the previously disclosed amounts of \$.60 and 4% shrink.)*

*We were also told we are required to have a Continuous Gas Sampler, estimated to cost \$2500. Also required is an RTU and must meet their specifications. We were told to contact Pam Ryan for those specifications.*

*We were told that when Pam meets us in the field she would be able to give us more specifics on the requirements.*

4/21/08 *Emailed Pam Ryan to meet us in the field next week and also to let her know that Shane Kriebel would be contacting her regarding Equitable's telemetry meter requirements.*

4/23/08 *Shane emailed Pam Ryan asking if we can use Thermo RTUs instead of Eagle RTUs. Shane also attached the specifications of the Thermos.*

5/5/08 *No replies from Shane's email. So I forwarded that email to Pam asking if she has reviewed the Thermo specifications. Asked for any feedback so that we can get our unit ordered. Also asked Pam for the specifications on the continuous gas sampler.*

5/7/08 *Emailed Pam again for specifications on the RTU and continuous gas sampler.*

5/7/08 *Pam replied that we are meeting on site tomorrow and will discuss equipment specifics.*

5/9/08 *Received email from Jeff Davis informing us that Pam Ryan decided that Equitable will require Eagle RTUs.*

5/30/08 Interconnect Agreement and Gas Gathering Agreement were emailed to Milissa to be signed

6/16/08 Interconnect Agreement and Gas Gathering Agreement were forwarded to me

6/16/08 Emailed Al the contracts for his review. His comments as follows: " I have scanned the documents and find them to be drafted for the benefit of Equitable. The documents appear to be quite harsh; i.e. 10yr term. Equitable has the right to vary and change the terms, \$.60 gathering fee, etc.

It is unclear to me if we get firm transportation, or if it is interruptible? What is intended? Do we have any ability to negotiate the terms, or is Equitable dictating the deal?"

7/1/08 Emailed Jeff Davis that the contracts needed to be Kriebel Minerals Inc. – not Kriebel Gas Inc.

7/2/08 Received new contracts in Kriebel Minerals

7/18/08 Received call from Jeff Davis that the total cost for D Miller Tap is now \$16,052.05. He emailed a spreadsheet detailing that amount. I told him that we were invoiced \$7,050 in December and it was already paid. He said the remaining balance needs to be paid. He said that they need the signed Agreements and additional fees in order to set the taps. He requested that I send the agreements to Kim Balinti, Contract Administrator.

7/28/08 Sent the following to Kim Balinti, Contract Administrator.

1. Gathering Interconnect Agreement
2. Gas Gathering Agreement
3. A letter explaining that we are no longer taking the DiCesare Family Partnership well to Equitable because of the high fees. Therefore the \$7,050 that we've already paid for that meter should be applied to the balance due on D Miller. That gives us a balance due of \$1,952 and a check was issued and mailed with the letter and agreements for that.

9/11/08 Tonya Yolton called asking when we will return the contracts. I explained that everything was mailed to Kim Balinti on 7/28/08. Tonya called back later in the day and said that she found the agreements on Kim's desk and will get them signed and returned to me.

9/25/08 Received the fully executed Gathering Interconnect Agreement, but not the Gas Gathering Agreement.

10/2/08 Emailed Tonya about the missing Gas Gathering Agreement and she said she is waiting on an internal signature and will send as soon as possible.

10/2/08 Emailed Tonya explaining that the 3 checks issued to Equitable have not been cashed. Asked if she wants the checks reissued – no response yet.

Date Issued	Check #	Amount	Comments
12/13/07	21295	\$7,050	DiCesare Meter Tap
1/3/08	21508	\$7,050	D Miller Meter Tap
7/18/08	23095	\$1,952	Balance due for D Miller Tap

## **Exhibit MB-3**

**From:** SRafferty@eqt.com [mailto:SRafferty@eqt.com]  
**Sent:** Wednesday, October 31, 2007 1:47 PM  
**To:** Milissa Bauer  
**Subject:** RE: Tarriff

it's the same \$0.50...not an addition....

---

**From:** Milissa Bauer [mailto:MBauer@kriebelgas.com]  
**Sent:** Wednesday, October 31, 2007 12:35 PM  
**To:** Rafferty, Stephen  
**Subject:** RE: Tarriff

Steve:

I heard about the 3 River's pipeline, so that is great. Can you get our request installed first?

On the AGS, I thought there was something that said it was to be \$.50, because some producers were paying \$.25 and some were paying \$.50. From what I am hearing in the gas patch, Equitable is saying Producer's need to pay the \$.50 under AGS and pay another \$.50 under the Dominion/Equitable agreement. Is that correct? My understanding from our previous conversations, was that the \$.50 was the same as the Dominion/Equitable agreement and not in addition to that. Please let me know if that is correct. Thanks

Milissa Bauer  
Vice President of Administration  
(814) 226-4160, ext. 115

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**From:** SRafferty@eqt.com [mailto:SRafferty@eqt.com]  
**Sent:** Wednesday, October 31, 2007 10:22 AM  
**To:** Milissa Bauer  
**Subject:** RE: Tarriff

It's Rate Schedule AGS in the tariff.....doesn't mention the \$0.50...only a negotiated rate...

On another note...we received the FERC Order last week approving the abandonment of the 3 Rivers pipeline...we are moving ahead (quickly) with installing taps...

**From:** Milissa Bauer [mailto:MBauer@kriebelgas.com]  
**Sent:** Wednesday, October 31, 2007 9:08 AM  
**To:** Rafferty, Stephen  
**Subject:** Tarriff

Hi Steve:

Jim Kriebel wanted me to find the tariff that shows the gathering on Apollo/Carnegie at \$.50 per dth. Can you direct me to that? I can't seem to locate it on the Equitable website. Thanks.

Milissa Bauer  
Vice President of Administration  
(814) 226-4160, ext. 115

**Exhibit MB-4**

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-VIII-1

Follow-up to IOGA II-7, concerning the FERC Order at Dkt. No. CP07-410-000 (October 24, 2007).

- (a) To what company was the 58.3 mile portion of the Three Rivers Pipeline and associated compressor stations sold, and when?
- (b) If the sale was to an affiliate of Equitrans or Equitable Gas Company, please explain how the affiliate intends to use these assets, and how this use is consistent with the following representations by Equitrans and Equitable Gas Company to FERC in the FERC proceeding:

Equitrans states that it has been informed by Equitable that subject to the Commission's approval of the proposed abandonment, Equitable will use the acquired pipeline facilities to establish interconnections with regional production sources. Thus the line will be integrated into Equitable's Local Distribution Company to gather and transport locally produced gas to its customers.

- (c) Please provide copies of documents submitted to FERC in compliance with the FERC Order which granted, to Equitrans, "permission and approval under NGA Section 7(b) to abandon the facilities by sale to Equitable [Gas Company]," and please explain how the sale of this portion of the Three Rivers Pipeline and associated compressor stations, if any, to an entity other than Equitable Gas Company complies with FERC's order.

Response:

- (a) Equitable Gas Company was not involved in the sale of Three Rivers Pipeline. On information and belief, it was sold to Equitable Gathering, LLC. It is also our understanding that this sale was consummated on April 11, 2008.
- (b) Equitable Gas Company does not run Equitable Gathering, LLC nor is it involved in its business planning. As for the quotation in the interrogatory, it should be noted that Equitable Gas Company did not make any representation to the FERC. The application was submitted and prepared under the exclusive control of Equitrans, L.P. Although Equitable Gas Company had initially sought to acquire the Three Rivers Pipeline, a business decision was made to begin a process of limiting Equitable Gas Company's business to that of a traditional local distribution company. That involved not expanding its existing gathering operations beyond those already under construction. Equitrans was informed of Equitable Gas Company's decision, and counsel for Equitrans communicated the change in purchaser to the FERC.

Docket No. R-2008-2029325

Item: IOGA-VIII-1

Respondent: John M. Quinn

Position: Vice President, LDC Rates and Gas Supply

Page 2 of 2

- (c) See the answer to (b) above. Equitable has no documents related to Equitrans communications with the FERC. It is Equitable Gas Company's understanding of the application as requesting permission to abandon certain assets by sale. That is the authority that was granted to Equitrans and which it exercised as noted in (a) above.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hainly  
w/HL*

**SURREBUTTAL TESTIMONY**

**OF**

**MILISSA BAUER**

**On Behalf of**

**The Independent Oil and Gas Association of Pennsylvania**

**Topics Addressed**

Captive Wells  
Well Drilling Cost Considerations  
Rate AGS Charges

November 14, 2008

1 **Q. PLEASE STATE YOUR NAME, AND DESCRIBE BY WHOM YOU ARE**  
2 **EMPLOYED AND IN WHAT CAPACITY.**

3 A. My name is Milissa Bauer. I am the Vice President of Administration for Kriebel  
4 Minerals, Inc. ("Kriebel"), which is located at 633 Mayfield Road, Clarion, PA. I have  
5 worked at Kriebel for about 18 years and have held a succession of positions.

6 **Q. HAVE YOU PROVIDED TESTIMONY IN THIS PROCEEDING?**

7 A. Yes. I provided direct testimony to support the positions of the Independent Oil and Gas  
8 Association of PA ("IOGA") in this matter. My direct testimony explained our  
9 operations on Equitable Gas Company's ("Equitable") system, our dealings with  
10 Equitable concerning a request for a new meter tap and meter for our new production on  
11 the Three Rivers Pipeline, and Equitable's charges for the use of its new Limestone  
12 Project pipeline. I also pointed out the adverse consequences to our company,  
13 Equitable's customers and the development of new Pennsylvania production on  
14 Equitable's system if Equitable's Rate AGS cost recovery proposal is approved. I also  
15 described actions Equitable has taken that restrict the flow of Kriebel's Pennsylvania  
16 production on Equitable's system.

17 **Q. PLEASE STATE THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY.**

18 A. The purpose of my surrebuttal testimony is to respond to a few statements of Mr. Stephen  
19 Rafferty of Equitable.

20 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT KRIEBEL'S CAPTIVE WELLS?**

21 A. Mr. Rafferty disagrees that the producers submitting testimony in this case, including  
22 Kriebel, have wells captive to Equitable. He says that because we operate a number of  
23 wells over acreage covering "considerable distances" and there are a number of local

1 distribution company (“LCD”) and interstate pipeline operations in the area, that we have  
2 ready access to other pipelines.

3 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY?**

4 A. Wells that are already connected to Equitable are captive unless significant money is laid  
5 out to move this well’s natural gas to another local distribution system. Many wells are,  
6 at various times, in their productive lives. If a well is producing later in its productive  
7 life, the economics would not warrant additional cash outlays. Therefore, this well has  
8 become captive to Equitable. However, I note that on page 19, lines 17-20, of his rebuttal  
9 testimony, Mr. Rafferty admits that producers may not have other options.

10 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT HOW PRODUCERS DECIDE**  
11 **WHERE TO DRILL?**

12 A. Mr. Rafferty describes a host of cost considerations that determine where a producer  
13 drills and decides which pipeline to produce into. But he does not cite one very  
14 important item, and that is the costs assessed by the LDC. Producers will access the net  
15 value to them at the wellhead, which includes the costs and shrink deducted by the LDC.  
16 Equitable’s costs for gathering and shrink must be in line with their competition,  
17 otherwise producers will only utilize their system as a last resort or they will decide not to  
18 drill wells in an area because costs are too high.

19 **Q. ARE EQUITABLE’S COSTS FOR GATHERING AND SHRINKAGE IN LINE**  
20 **WITH THEIR COMPETITION?**

21 A. No. Mr. Rafferty uses Kriebel’s movement of the DiCesare tap and production to  
22 Dominion Peoples because of a significant increase in the tap cost and increased  
23 gathering rates as an example of the availability of competitive alternatives to Equitable.  
24 But this example clearly illustrates that Equitable’s meter fees, line operating pressures,  
25 and fees for gathering and shrink are not competitive with other LDCs. That is why

1 Kriebel took this production from Equitable and moved it to PNG where the net value  
2 received at the well head would be higher.

3 **Q. DOES MR. RAFFERTY COMPARE DOMINION PEOPLES AND EQUITABLE**  
4 **FOR ANY OTHER REASON?**

5 A. Yes, Mr. Rafferty says that even though Equitable and Dominion Peoples have been  
6 charging producers for several years for gathering facility related investment and  
7 expenses, both utilities have continued to experience increased local production levels.  
8 But Mr. Rafferty's testimony assumes that the Rate AGS charges into the future will be  
9 competitive with other LDCs. Since the new rates proposed by Equitable (89 cents/Dth  
10 just for gathering) are not competitive with other LDCs, history cannot be used as an  
11 indication of future results.

12 **Q. WHAT DOES MR. RAFFERTY SAY ABOUT THE LEVEL OF KRIEBEL'S**  
13 **LOCAL PRODUCTION ON EQUITABLE'S SYSTEM DURING THIS TIME?**

14 A. He reports Kriebel's increased production volumes and total dollars paid during the  
15 period 2000-07, as well as the Rate AGS fees collected from Kriebel in dollars and as a  
16 percentage of total dollars paid to Kriebel.

17 **Q. DO YOU HAVE ANY COMMENT ON THIS TESTIMONY?**

18 A. Yes. As Mr. Rafferty's schedule (Attachment SCR-11) shows, we did not pay Rate AGS  
19 fees during 2000-02 and only minimal fees during 2003, as Rate AGS became effective  
20 November 26, 2003 (Exh. DMB-2). So Mr. Rafferty's calculation of Rate AGS fees as a  
21 percentage of dollars paid to Kriebel is understated. The correct percentage is 3.8%  
22 (excluding all 2003 volumes), not 3.32%. But this calculation misses the point of my  
23 testimony concerning the adverse effect of increased Rate AGS fees in Kriebel's  
24 operations. I did not say that payment of significantly increased fees would jeopardize  
25 the overall financial health or profitability of Kriebel. I stated that the increased fees

1           could make production from those particular wells subject to Rate AGS unprofitable to  
2           continue to produce on Equitable, consistent with my testimony above concerning cost  
3           considerations.

4   **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5    A.    Yes, but I reserve the right to respond to any other party's surrebuttal testimony  
6           concerning these issues.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	R-2008-2029325
Equitable Gas Company	:	
Independent Oil and Gas Association of Pennsylvania,	:	
Complainant	:	
v.	:	C-20066800
Equitable Gas Company,	:	
Respondent	:	

*11/20/08  
Hendry  
KPH*

**SURREBUTTAL TESTIMONY OF**

**JAMES L. CRIST**

**ON BEHALF OF**

**THE INDEPENDENT OIL AND GAS ASSOCIATION**

*[Signature]*  
 PA PUC  
 SECRETARY'S BUREAU

**2008 NOV 25 PM 1:08**

**RECEIVED**

**Topics Addressed**

- Benefits of Gathering Facilities
- Value of Pennsylvania Natural Gas
- Agency Service
- Improved Operational Procedures

November 14, 2008

**RECEIVED**

NOV 25 2008  
 PA PUBLIC UTILITY COMMISSION  
 SECRETARY'S BUREAU

1 **Q. HAVE YOU PRESENTED TESTIMONY IN THIS PROCEEDING?**

2 A. Yes. I presented direct testimony on behalf of the Independent Oil and Gas  
3 Association of Pennsylvania (“IOGA”) and Hess Corporation (“Hess”).

4 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS SURREBUTTAL**  
5 **TESTIMONY?**

6 A. IOGA.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. My surrebuttal testimony will respond to much of the rebuttal testimony of  
9 Equitable Gas Company (“Equitable” or “Company”) witness Dalena regarding  
10 the value of locally produced gas to the customers of the Company, as well as Mr.  
11 Feingold’s reliance on FERC’s standards for assigning costs to shippers.

12 **Q. WHAT STANDARDS DOES MR. FEINGOLD RELY UPON TO SUPPORT**  
13 **HIS COST ALLOCATION TO PRODUCERS?**

14  
15 A. Mr. Feingold relies upon FERC standards. But, if one does closely examine the  
16 FERC comments that are cited by Mr. Feingold they support IOGA’s position –  
17 not his. He claims that FERC has a position that the costs of transporting natural  
18 gas should be assigned to the “shipper.” The shipper in the case of local  
19 production delivered into the gathering system is Equitable when the gas is  
20 purchased by Equitable, and it is the end user transportation customer when the  
21 gas is purchased by a marketer on behalf of the transportation customer. In both  
22 cases, title to the local gas passes to the purchaser as soon as it is delivered into  
23 the gathering facilities. In both instances, Equitable already charges a rate for  
24 transportation – the distribution rate. So, even according to Mr. Feingold,  
25 gathering facility costs should be assigned to and paid by end user customers, not  
26 the gas sellers.

1 **Q. WHAT IS THE MAIN THEME OF MR. DALENA'S REBUTTAL**  
2 **TESTIMONY?**

3 A. The areas of Mr. Dalena's rebuttal that address my testimony had a very  
4 consistent theme of "Pennsylvania-produced gas is the highest cost and least  
5 desirable gas supply from Equitable's perspective." This theme is exactly the  
6 opposite of what Equitable has been testifying to for years in their annual  
7 purchased cost gas ("PGC") rate proceedings, and is also opposite of what Mr.  
8 Dalena himself testified in the 2006 failed acquisition attempt.

9 **Q. WHAT DOES MR. DALENA SAY ABOUT EQUITABLE'S GATHERING**  
10 **FACILITY INVESTMENTS?**

11 A. On page 4 of his testimony rebuttal testimony, Mr. Dalena claims that Equitable  
12 has invested \$19 million in improvements on gathering system pipelines that are  
13 designed to bring local Pennsylvania gas to market.

14 **Q. IS THIS AN ACCURATE PORTRAYAL?**

15 A. No. Mr. Dalena is incorrect in stating that \$19 million was spent entirely on the  
16 gathering system pipelines. The response to data request IOGA I-1 (Exhibit JLC-  
17 5) in IOGA's complaint case points out that many of the improvements were  
18 classified to transmission and distribution facilities accounts. From the years  
19 2000-07, \$3.6 million of improvements were made that were classified as  
20 gathering. Those improvements do not enable producers to move their gas to off-  
21 system markets, that is, to access a wide variety of purchasers of natural gas  
22 available through connections with an interstate pipeline system. The response to  
23 data request IOGA III-1 (Exhibit JLC-5) in the base rate case states that "for the  
24 calendar years 2005, 2006, and 2007, all of the gas entering Equitable's gathering  
25 facilities, net of lost and unaccounted for gas and compressor fuel was delivered

1 to customers of Equitable Gas.” Those gathering system improvements Mr.  
2 Dalena references were made so that Equitable was able to obtain additional  
3 Pennsylvania production gas for one market, the system supply of the Equitable  
4 Gas distribution utility. This has been a benefit to the customers of Equitable  
5 Gas.

6 **Q. WHAT WAS THE SOURCE OF THE FUNDS FOR THOSE**  
7 **INVESTMENTS?**

8 A. Mr. Dalena’s testimony gives the impression that Equitable altruistically invested  
9 \$19 million of its own money, but that is not accurate. The response to IOGA IV-  
10 3 (Exhibit JLC-5) shows that in 2007 alone Equitable collected \$5,169,989 from  
11 producers under Rate AGS. In the years that Rate AGS has been in effect (since  
12 2003) the Company has collected their investment from the gas producers to pay  
13 for these piping improvements, according to Mr. Rafferty’s rebuttal testimony.

14 **Q. WHAT DOES MR. DALENA SAY ABOUT THE NATURE OF**  
15 **PENNSYLVANIA PRODUCED GAS?**

16 A. On page 6, Mr. Dalena expresses his opinion that Pennsylvania produced gas  
17 cannot be a substitute for Southwest gas delivered to Equitable through their  
18 pipeline affiliate Equitrans.

19 **Q. DO YOU AGREE?**

20 A. No. Data provided by the Company illustrate that Pennsylvania produced gas has  
21 been increasing as a portion of the Company’s system supply, while Southwest  
22 gas has been decreasing as a portion of the Company’s system supply. This is  
23 what I mean when I say that Pennsylvania produced gas has been a substitute or  
24 replacement for Southwest gas.

1 **Q. HOW DOES PENNSYLVANIA PRODUCTION FLOW ON EQUITABLE'S**  
2 **SYSTEM?**

3 A. On page 6 of his testimony, Mr. Dalena states that Pennsylvania gas flows evenly  
4 on a continuous basis and is not decreased in the summertime and increased in the  
5 wintertime when customer demand increases.

6 **Q. IS HIS TESTIMONY ACCURATE?**

7 A. No. As evidenced in the Company's 2008 1307f filing (Docket Number R-2008-  
8 2021160) Item 53.64 (c) (a), Section I, Part D, Sheet 2 of 4 and Section I, Part B,  
9 Sheet 2 of 6 (Revised) (Exhibit JLC-6), the seasonality of Pennsylvania gas is  
10 clear. The Summary of 2007 Actual data shows the three summer months of  
11 June, July and August for total Appalachian purchases to be 1,906,699 Dth and  
12 the three winter months of December, January, and February to be 3,269,161 Dth.  
13 That illustrates a summer decrease of 41%. In their 2008 Estimate the  
14 Appalachian Direct was broken out from the Total Appalachian volumes. The  
15 three summer months total 214,612 Dth compared to the three winter months of  
16 675,000 Dth, which is an even greater summer decrease of 69%. Another  
17 illustration is demonstrated in Equitable's response to OCA I-21 (Exhibit JLC-5)  
18 which I am including along with my Exhibit JLC-7 based on that data. The flow  
19 of Pennsylvania gas, similar to Southwest gas is increased in the wintertime to  
20 supply the greater customer demands due to seasonal heating requirements. Mr.  
21 Dalena's contention that Pennsylvania gas flows evenly on a continuous basis is  
22 just plain wrong.

23 **Q. YOU MENTIONED EARLIER THAT MR. DALENA'S TESTIMONY IS**  
24 **THAT PENNSYLVANIA GAS IS HIGHER COST THAN INTERSTATE**  
25 **GAS. WHAT IS MR. DALENA'S SUPPORT FOR THIS POSITION?**

1 A. Mr. Dalena has constructed an exhibit that purportedly illustrates that the cost of  
2 Pennsylvania produced gas is higher than the cost of interstate gas that flows  
3 through Equitable's affiliate

4 **Q. WHAT IS YOUR RESPONSE TO THIS EXHIBIT?**

5 A. There are many fallacies contained in this exhibit and in my opinion purported  
6 conclusions are not valid. Mr. Dalena has constructed his exhibit by not  
7 describing the aggregate cost of gas supplies and selectively choosing data from a  
8 moment in time that illustrates the point he is trying to make. Such data is not  
9 representative of the actual situations which Equitable has experienced over  
10 several years in terms of the cost of their system supply gas. My first comment  
11 on this exhibit is that it is exactly a snapshot in time. Mr. Dalena selected October  
12 2008 as the basis for the price data he cites to construct his comparison. Such a  
13 snapshot is totally inappropriate for a comparison of the gas supply costs of the  
14 Equitable system. A review of PGC data illustrates clearly that for several years  
15 interstate gas supply was the more expensive source of gas compared to  
16 Pennsylvania production.

17 My second comment is that the starting point for the comparison, the  
18 index or purchase price of gas, is not a fair starting point. In the Pennsylvania  
19 Appalachian case and the Equitrans Gathering examples Mr. Dalena selected the  
20 Nymex settled price of October 2008 was \$7.472/Dth. For the Interstate example  
21 Mr. Dalena selected the TETCO East Texas Index of \$6.53/Dth. One can see that  
22 the spread between these two numbers is \$0.94. However, if a dozen year history  
23 of this data is examined as I did in my Exhibit JLC-7, one can see that the average  
24 difference is not \$0.94, but instead \$0.43. This indicates that there has been no

1 significant change in the historic price differential to warrant the logical result of  
2 Mr. Dalena's testimony: that Equitable should be buying all Southwest gas to  
3 serve its customers. It seems Mr. Dalena has deliberately picked his month of  
4 comparison at an extreme point which skews the result. In fact, the difference in  
5 the two indices has not been that great since February 2006. Mr. Dalena's  
6 comparison is not valid.

7 My third comment is that Mr. Dalena's assumption of a lost and  
8 unaccounted for factor for Pennsylvania Appalachian of 10% to 20% is arbitrary  
9 and overstated. He used tariffed retainage amounts in the Interstate examples of  
10 5.8% on TETCO and 3.7% on Equitrans. His 10% to 20% numbers for  
11 Pennsylvania Appalachian are not part of any tariff and not contained in the  
12 current local production contracts as an acceptable retainage percentage, but  
13 merely amounts submitted in this proceeding while Equitable had submitted an  
14 LUFG study in its 2008 PGC proceeding (which was pending after Equitable  
15 made its base rate filing) supporting its tariffed retainage of 6% and 8% for  
16 transportation customers (Rule 11.4).

17 **Q. WHAT IS THE COST OF PENNSYLVANIA PRODUCTION IN MR.**  
18 **DALENA'S EXHIBIT?**

19 A. Mr. Dalena assumed an \$0.89/dth gathering cost for Pennsylvania Appalachian  
20 gas. But this is not appropriate because it includes the sunk cost of the gathering  
21 investments at the full proposed rate increase. See IOGA responses to Equitable  
22 II-10 and II-64 (Exhibit JLC-5). Clearly \$0.89 grossly exaggerates the cost of  
23 Pennsylvania gas, which is the deception that Mr. Dalena was attempting.

24 **Q. WHAT IS A MORE RELIABLE COMPARISON OF THE COST OF**  
25 **PENNSYLVANIA GAS AND SOUTHWEST GAS?**

1 A. A more reliable comparison of the data would use the true costs of interstate gas  
2 and Pennsylvania produced gas. The data from Equitable Gas' 2008 PGC  
3 proceeding would be a more reliable indicator because that data encompasses the  
4 gas supply costs for the entire year. Looking at my exhibit of data from the  
5 Company's 2008 PGC filing (Docket Number R-2008-2021160), Item 53.64 (c)  
6 (a), Section I, Part D, Sheet 2 of 4 and Section I, Part B, Sheet 2 of 6 (Revised)  
7 (Exhibit JLC-6), it can be seen that Pennsylvania produced gas is actually less  
8 expensive than interstate gas. I used this exhibit earlier to illustrate the  
9 seasonality of local production. Now I am using the Company's exhibit to  
10 demonstrate the lower cost of Pennsylvania gas. Using 2007 Actual data and  
11 calculating the Appalachian purchase cost by dividing \$72,688,925 by 9,869,200  
12 Dth results in \$7.36/Dth. The southwest purchases for that period were  
13 \$58,302,851 divided by 6,289,883 Dth which results in \$9.26/Dth.

14 Looking at what the Company calls "Estimated Purchased Gas Costs" for  
15 2008-2009, which includes the month of October 2008 used in Mr. Dalena's  
16 exhibit, similar calculations are:

- 17 - Appalachian Direct:  $\$21,309,274 / 2,248,441 \text{ Dth} = \$9.47/\text{Dth}$
- 18 - Appalachian Transport:  $\$68,959,641 / 6,970,500 \text{ Dth} = \$9.89/\text{Dth}$
- 19 - Southwest:  $\$49,062,398 / 4,660,602 \text{ Dth} = \$10.52/\text{Dth}$

20 So if one looks at commodity costs it is clear from the Company's own evidence  
21 that local Pennsylvania gas is less expensive Southwest gas. This is why the  
22 Company has consistently testified in their PGC cases that local gas is beneficial

1 to their customers and why the Company continues to expand its purchases of  
2 local gas.

3 **Q. WERE YOU ABLE TO CONSTRUCT A SIMILAR COMPARISON USING**  
4 **MONTHLY DATA?**

5 A. Yes. The data contained in the response to the PGC data request OCA I-1 was  
6 examined. I have included that data request and the data tables as an exhibit. I  
7 have added the average numbers at the bottom of each of the three categories of  
8 gas supply. The price relationships remain the same with the highest cost being  
9 Southwest at \$9.92/Dth, then Appalachian Transport at \$9.56/Dth, and the lowest  
10 being Appalachian Direct at \$9.13/Dth.

11 **Q. ARE THERE OTHER COSTS INVOLVED?**

12 A. Yes. There are the expensive upstream demand charges.

13 **Q. WHAT ARE THE DATA FOR THOSE CHARGES?**

14 A. From the same PGC filing, looking at the Actual costs for 2007 the Demand is  
15 listed as \$52,299,042 and the 2008-2009 Estimate is \$52,049,793. The Estimate  
16 costs are actually broken down in the Company's table into "Upstream Demand  
17 Costs" and "Equitrans Demand Costs".

18 **Q. WHAT ARE EACH OF THOSE COSTS?**

19 A. The Upstream Demand costs, which are the costs of the TETCO Pipeline, are  
20 \$17,357,551, and the Equitrans costs are \$34,692,242. So the affiliate pipeline  
21 demand costs are approximately twice the non-affiliate costs.

22 **Q. WHERE DOES THE TETCO PIPELINE ORIGINATE?**

23 A. That pipeline brings gas from Texas up to Pennsylvania, approximately 1,200  
24 miles.

1 **Q. WHERE DOES THE EQUITRANS PIPELINE ORIGINATE?**

2 A. That pipeline brings gas from West Virginia to Pennsylvania, approximately 200  
3 miles.

4 **Q. DOES EQUITABLE AGREE WITH IOGA THAT PENNSYLVANIA  
5 PRODUCTION IS A NECESSARY PART OF ITS SUPPLY FOR ITS  
6 CUSTOMERS?**

7 A. No. On page 9 Mr. Dalena states that if Pennsylvania production were to  
8 disappear tomorrow or return to the level of 10 years ago, that the customers of  
9 Equitable gas would be unaffected.

10 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY.**

11 A. Mr. Dalena's comments reverse a long-standing company position and is not  
12 consistent with the data shown above. This is the first time anyone from Equitable  
13 has expressed the thought to not incorporate Pennsylvania produced gas in its gas  
14 supply plan. Traditionally, Equitable's supply strategy has included using  
15 Pennsylvania produced gas, and this has increased over the past years. In the  
16 2008 PGC case, which was pending when Equitable filed its base rate case,  
17 Company witness Wiggers stated: "I would expect the percentage of supply from  
18 other Appalachian sources to continue to increase during the next several years  
19 and the percentage from the Southwest production area to decline accordingly."  
20 (Equitable St. No. 3, p. 8, lines 3-6).

21 **Q. MR. DALENA CITES A 100 YEAR PERIOD WHERE EQUITABLE DID  
22 NOT OPERATE WITH PENNSYLVANIA PRODUCTION. IS THIS  
23 ACCURATE?**

24 A. No. Historically Equitable operated gas wells, and in fact still does have  
25 operating gas wells which they own and produce gas for use on their system.  
26 They have always had Pennsylvania production as part of their gas supply mix.

1 **Q. DOES MR. DALENA SAY ANYTHING ABOUT THE RELIABILITY OF**  
2 **PENNSYLVANIA GAS?**

3 A. Yes. On page 9 Mr. Dalena acknowledges that Pennsylvania Gas is relatively  
4 reliable.

5 **Q. WHAT VALUE DOES THIS STATEMENT HAVE?**

6 A. According to the PGC testimony provided by Equitable witnesses, the reliability  
7 of Pennsylvania gas is desirable and has value. Mr. Wiggers states: "Multiple  
8 pricing options have enabled the Company to encourage the development of new  
9 supplies while attempting to reduce price volatility and operational uncertainties  
10 that have been customary within the natural gas industry." (Equitable St. No. 3,  
11 p. 6, lines 21-23).

12 **Q. WHAT IS THE PURPOSE OF PENNSYLVANIA GAS ON EQUITABLE'S**  
13 **SYSTEM?**

14 A. According to Mr. Dalena (p. 11), Equitable's baseload demand is entirely satisfied  
15 by the purchase of local Pennsylvania gas.

16 **Q. IS THIS STATEMENT ACCURATE?**

17 A. No, it is not. Reviewing PGC data it can be seen that the baseload demands of  
18 Equitable are met in part with Pennsylvania produced gas, but not exclusively.  
19 Examining the 2007 actual data it can be seen that the summer load for July,  
20 August and September totaled 1,061,659 Dth from Appalachian Purchases or  
21 73.5% of the total and 382,598 Dth from Upstream Pipeline Supply or 26.5% of  
22 the total. The Company did not break out the data in their exhibit but has testified  
23 elsewhere that Appalachian Purchases consist of Appalachian Direct  
24 (Pennsylvania gas) and Appalachian Transport (gas that flows through Equitrans).

1 In fact, there is still room for growth of Pennsylvania based gas provided on a  
2 continuous year around basis.

3 **Q. ON PAGE 12 MR. DALENA EXPLAINS THAT IT WAS THE**  
4 **COMPANY'S VIEW THAT THEIR INVESTMENT IN GATHERING**  
5 **SYSTEM IMPROVEMENTS WOULD BE RECOVERED BY**  
6 **REDUCTIONS IN PGC GAS COSTS. DOES NOT THIS TESTIMONY**  
7 **SUPPORT YOUR POINT?**

8 A. Yes, the Company clearly believed that increased use of local gas production  
9 would result in savings of interstate pipeline costs for customers.

10 **Q. WHO SHOULD BEAR THE EXPENSE OF LOST AND UNACCOUNTED**  
11 **FOR GAS?**

12 A. In the case of the Apollo acquisition it should clearly be borne by the shareholders  
13 of Equitable Resources. If Equitable was lax on their due diligence associated  
14 with this piping acquisition, as Mr. Dalena seems to acknowledge indirectly, they  
15 should not be permitted the safety net of having customers or producers pay an  
16 extraordinary amount to improve this leaky system or to pay for an extremely  
17 high LUGF charge. At the time of acquisition, Equitable stated they were not  
18 going to recover any acquisition costs associated with this system. Just because  
19 several years have passed and Equitable allegedly has only recently learned of the  
20 mistakes they made in their assessment prior to purchase, this does not create a  
21 justification for attempting to recover such costs now from customers or  
22 producers. The leaky pipes would have been evident in 1999 when the system  
23 was operating at 8 psig. Equitable's position that they did not know how leaky  
24 those pipes were until the operating pressure increased is a transparent excuse for  
25 not making the necessary repairs when they should have and a transparent after  
26 the fact rationalization to support putting the LUGF costs on producers.

1 Q. **ONCE GAS PRODUCERS HAVE DRILLED A WELL THAT BECOMES**  
2 **CONNECTED TO THE EQUITABLE SYSTEM, DO THEY HAVE A**  
3 **STRONG NEGOTIATING POSITION WITH RESPECT TO CHARGES**  
4 **EQUITABLE MAY ASSESS THEM IN THE FUTURE?**

5 A. No. This is best evidenced by Mr. Dalena's testimony on page 16, line 14, where  
6 he disputes Ms. Burgraff's testimony that under Equitable's proposal gathering  
7 costs will become PGC "gas costs" by firmly stating "unequivocally this will not  
8 happen. If producers were to demand such a price (that includes increased  
9 gathering costs), Equitable would simply refuse to buy the gas as Equitable has  
10 many other supply options."

11 Q. **ON PAGE 17 MR. DALENA STATES THAT YOU DID NOT PROVIDE**  
12 **ANY PROOF THAT PENNSYLVANIA GAS WAS LOWER COST. DOES**  
13 **SUCH PROOF EXIST?**

14 A. Yes. With the many years of Company PGC filings, I was surprised when I read  
15 Mr. Dalena's comment because I did not expect the Company to do a complete  
16 reversal of its position regarding the attractiveness of Pennsylvania gas and its  
17 cost advantages. The proof which I relied on is the Company's testimony and  
18 exhibits in their PGC cases. My surrebuttal testimony contains many references  
19 and exhibits from the 2008 PGC case.

20 Q. **ON PAGE 19 MR. DALENA CITES A SECTION OF THE**  
21 **PENNSYLVANIA CODE. WHAT IS THE RELATIONSHIP OF THAT**  
22 **SECTION IN THIS PROCEEDING?**

23 A. I am not sure. In my direct testimony I cited the sections from Chapter 60 that  
24 addressed development of local Pennsylvania gas. Section 60.1 specifically  
25 states: "The development of Pennsylvania natural gas should be promoted,  
26 because it will achieve benefits that accrue to gas utilities and their customers."  
27 That is clearly addressing local gas production. Section 60.2 states: "The tariff

1 may not unreasonably restrict Commonwealth natural gas producer access to gas  
2 utility facilities.” Mr. Dalena cites a section that refers to natural gas  
3 transportation customers, which is really not a topic that I addressed in my direct  
4 testimony, except when discussing the Agency program, and otherwise is not  
5 involved in this case.

6 **Q. ON PAGE 19 MR. DALENA CLAIMED THAT EQUITABLE DOES NOT**  
7 **PURCHASE GAS FROM ITS AFFILIATE AND OFFERS THAT AS AN**  
8 **INDICATION THAT EQUITABLE RESOURCES WILL NOT ACT IN ITS**  
9 **FINANCIAL SELF-INTEREST IF AN OPPORTUNITY AROSE. IS HIS**  
10 **STATEMENT CORRECT?**

11 A. No. It is wrong on both claims. Equitable does indeed buy gas from its affiliate as  
12 described in Attachment 1 to Item 53.65(1) in the 2008 PGC filing (Exhibit JLC-  
13 8). My direct testimony was describing actions that Equitable Resources could  
14 take prospectively, and one of those actions is purchasing gas from their  
15 production or marketing affiliates. Equitable Resources’ presentations to the  
16 financial community have stressed their role as a production company and  
17 downplayed their role as a regulated public utility.

18 **Q. MR. DALENA CLAIMS ON PAGE 20 TO HAVE “DEMONSTRATED**  
19 **THAT THESE INTERSTATE DELIVERED GAS VOLUMES UNLIKE**  
20 **PENNSYLVANIA PRODUCTION ARE TRULY LOW COST.” WAS THIS**  
21 **DEMONSTRATED?**

22 A. No. I already discussed Mr. Dalena’s contrived exhibit. That one self-serving  
23 example does nothing to refute years of evidence in the Company’s own PGC  
24 filings. Those filings state clearly that Pennsylvania production is their low cost  
25 gas source. Mr. Dalena should also reread my direct testimony where I cite his  
26 coworker, Mr. Quinn, who states: “Equitable also believes that a benefit will exist  
27 for residential, commercial, and industrial distribution customers of Equitable if

1 Pennsylvania production can be acquired and transported to Equitable's  
2 distribution system at prices less than city gate delivered interstate natural gas  
3 supply." (Equitable Response to IOGA 1-28).

4 **Q. FINALLY ON PAGE 21 MR. DALENA TAKES ISSUE WITH YOUR**  
5 **COMMENT THAT ONCE A PRODUCER DRILLS A WELL THAT IS**  
6 **CONNECTED TO EQUITABLE'S SYSTEM THAT THEY ARE CAPTIVE**  
7 **TO THE SYSTEM. HOW DOES HE REFUTE YOUR CLAIM?**

8 A. In his response, Mr. Dalena does not address my points regarding producers  
9 having no negotiation capability once they are hooked into the Equitable system.  
10 Perhaps this is because he already laid out his "negotiation" technique earlier  
11 when he pointed out that Equitable could simply not buy Pennsylvania producer  
12 gas as they have many other supply options.

13 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO MR. DALENA'S**  
14 **TESTIMONY CONCERNING PRODUCER ISSUES.**

15 A. Mr. Dalena's claims that Pennsylvania gas is the high cost supply source of  
16 system gas is the opposite of what the Company has been stating in their PGC  
17 filings for years. It is a contradiction of Company witness sworn testimony,  
18 including Mr. Wiggers, the Director of Gas Supply, and Mr. Quinn, the Vice  
19 President of Marketing and Rates. Lastly, it is in conflict with Mr. Dalena's own  
20 sworn testimony. In the failed acquisition case in 2006, when Mr. Dalena was  
21 asked about the impact of the merger on the natural gas supply market, he stated  
22 that the Company believed that "the combination of the two companies will  
23 increase access to locally produced direct feed gas." He goes on to extol the  
24 benefits of Pennsylvania gas by testifying that: "Natural gas fed directly into our  
25 distribution system allows NGSs to reduce their need to contract for more  
26 expensive upstream pipeline capacity."

1            Pennsylvania gas has long been recognized by the Commission as a  
2            desirable and reliable component of gas supply for the customers. The Company  
3            should not be permitted to institute new, higher charges for obtaining local gas  
4            because that disadvantages the customer. The Company should stand by its  
5            testimony in other regulatory proceedings and develop additional capabilities to  
6            bring local gas to customers so that all can benefit.

7   **Q.   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

8   **A.**   Yes, but I reserve the right to respond in oral rejoinder to other parties' surrebuttal  
9            testimony concerning the issues addressed in my surrebuttal.

## **Exhibit JLC-5**

Equitable's Responses to:

Docket No. C-20066800

IOGA I-1

Docket No. R-2008-2029325

IOGA I-3

IOGA I-28

IOGA III-1

IOGA IV-3

Docket No. R-2008-2021160

OCA I-1

OCA I-21

OCA III-1

IOGA's Responses to Equitable:

Docket No. R-2008-2029325

Equitable II-10

Equitable II-64



Docket No. R-2008-2029325  
Item: IOGA-I-3  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-3

- (a) Please list the number of customers currently using Rate AGS and provide the information in a tabular format listing customers by number (not name) separating the customers into the following categories: producer, end user, marketer, other. Please provide the information in Excel format.
- (b) For each customer listed in (a), please list next to the customer the rate currently being paid by the customer. If the customer is paying a discounted rate (i.e., a rate less than the highest rate currently being charged) please provide the reason for the discount next to the rate. If the reason is a competitive alternative, list the distance of the alternative pipeline and the name of the pipeline's owner (i.e., Dominion Peoples, 1 mile, etc) that the customer could use. If the reason for the discount rate is not a competitive alternative, explain why a discount is being offered.
- (c) For each customer listed in (a), adding onto the schedule prepared in (b) add another column showing the level of shrinkage (or retainage) being charged by customer. If the retainage rate for a customer is less than the maximum amount currently being charged under Rate AGS please also explain why the customer is receiving a discount from maximum retainage charged.

Response:

Please see the attached for a list of the current gathering and retainage charges being assessed to Rate AGS customers. All Rate AGS charges are negotiated. The agreements related to the attached are confidential and are in possession of each IOGA member who is a party to the agreement. The agreements could be made available to counsel on a limited and confidential basis pursuant to terms of an appropriate confidentiality agreement and protective order.

Customer		Rate	
Type	Number	Gathering	Retainage
Producer	56	\$ -	0.00%
Producer	1	\$ 0.1400	0.00%
Producer	5	\$ 0.2500	0.00%
Producer	2	\$ 0.3000	0.00%
Producer	1	\$ 0.3500	0.00%
Producer	2	\$ 0.4000	0.00%
Producer	10	\$ 0.5000	0.00%
Producer	1	\$ 0.5000	2.00%
Producer	5	\$ 0.2500	5.00%
Producer	15	\$ 0.3000	5.00%
Producer	7	\$ 0.3500	5.00%
Producer	1	\$ 0.4000	5.00%
Producer	4	\$ 0.4500	5.00%
Producer	1	\$ 0.4656	5.00%
Producer	1	\$ 0.5000	5.00%
Producer	2	\$ 0.2500	5.40%
Producer	1	\$ 0.3000	5.40%
Producer	4	\$ 0.3500	5.40%
Producer	2	\$ 0.4000	5.40%
Producer	2	\$ 0.4500	5.40%
Producer	19	\$ 0.4656	6.68%
Producer	2	\$ 0.4756	6.68%
Producer	8	\$ 0.4791	6.68%
Producer	5	\$ 0.6500	7.50%
Marketer	1	\$ 0.1656	0.00%
Marketer	4	\$ 0.2500	0.00%
Marketer	1	\$ 0.3000	0.00%
Marketer	2	\$ 0.3500	0.00%
Marketer	1	\$ 0.4500	0.00%
Marketer	1	\$ 0.4656	0.00%
Marketer	1	\$ 0.4657	0.00%
Marketer	1	\$ 0.4791	0.00%
Marketer	2	\$ 0.5000	0.00%
Marketer	1	\$ 0.5500	0.00%
Marketer	1	\$ 1.0000	0.00%
Marketer	4	\$ -	0.00%
Marketer	1	\$ 0.4656	6.68%

Docket No. R-2008-2029325

Item: IOGA-I-28

Respondent: John M. Quinn

Position: Vice President, LDC Rates and Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-28

Does Equitable view its gathering system as a benefit to its ratepayers? Please explain.

Response:

Equitable views its gathering system as a benefit to its ratepayers. Customers receive natural gas service directly from gathering lines (service from field lines). Absent Equitable's service from field lines, distribution service line extensions, for the most part, would be uneconomic and therefore, many customers would be denied natural gas service.

Equitable also believes that a benefit will exist for residential, commercial, and industrial distribution customers of Equitable if PA production can be acquired and transported to Equitable's distribution system at prices less than city gate delivered interstate natural gas supply. Producers who use the gathering system to bring their gas to market also benefit from the gathering system.

Docket No. R-2008-2029325  
Item: IOGA-III-1  
Prepared by: Thomas P. Wiggers  
Title: Director Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-III-1

For calendar years 2005, 2006 and 2007, what percentage of gas entering Equitable's system through its gathering facilities is delivered to customers of Equitable Gas?

Response:

For the calendar years 2005, 2006 and 2007, all of the gas entering Equitable's gathering facilities, net of lost and unaccounted for gas and compressor fuel was delivered to customers of Equitable Gas.

Equitable Gas Company  
Docket No. R-2008-2029325  
IOGA-IV-3

	<u>\$</u>	
2007 Rate AGS Revenue	\$ 5,169,989	
Adjustment 1 - Expiration of gas purchase agreements	(727,263)	
Adjustment 2 - Estimated additional revenue due to negotiated rate increases	391,921	
Adjustment 3 - estimated well declines; producers exercising competitive offers; line abandonment	(238,193)	5% decline in throughput @ avg. rate of \$.33
Adjustment 4 - Projected additions	<u>730,000</u>	approximately 2,000 per day of increased throughput
Forecasted Rate AGS throughput	\$ 5,326,454	

Docket No. R-2008-2021160  
Item: OCA-I-1  
Respondent: Robert M. Narkevic  
Position: Manager, Rates

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Office of Consumer Advocate

Item: OCA-I-1

Please provide an explanation of, identify the assumptions made in, and provide a copy of all workpapers, correspondence, or other documentation, including computer spreadsheet files, supporting the derivation of the projected monthly purchase volumes and rates for all gas supply and transportation sources during the period February 2008 through September 2009.

Response:

Please see the attached schedules which support the rates used by EGC for gas supply and transportation. Also, please refer to the responses for OCA 2, OCA 3, OCA 4, and OCA 5, discussing the detail for projecting monthly volumes.

**Estimate of Southwest Gas Purchases for the Period  
February 2007 through September 2008**

	<u>Estimated NYMEX</u>	<u>Estimated Retainage</u>	<u>Estimated Variable Costs</u>	<u>City-Gate Cost \$/Dth</u>
February 2008	\$ 7.996	\$ 1.03	\$ 0.0833	\$ 9.11
March	\$ 8.660	\$ 1.12	\$ 0.0833	\$ 9.86
April	\$ 8.668	\$ 1.01	\$ 0.0833	\$ 9.76
May	\$ 8.680	\$ 1.01	\$ 0.0833	\$ 9.77
June	\$ 8.730	\$ 1.01	\$ 0.0833	\$ 9.83
July	\$ 8.806	\$ 1.02	\$ 0.0833	\$ 9.91
August	\$ 8.872	\$ 1.03	\$ 0.0833	\$ 9.98
September	\$ 8.885	\$ 1.03	\$ 0.0833	\$ 10.00
October	\$ 8.970	\$ 1.04	\$ 0.0833	\$ 10.09
November	\$ 9.260	\$ 1.07	\$ 0.0833	\$ 10.42
December	\$ 9.580	\$ 1.11	\$ 0.0833	\$ 10.77
January 2008	\$ 9.800	\$ 1.14	\$ 0.0833	\$ 11.02
February	\$ 9.785	\$ 1.13	\$ 0.0833	\$ 11.00
March	\$ 9.535	\$ 1.11	\$ 0.0833	\$ 10.72
April	\$ 8.285	\$ 0.96	\$ 0.0833	\$ 9.33
May	\$ 8.215	\$ 0.95	\$ 0.0833	\$ 9.25
June	\$ 8.265	\$ 0.96	\$ 0.0833	\$ 9.31
July	\$ 8.325	\$ 0.97	\$ 0.0833	\$ 9.37
August	\$ 8.380	\$ 0.97	\$ 0.0833	\$ 9.44
September	\$ 8.392	\$ 0.97	\$ 0.0833	\$ 9.45

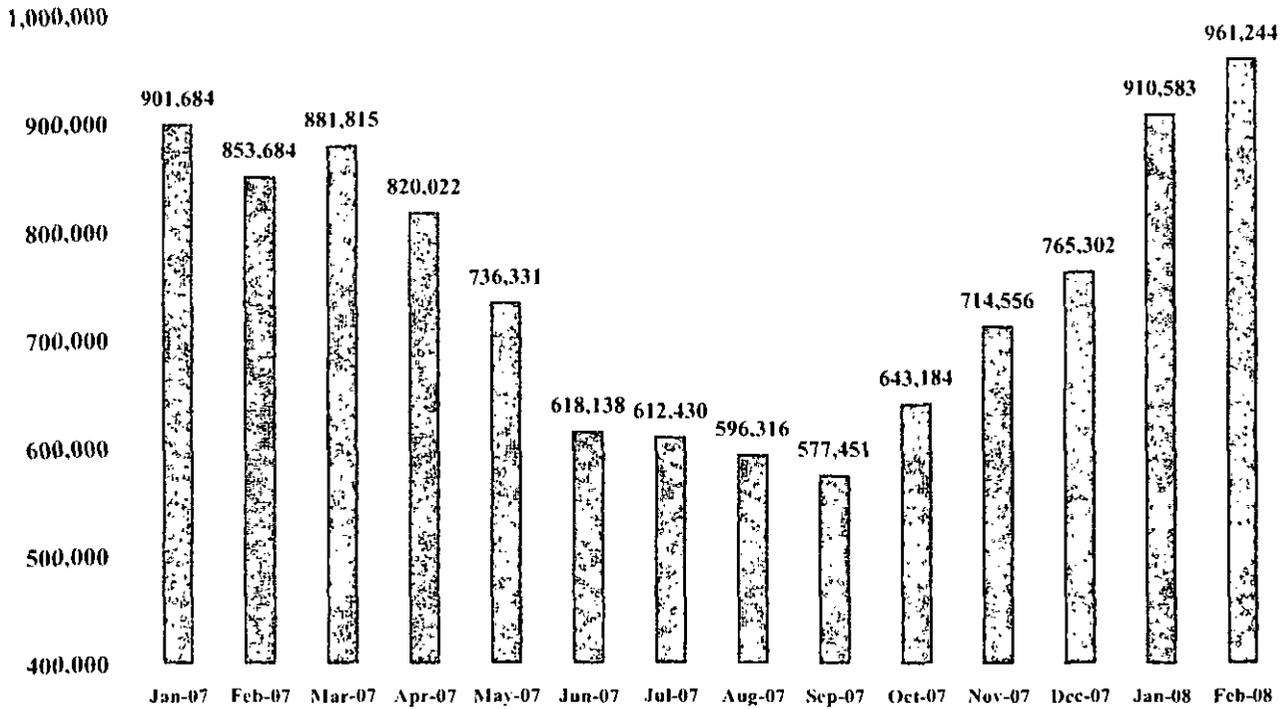
**Estimate of Appalachian Costs  
February 2007 through September 2008**

	<u>Estimated NYMEX</u>	<u>Estimated Basis</u>	<u>Estimated Appalachian Direct Feed Cost</u>	<u>Estimated Variable Costs</u>	<u>Estimated Retainage</u>	<u>Estimated Appalachian Transport Cost</u>
February 2008	\$ 7.996	\$ 0.414	\$ 8.41	\$ 0.0168	\$ 0.38	\$ 8.81
March	\$ 8.660	\$ 0.382	\$ 9.04	\$ 0.0168	\$ 0.43	\$ 9.49
April	\$ 8.668	\$ 0.326	\$ 8.99	\$ 0.0168	\$ 0.41	\$ 9.42
May	\$ 8.680	\$ 0.319	\$ 9.00	\$ 0.0168	\$ 0.41	\$ 9.42
June	\$ 8.730	\$ 0.312	\$ 9.04	\$ 0.0168	\$ 0.41	\$ 9.46
July	\$ 8.806	\$ 0.315	\$ 9.12	\$ 0.0168	\$ 0.41	\$ 9.55
August	\$ 8.872	\$ 0.315	\$ 9.19	\$ 0.0168	\$ 0.41	\$ 9.62
September	\$ 8.885	\$ 0.312	\$ 9.20	\$ 0.0168	\$ 0.40	\$ 9.62
October	\$ 8.970	\$ 0.322	\$ 9.29	\$ 0.0168	\$ 0.42	\$ 9.73
November	\$ 9.260	\$ 0.322	\$ 9.58	\$ 0.0168	\$ 0.43	\$ 10.03
December	\$ 9.580	\$ 0.322	\$ 9.90	\$ 0.0168	\$ 0.44	\$ 10.36
January 2008	\$ 9.800	\$ 0.322	\$ 10.12	\$ 0.0168	\$ 0.45	\$ 10.59
February	\$ 9.785	\$ 0.322	\$ 10.11	\$ 0.0168	\$ 0.45	\$ 10.57
March	\$ 9.535	\$ 0.322	\$ 9.86	\$ 0.0168	\$ 0.44	\$ 10.31
April	\$ 8.285	\$ 0.322	\$ 8.61	\$ 0.0168	\$ 0.39	\$ 9.01
May	\$ 8.215	\$ 0.322	\$ 8.54	\$ 0.0168	\$ 0.39	\$ 8.94
June	\$ 8.265	\$ 0.322	\$ 8.59	\$ 0.0168	\$ 0.39	\$ 8.99
July	\$ 8.325	\$ 0.322	\$ 8.65	\$ 0.0168	\$ 0.39	\$ 9.06
August	\$ 8.380	\$ 0.322	\$ 8.70	\$ 0.0168	\$ 0.39	\$ 9.11
September	\$ 8.392	\$ 0.322	\$ 8.71	\$ 0.0168	\$ 0.39	\$ 9.13

<b>1307f OCA I-1 Southwest Gas</b>	<b>Estimated NYMEX</b>	<b>Estimated Retainage</b>	<b>Estimated Variable Costs</b>	<b>City-Gate Cost \$.Dth</b>
February-07	\$7.996	\$1.03	\$0.0833	<b>\$9.11</b>
March	\$8.660	\$1.12	\$0.0833	<b>\$9.86</b>
April	\$8.668	\$1.01	\$0.0833	<b>\$9.76</b>
May	\$8.680	\$1.01	\$0.0833	<b>\$9.77</b>
June	\$8.730	\$1.01	\$0.0833	<b>\$9.83</b>
July	\$8.806	\$1.02	\$0.0833	<b>\$9.91</b>
August	\$8.872	\$1.03	\$0.0833	<b>\$9.98</b>
September	\$8.885	\$1.03	\$0.0833	<b>\$10.00</b>
October	\$8.970	\$1.04	\$0.0833	<b>\$10.09</b>
November	\$9.260	\$1.07	\$0.0833	<b>\$10.42</b>
December	\$9.580	\$1.11	\$0.0833	<b>\$10.77</b>
January-08	\$9.800	\$1.14	\$0.0833	<b>\$11.02</b>
February	\$9.785	\$1.13	\$0.0833	<b>\$11.00</b>
March	\$9.535	\$1.11	\$0.0833	<b>\$10.72</b>
April	\$8.285	\$0.96	\$0.0833	<b>\$9.33</b>
May	\$8.215	\$0.95	\$0.0833	<b>\$9.25</b>
June	\$8.265	\$0.96	\$0.0833	<b>\$9.31</b>
July	\$8.325	\$0.97	\$0.0833	<b>\$9.37</b>
August	\$8.380	\$0.97	\$0.0833	<b>\$9.44</b>
September	\$8.392	\$0.97	\$0.0833	<b>\$9.45</b>
				<b>\$9.92</b>
				<b>Average</b>

**1307f OCA I-1  
Appalachian Gas**

	Estimated NYMEX	Estimated Basis	Estimated Appalachian Direct Feed Cost	Estimated Variable Costs	Estimated Retainage	Estimated Appalachian Transport Cost
February-07	\$7.996	\$0.414	<b>\$8.41</b>	\$0.0168	\$0.38	<b>\$8.81</b>
March	\$8.660	\$0.382	<b>\$9.04</b>	\$0.0168	\$0.43	<b>\$9.49</b>
April	\$8.668	\$0.326	<b>\$8.99</b>	\$0.0168	\$0.41	<b>\$9.42</b>
May	\$8.680	\$0.319	<b>\$9.00</b>	\$0.0168	\$0.41	<b>\$9.42</b>
June	\$8.730	\$0.312	<b>\$9.04</b>	\$0.0168	\$0.41	<b>\$9.46</b>
July	\$8.806	\$0.315	<b>\$9.12</b>	\$0.0168	\$0.41	<b>\$9.55</b>
August	\$8.872	\$0.315	<b>\$9.19</b>	\$0.0168	\$0.41	<b>\$9.62</b>
September	\$8.885	\$0.312	<b>\$9.20</b>	\$0.0168	\$0.40	<b>\$9.62</b>
October	\$8.970	\$0.322	<b>\$9.29</b>	\$0.0168	\$0.42	<b>\$9.73</b>
November	\$9.260	\$0.322	<b>\$9.58</b>	\$0.0168	\$0.43	<b>\$10.03</b>
December	\$9.580	\$0.322	<b>\$9.90</b>	\$0.0168	\$0.44	<b>\$10.36</b>
January-08	\$9.800	\$0.322	<b>\$10.12</b>	\$0.0168	\$0.45	<b>\$10.59</b>
February	\$9.785	\$0.322	<b>\$10.11</b>	\$0.0168	\$0.45	<b>\$10.57</b>
March	\$9.535	\$0.322	<b>\$9.86</b>	\$0.0168	\$0.44	<b>\$10.31</b>
April	\$8.285	\$0.322	<b>\$8.61</b>	\$0.0168	\$0.39	<b>\$9.01</b>
May	\$8.215	\$0.322	<b>\$8.54</b>	\$0.0168	\$0.39	<b>\$8.94</b>
June	\$8.265	\$0.322	<b>\$8.59</b>	\$0.0168	\$0.39	<b>\$8.99</b>
July	\$8.325	\$0.322	<b>\$8.65</b>	\$0.0168	\$0.39	<b>\$9.06</b>
August	\$8.380	\$0.322	<b>\$8.70</b>	\$0.0168	\$0.39	<b>\$9.11</b>
September	\$8.392	\$0.322	<b>\$8.71</b>	\$0.0168	\$0.39	<b>\$9.13</b>
			<b>\$9.13</b>			<b>\$9.56</b>
			<b>Average</b>			<b>Average</b>



Month	Appalachian Production Direct Feed	Appalachian Production Gathering	Total Appalachian
Jan-07	393,312	508,372	901,684
Feb-07	365,349	488,335	853,684
Mar-07	291,962	589,853	881,815
Apr-07	405,838	414,184	820,022
May-07	415,942	320,389	736,331
Jun-07	306,816	311,322	618,138
Jul-07	316,979	295,451	612,430
Aug-07	311,867	284,449	596,316
Sep-07	307,814	269,637	577,451
Oct-07	319,488	323,696	643,184
Nov-07	124,060	590,496	714,556
Dec-07	127,911	637,391	765,302
Jan-08	130,344	780,239	910,583
Feb-08	116,363	844,881	961,244
<b>Totals:</b>	<b>3,934,045</b>	<b>6,658,695</b>	<b>10,592,740</b>
<b>Column #:</b>	<b>1</b>	<b>2</b>	<b>Sum of 1 and 2</b>
<b>Equitable Information Reference</b>	OCA-I-21-2nd Revised	OCA-I-21-2nd Revised	

Docket No. R-2008-2021160  
Item: OCA-III-1  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Office of Consumer Advocate

Item: OCA-III-1

Reference the response to OCA-I-21 Revised. Please explain:

- a. how much of the local gas flows over Equitable's gathering facilities;
- b. the extent to which the producers supplying the local production are assessed a retainage charge; and
- c. how PGC customers are assured of not paying for LUFG incurred on local production supplies purchased by transportation customers.

Response:

- a) For the period January 2007 through February 2008, approximately 63% of the local gas received utilized Equitable's gathering facilities. Please see the attached OCA-I-21-2<sup>nd</sup> Revised for monthly detail.
- b) Please see the response to OCA-III-4.
- c) End-use transportation customers are assessed retainage on local production consistent with Rate AGS and distribution retainage as per Tariff Rule 11.4, with the exception of end-use transportation customers who receive discounted retainage percentages as discussed in the Direct Testimony of John Quinn.

**EQUITABLE GAS COMPANY**  
**Response to Interrogatories of the**  
**Office of Consumer Advocate**

**Docket No. R-2008-2021160**  
**Item : OCA-III-1**  
**Item : OCA-I-21-2nd Revised**

<u>Month</u>	<u>Interstate</u> <u>Pipelines</u> (Dth)	<u>Local</u> <u>Production</u> <u>Direct Feed</u> (Dth)	<u>Local</u> <u>Production</u> <u>Gathering</u> (Dth)	<u>Total</u> (Dth)
Jan-07	2,033,668	393,312	508,372	2,935,350
Feb-07	2,361,566	365,349	488,335	3,215,249
Mar-07	1,915,665	291,962	589,853	2,797,479
Apr-07	1,616,530	405,838	414,184	2,436,552
May-07	1,182,815	415,942	320,389	1,919,146
Jun-07	861,083	306,816	311,322	1,479,221
Jul-07	621,993	316,979	295,451	1,234,423
Aug-07	741,846	311,867	284,449	1,338,162
Sep-07	585,163	307,814	269,637	1,162,614
Oct-07	801,954	319,488	323,696	1,445,138
Nov-07	1,529,138	124,060	590,496	2,243,694
Dec-07	2,427,706	127,911	637,391	3,193,008
Jan-08	2,561,760	130,344	780,239	3,472,343
Feb-08	2,786,438	116,363	844,881	3,747,682

**Responses of Independent Oil and Gas Association of Pennsylvania  
to the Interrogatories and Request for Production of Documents  
from Equitable Gas Company, Set II  
Docket Nos. R-2008-2029325, et al. and C-2066800**

**Equitable-II-10:**

10. (Page 14; lines 11-14) If the true cost of local Pennsylvania production is more expensive to Equitable's customers than the prevailing market price of interstate gas, should Equitable continue to purchase local Pennsylvania production? If the answer to this question is anything but "no," please explain how this is consistent with a least cost procurement initiative.

**Response:**

Any comparison of local Pennsylvania production costs and interstate gas costs would have to include upstream transportation and storage costs for interstate gas and exclude any factors that are not the responsibility of local Pennsylvania production (i.e., lost and unaccounted for gas factors). That being said, gas supply acquisition strategy attempts to minimize gas purchase costs while assuring there is adequate, reliable supply. There is not a simple "yes" or "no" answer to this question.

Response provided by James L. Crist

**Responses of Independent Oil and Gas Association of Pennsylvania  
to the Interrogatories and Request for Production of Documents  
from Equitable Gas Company, Set II  
Docket Nos. R-2008-2029325, et al. and C-209661300**

**Equitable-II-64:**

64. (Page 14): Please provide the economic or financial analysis that Ms. Burgraff relies upon in support of the statement, "Interstate supply can cost more than twice as much as Appalachian Supply including demand charges or 25% more excluding demand charges based on 2007 gas costs information."

**Response:**

Ms. Burgraff compared the total unit cost of local versus interstate supply using the "total" column for the 2007 gas cost information in Equitable's response to IOGA I-7. The cost of Equitable's gathering system was not factored into the calculation as part of the cost of local supply, nor should it be.

Response provided by Diane M. Burgraff

## **Exhibit JLC-6**

Docket No. R-2008-2021160

Summary of Estimated Purchased Gas Costs  
(10/2008 - 09/2009)

Summary of 2007 Actual Purchased Gas Costs  
(Total Costs)

Pennsylvania Division

Summary of Estimated Purchased Gas Costs  
for the Period October 2008 through September 2009

Line No	Description	2008						2009						Total
		October (1)	November (2)	December (3)	January (4)	February (5)	March (6)	April (7)	May (8)	June (9)	July (10)	August (11)	September (12)	
<b>Purchases</b>														
<b>Southwest</b>														
1	Quantity - Dth	414,114	7,753	646,323	522,527	979,344	633,999	1,261,007	195,535	0	0	0	0	4,660,602
2	Rate - \$/Dth	10.34	10.65	11.04	11.30	11.26	10.98	9.40	9.29	9.34	9.41	9.47	9.47	
3	Cost - \$	4,280,099	82,597	7,137,998	5,904,877	11,028,948	6,959,452	11,851,437	1,816,990	0	0	0	0	49,062,398
<b>Appalachian - Direct</b>														
4	Quantity - Dth	225,000	205,000	225,000	225,000	225,000	225,000	225,000	225,000	127,410	98,026	87,104	155,901	2,248,441
5	Rate - \$/Dth	9.51	9.79	10.14	10.37	10.34	10.08	8.67	8.57	8.62	8.68	8.73	8.73	
6	Cost - \$	2,139,469	2,007,719	2,282,344	2,334,094	2,326,219	2,268,844	1,950,469	1,929,094	1,098,370	850,743	760,309	1,361,600	21,309,274
<b>Appalachian - Transport</b>														
7	Quantity - Dth	675,000	615,000	675,000	675,000	675,000	675,000	675,000	675,000	382,500	395,250	395,250	457,500	6,970,500
8	Rate - \$/Dth	9.95	10.25	10.61	10.85	10.81	10.55	9.08	8.98	9.03	9.09	9.14	9.15	
9	Cost - \$	6,717,324	6,302,371	7,162,742	7,324,074	7,299,523	7,120,655	6,128,111	6,061,474	3,453,517	3,592,457	3,612,994	4,184,400	68,959,641
<b>Dominion Storage Withdrawals</b>														
10	Quantity - Dth		0	0	0	0	0	0	0	0	0	0	0	0
11	Rate - \$/Dth		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
12	Cost - \$		0	0	0	0	0	0	0	0	0	0	0	0
13	<b>Total Purchase Cost - \$</b>	<b>13,136,892</b>	<b>8,392,687</b>	<b>16,583,084</b>	<b>15,563,045</b>	<b>20,654,690</b>	<b>16,348,951</b>	<b>19,930,017</b>	<b>9,807,558</b>	<b>4,551,887</b>	<b>4,443,200</b>	<b>4,373,303</b>	<b>5,546,000</b>	<b>139,331,313</b>
<b>Plus: EQT Storage Withdrawals</b>														
14	Quantity - Dth	0	1,700,000	2,800,000	3,300,000	2,900,000	2,300,000	0	0	0	0	0	0	13,000,000
15	Rate - \$/Dth	0.00	7.9987	7.9987	7.9987	7.9987	7.9987	0.00	0.00	0.00	0.00	0.00	0.00	
16	Cost - \$	0	13,597,790	22,396,360	26,395,710	23,196,230	18,397,010	0	0	0	0	0	0	103,983,100
17	<b>Total Commodity Cost for Immediate Consumption - \$</b>	<b>13,136,892</b>	<b>21,990,477</b>	<b>38,979,444</b>	<b>41,958,755</b>	<b>43,850,920</b>	<b>34,745,961</b>	<b>19,930,017</b>	<b>9,807,558</b>	<b>4,551,887</b>	<b>4,443,200</b>	<b>4,373,303</b>	<b>5,546,000</b>	<b>243,314,413</b>
<b>Other Purchased Gas Costs - \$</b>														
18	Upstream Demand Costs	1,400,262	1,511,144	1,511,144	1,511,144	1,511,144	1,511,144	1,400,262	1,400,262	1,400,262	1,400,262	1,400,262	1,400,262	17,357,551
19	Equitrans Demand Costs	2,610,256	3,284,090	3,284,090	3,284,090	3,284,090	3,284,090	2,610,256	2,610,256	2,610,256	2,610,256	2,610,256	2,610,256	34,692,242
20	<b>Total Other Costs - \$</b>	<b>4,010,518</b>	<b>4,795,234</b>	<b>4,795,234</b>	<b>4,795,234</b>	<b>4,795,234</b>	<b>4,795,234</b>	<b>4,010,518</b>	<b>4,010,518</b>	<b>4,010,518</b>	<b>4,010,518</b>	<b>4,010,518</b>	<b>4,010,518</b>	<b>52,049,793</b>
21	<b>Total Purchased Gas Costs - \$</b>	<b>17,147,410</b>	<b>26,785,710</b>	<b>43,774,677</b>	<b>46,753,989</b>	<b>48,646,154</b>	<b>39,541,195</b>	<b>23,940,535</b>	<b>13,818,076</b>	<b>8,562,405</b>	<b>8,453,718</b>	<b>8,383,820</b>	<b>9,556,518</b>	<b>295,364,206</b>
<b>LESS:</b>														
22	Capacity Release/Standby Credits - \$	861,426	778,408	778,408	778,408	778,408	778,408	861,426	861,426	861,426	861,426	861,426	861,426	8,522,026
23	Balancing Credits	360,701	607,838	678,225	1,050,221	928,864	775,114	504,935	269,765	190,609	190,825	190,119	198,579	8,145,894
24		<b>16,125,283</b>	<b>25,399,364</b>	<b>42,118,044</b>	<b>44,925,359</b>	<b>46,938,881</b>	<b>37,987,672</b>	<b>22,774,174</b>	<b>12,886,884</b>	<b>7,710,369</b>	<b>7,601,467</b>	<b>7,532,275</b>	<b>8,696,513</b>	<b>280,696,286</b>

Docket Number R-2008-2021160  
 Item 53.64 (a)  
 Section I, Part B  
 Sheet 2 of 6 (REVISED)

Equitable Gas Company  
Pennsylvania Division

Summary of 2007 Actual Purchased Gas Costs  
(Total Costs)

Line No.	Description	January (1)	February (2)	March (3)	April (4)	May (5)	June (6)	July (7)	August (8)	September (9)	October (10)	November (11)	December (12)	Total (13)
COMMODITY														
Appalachian Purchases														
1	Purchases - Dth	954,181	1,129,312	1,276,673	641,957	889,089	1,250,729	303,976	351,994	405,739	463,234	1,016,648	1,185,668	9,869,200
2	Appalachian Cost	2,108,290	8,724,350	10,059,757	5,624,126	7,096,600	10,373,803	2,238,361	2,509,032	2,546,850	3,281,239	8,224,767	9,901,751	72,688,925
Upstream Pipeline Supply														
3	Purchases - Dth	549,858	1,247,222	879,193	339,124	134,860	123,249	125,640	128,214	128,744	113,226	1,121,364	1,399,189	6,289,883
4	Total Cost	8,657,872	12,002,544	8,762,431	4,372,490	(41,221)	903,236	860,861	710,371	603,046	792,859	8,695,025	11,983,337	58,302,851
Cash In														
5	Total Cost		(27,937)		372,611	0	242,371	61,976	2,720	38	103,245	21,362	0	776,387
6	Total Commodity Cost of Purchases	10,766,161	20,698,957	18,822,187	10,369,227	7,055,379	11,519,412	3,161,198	3,222,123	3,149,934	4,177,343	16,941,154	21,885,088	131,768,163
7	Storage Withdrawals - Dth	2,795,620	3,027,253	1,746,063	1,381,016	0	0	0	0	0	0	566,430	585,311	10,101,693
8	Storage Commodity Costs	20,790,206	24,074,555	13,490,543	11,081,207	0	0	0	0	0	0	4,178,673	4,321,506	77,936,690
9	Storage Withdrawal Costs	23,823	34,802	18,052	9,529	0	0	0	0	0	0	5,250	5,425	98,884
10	Total Storage Costs	20,816,031	24,109,357	13,508,595	11,090,736	0	0	0	0	0	0	4,183,923	4,326,931	78,035,574
11	Total Commodity Cost of Gas	31,582,192	44,808,314	32,330,782	21,459,963	7,055,379	11,519,412	3,161,198	3,222,123	3,149,934	4,177,343	21,125,077	26,212,019	209,803,737
Other Purchased Gas Costs														
12	Demand	4,432,176	4,478,201	6,519,708	3,908,190	3,890,885	3,905,072	3,914,804	3,916,993	3,919,842	3,923,945	4,728,440	4,760,785	52,299,042
13	Total Current Month Gas Cost	36,014,368	49,286,316	38,850,490	25,368,153	10,946,264	15,424,484	7,076,002	7,139,116	7,069,776	8,101,288	25,853,517	30,972,805	262,102,779
Credits to PGC														
14	Standby Service	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	2,876,959
15	Cash Out	400,244	224,836	436,360	18,618	895,011	(34,502)	0	0	90,088	0	128,140	764,240	2,923,035
16	Off system/Cap release sharing	523,627	693,271	934,975	262,792	38,853	244,386	94,170	184,565	89,636	(140,045)	139,779	104,847	3,172,856
17	Balancing Credit	930,973	1,173,032	680,749	536,106	236,841	181,828	186,739	185,621	199,177	282,365	605,473	859,407	6,078,311
18	Total Credits to PGC	2,096,590	2,330,885	2,291,831	1,077,263	1,410,451	631,458	520,655	609,931	618,648	382,067	1,113,138	1,968,242	15,051,162
19	Total 1307(f) Gas Cost	33,917,778	46,955,630	36,558,658	24,290,890	9,535,813	14,793,026	6,555,346	6,529,184	6,451,129	7,719,221	24,740,379	29,004,563	247,051,618

Docket Number R-2008-2021160  
 Item 53.64 (c) (a)  
 Section 1, Part D  
 Sheet 2 of 4

## **Exhibit JLC-7**

### **Comparison Index of TETCO and NYMEX**

Exhibit JC: Comparison of Tetco and NYMEX

	TETCO	NYMEX	NYMEX- TETCO
Jan-96	\$ 2.05	\$ 3.45	\$ 1.40
Feb-96	\$ 1.82	\$ 2.34	\$ 0.52
Mar-96	\$ 1.96	\$ 2.75	\$ 0.79
Apr-96	\$ 2.23	\$ 2.78	\$ 0.55
May-96	\$ 2.13	\$ 2.21	\$ 0.08
Jun-96	\$ 2.25	\$ 2.36	\$ 0.11
Jul-96	\$ 2.56	\$ 2.65	\$ 0.09
Aug-96	\$ 2.19	\$ 2.32	\$ 0.13
Sept-96	\$ 1.69	\$ 1.85	\$ 0.16
Oct-96	\$ 1.73	\$ 1.83	\$ 0.10
Nov-96	\$ 2.61	\$ 2.65	\$ 0.04
Dec-96	\$ 3.69	\$ 3.90	\$ 0.21
Jan-97	\$ 3.92	\$ 4.00	\$ 0.08
Feb-97	\$ 2.75	\$ 2.99	\$ 0.24
Mar-97	\$ 1.63	\$ 1.78	\$ 0.15
Apr-97	\$ 1.73	\$ 1.81	\$ 0.08
May-97	\$ 2.03	\$ 2.12	\$ 0.09
June-97	\$ 2.20	\$ 2.35	\$ 0.15
July-97	\$ 2.06	\$ 2.15	\$ 0.09
Aug-97	\$ 2.10	\$ 2.16	\$ 0.06
Sept-97	\$ 2.45	\$ 2.52	\$ 0.06
Oct-97	\$ 2.93	\$ 3.35	\$ 0.42
Nov-97	\$ 3.17	\$ 3.27	\$ 0.10
Dec-97	\$ 2.38	\$ 2.58	\$ 0.20
Jan-98	\$ 2.16	\$ 2.31	\$ 0.15
Feb-98	\$ 1.92	\$ 2.00	\$ 0.08
Mar-98	\$ 2.16	\$ 2.29	\$ 0.13
Apr-98	\$ 2.22	\$ 2.30	\$ 0.08
May-98	\$ 2.21	\$ 2.26	\$ 0.05
June-98	\$ 1.95	\$ 2.02	\$ 0.07
July-98	\$ 2.28	\$ 2.36	\$ 0.08
Aug-98	\$ 1.88	\$ 1.94	\$ 0.06
Sept-98	\$ 1.54	\$ 1.67	\$ 0.13
Oct-98	\$ 1.95	\$ 2.03	\$ 0.08
Nov-98	\$ 1.91	\$ 1.97	\$ 0.06
Dec-98	\$ 2.03	\$ 2.15	\$ 0.12
Jan-99	\$ 1.68	\$ 1.77	\$ 0.09
Feb-99	\$ 1.74	\$ 1.81	\$ 0.07
Mar-99	\$ 1.56	\$ 1.67	\$ 0.11
Apr-99	\$ 1.81	\$ 1.85	\$ 0.04
May-99	\$ 2.29	\$ 2.35	\$ 0.06
Jun-99	\$ 2.15	\$ 2.23	\$ 0.08
Jul-99	\$ 2.20	\$ 2.26	\$ 0.06
Aug-99	\$ 2.53	\$ 2.60	\$ 0.07
Sep-99	\$ 2.79	\$ 2.91	\$ 0.12
Oct-99	\$ 2.42	\$ 2.56	\$ 0.14
Nov-99	\$ 2.94	\$ 3.09	\$ 0.15
Dec-99	\$ 2.03	\$ 2.12	\$ 0.09
Jan-00	\$ 2.27	\$ 2.34	\$ 0.07
Feb-00	\$ 2.54	\$ 2.61	\$ 0.07

Exhibit JC: Comparison of Tetco and NYMEX

	TETCO	NYMEX	NYMEX- TETCO
Mar-00	\$ 2.54	\$ 2.60	\$ 0.06
Apr-00	\$ 2.81	\$ 2.90	\$ 0.09
May-00	\$ 3.00	\$ 3.09	\$ 0.09
Jun-00	\$ 4.28	\$ 4.41	\$ 0.13
Jul-00	\$ 4.24	\$ 4.37	\$ 0.13
Aug-00	\$ 3.70	\$ 3.66	\$ (0.04)
Sep-00	\$ 4.46	\$ 4.62	\$ 0.16
Oct-00	\$ 5.13	\$ 5.31	\$ 0.18
Nov-00	\$ 4.35	\$ 4.54	\$ 0.19
Dec-00	\$ 5.86	\$ 6.02	\$ 0.16
Jan-01	\$ 9.83	\$ 9.98	\$ 0.15
Feb-01	\$ 6.02	\$ 6.29	\$ 0.27
Mar-01	\$ 4.79	\$ 5.00	\$ 0.21
Apr-01	\$ 5.21	\$ 5.38	\$ 0.17
May-01	\$ 4.73	\$ 4.89	\$ 0.16
Jun-01	\$ 3.61	\$ 3.74	\$ 0.13
Jul-01	\$ 3.07	\$ 3.18	\$ 0.11
Aug-01	\$ 3.06	\$ 3.17	\$ 0.11
Sep-01	\$ 2.21	\$ 2.30	\$ 0.09
Oct-01	\$ 1.75	\$ 1.83	\$ 0.08
Nov-01	\$ 3.08	\$ 3.20	\$ 0.12
Dec-01	\$ 2.22	\$ 2.32	\$ 0.10
Jan-02	\$ 2.50	\$ 2.56	\$ 0.06
Feb-02	\$ 1.94	\$ 2.01	\$ 0.07
Mar-02	\$ 2.31	\$ 2.39	\$ 0.08
Apr-02	\$ 3.32	\$ 3.47	\$ 0.15
May-02	\$ 3.25	\$ 3.32	\$ 0.07
Jun-02	\$ 3.26	\$ 3.42	\$ 0.16
Jul-02	\$ 3.15	\$ 3.28	\$ 0.13
Aug-02	\$ 2.85	\$ 2.98	\$ 0.13
Sep-02	\$ 3.15	\$ 3.29	\$ 0.14
Oct-02	\$ 3.58	\$ 3.69	\$ 0.11
Nov-02	\$ 4.05	\$ 4.13	\$ 0.08
Dec-02	\$ 4.05	\$ 4.14	\$ 0.09
Jan-03	\$ 4.68	\$ 4.99	\$ 0.31
Feb-03	\$ 5.45	\$ 5.66	\$ 0.21
Mar-03	\$ 9.00	\$ 9.13	\$ 0.13
Apr-03	\$ 5.02	\$ 5.15	\$ 0.13
May-03	\$ 4.97	\$ 5.12	\$ 0.15
Jun-03	\$ 5.82	\$ 5.95	\$ 0.13
Jul-03	\$ 5.18	\$ 5.29	\$ 0.11
Aug-03		\$ 4.69	\$ 4.69
Sep-03	\$ 4.82	\$ 4.93	\$ 0.11
Oct-03	\$ 4.32	\$ 4.43	\$ 0.11
Nov-03	\$ 4.34	\$ 4.46	\$ 0.12
Dec-03	\$ 4.74	\$ 4.86	\$ 0.12
Jan-04	\$ 6.03	\$ 6.15	\$ 0.12
Feb-04	\$ 5.46	\$ 5.78	\$ 0.32
Mar-04	\$ 4.93	\$ 5.15	\$ 0.22
Apr-04	\$ 5.21	\$ 5.37	\$ 0.16

Exhibit JC: Comparison of Tetco and NYMEX

	TETCO	NYMEX	NYMEX- TETCO
May-04	\$ 5.80	\$ 5.94	\$ 0.14
Jun-04		\$ 6.68	\$ 6.68
Jul-04		\$ 6.14	\$ 6.14
Aug-04		\$ 6.05	\$ 6.05
Sep-04	\$ 4.88	\$ 5.08	\$ 0.20
Oct-04	\$ 5.56	\$ 5.72	\$ 0.16
Nov-04	\$ 7.34	\$ 7.63	\$ 0.29
Dec-04	\$ 7.58	\$ 7.98	\$ 0.40
Jan-05	\$ 5.79	\$ 6.21	\$ 0.42
Feb-05	\$ 5.81	\$ 6.29	\$ 0.48
Mar-05	\$ 5.97	\$ 6.30	\$ 0.33
Apr-05	\$ 7.14	\$ 7.32	\$ 0.18
May-05	\$ 6.52	\$ 6.75	\$ 0.23
Jun-05	\$ 5.88	\$ 6.12	\$ 0.24
Jul-05	\$ 6.78	\$ 6.98	\$ 0.20
Aug-05	\$ 7.43	\$ 7.65	\$ 0.22
Sep-05	\$ 10.29	\$ 10.85	\$ 0.56
Oct-05	\$ 12.60	\$ 13.91	\$ 1.31
Nov-05	\$ 12.05	\$ 13.83	\$ 1.78
Dec-05	\$ 8.63	\$ 11.18	\$ 2.55
Jan-06	\$ 9.33	\$ 11.43	\$ 2.10
Feb-06	\$ 7.27	\$ 8.40	\$ 1.13
Mar-06	\$ 6.70	\$ 7.11	\$ 0.41
Apr-06	\$ 6.57	\$ 7.23	\$ 0.66
May-06	\$ 6.65	\$ 7.20	\$ 0.55
Jun-06	\$ 5.56	\$ 5.93	\$ 0.37
Jul-06	\$ 5.62	\$ 5.89	\$ 0.27
Aug-06	\$ 6.71	\$ 7.04	\$ 0.33
Sep-06	\$ 6.38	\$ 6.82	\$ 0.44
Oct-06	\$ 3.78	\$ 4.20	\$ 0.42
Nov-06	\$ 6.76	\$ 7.15	\$ 0.39
Dec-06	\$ 7.46	\$ 8.32	\$ 0.86
Jan-07	\$ 5.56	\$ 5.84	\$ 0.28
Feb-07	\$ 6.53	\$ 6.92	\$ 0.39
Mar-07	\$ 6.94	\$ 7.55	\$ 0.61
Apr-07	\$ 6.97	\$ 7.56	\$ 0.59
May-07	\$ 7.17	\$ 7.51	\$ 0.34
Jun-07	\$ 7.24	\$ 7.59	\$ 0.35
Jul-07	\$ 6.61	\$ 6.93	\$ 0.32
Aug-07	\$ 5.78	\$ 6.11	\$ 0.33
Sep-07	\$ 5.15	\$ 5.43	\$ 0.28
Oct-07	\$ 6.06	\$ 6.42	\$ 0.36
Nov-07	\$ 6.88	\$ 7.27	\$ 0.39
Dec-07	\$ 6.51	\$ 7.20	\$ 0.69
Jan-08	\$ 6.83	\$ 7.17	\$ 0.34
Feb-08	\$ 7.66	\$ 8.00	\$ 0.34
Mar-08	\$ 8.46	\$ 8.93	\$ 0.47
Apr-08	\$ 9.11	\$ 9.58	\$ 0.47
May-08	\$ 10.75	\$ 11.28	\$ 0.53
Jun-08	\$ 11.16	\$ 11.92	\$ 0.76

Exhibit JC: Comparison of Tetco and NYMEX

	TETCO	NYMEX	NYMEX- TETCO
Jul-08	\$ 12.64	\$ 13.11	\$ 0.47
Aug-08	\$ 8.79	\$ 9.22	\$ 0.43
Sep-08	\$ 7.70	\$ 8.39	\$ 0.69
Oct-08	\$ <b>6.53</b>	\$ <b>7.47</b>	\$ <b>0.94</b>
Nov-08	\$ 5.66	\$ 6.47	\$ 0.81
		\$	\$ <b>0.43</b>

## **Exhibit JLC-8**

Docket No. R-2008-2021160

Equitable Gas Company's  
Attachment 1 to Item 53.65(1)

**Equitable Gas Company**  
**Attachment 1 to Item 53.65(1)**

Appalachian Gas				
Term	Equitable Energy LLC (Equitrans Delivered) (\$/Dth)	Equitable Energy LLC (DTI) (\$/Dth)	Equitable Energy LLC (TCO) (\$/Dth)	(a.) Market Price (\$/Dth)
February 7, 2007	9.05			n/a
February 15		10.455		10.455
July 1			6.935	6.935
August		7.98	(b)	6.43
September		7.98	(b)	5.61
October 31			7.40	7.235
December		7.553		7.69

(a.) Prices listed for purchases made on the first day of the month are based on *Inside FERC's Gas Market Report*. Prices listed for purchases made after the first of the month are based on the Gas Daily Midpoint and represent actual flow dates.

(b.) Prices listed were triggered prior to actual month in which the gas flowed and were reflective of market conditions at that time.

11-20-08  
R-2008-2029325  
Hby PA  
WJH

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :  
v. : R-2008-2029325  
Equitable Gas Company :  
  
Independent Oil and Gas Association of :  
Pennsylvania, :  
Complainant :  
v. : C-20066800  
:  
Equitable Gas Company, :  
Respondent :

**SURREBUTTAL TESTIMONY OF**

**JAMES L. CRIST**

**ON BEHALF OF**

**THE INDEPENDENT OIL AND GAS ASSOCIATION**

**Topics Addressed**

Benefits of Gathering Facilities  
Value of Pennsylvania Natural Gas  
Agency Service  
Improved Operational Procedures

November 14, 2008

RECEIVED  
2008 DEC -2 PM 2:19  
PA PUC  
SECRETARY'S BUREAU

1 **Q. HAVE YOU PRESENTED TESTIMONY IN THIS PROCEEDING?**

2 A. Yes. I presented direct testimony on behalf of the Independent Oil and Gas  
3 Association of Pennsylvania (“IOGA”) and Hess Corporation (“Hess”).

4 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS SURREBUTTAL**  
5 **TESTIMONY?**

6 A. IOGA.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. My surrebuttal testimony will respond to much of the rebuttal testimony of  
9 Equitable Gas Company (“Equitable” or “Company”) witness Dalena regarding  
10 the value of locally produced gas to the customers of the Company, as well as Mr.  
11 Feingold’s reliance on FERC’s standards for assigning costs to shippers.

12 **Q. WHAT STANDARDS DOES MR. FEINGOLD RELY UPON TO SUPPORT**  
13 **HIS COST ALLOCATION TO PRODUCERS?**

14 A. Mr. Feingold relies upon FERC standards. But, if one does closely examine the  
15 FERC comments that are cited by Mr. Feingold they support IOGA’s position –  
16 not his. He claims that FERC has a position that the costs of transporting natural  
17 gas should be assigned to the “shipper.” The shipper in the case of local  
18 production delivered into the gathering system is Equitable when the gas is  
19 purchased by Equitable, and it is the end user transportation customer when the  
20 gas is purchased by a marketer on behalf of the transportation customer. In both  
21 cases, title to the local gas passes to the purchaser as soon as it is delivered into  
22 the gathering facilities. In both instances, Equitable already charges a rate for  
23 transportation – the distribution rate. So, even according to Mr. Feingold,  
24 gathering facility costs should be assigned to and paid by end user customers, not  
25 the gas sellers.  
26

1 **Q. WHAT IS THE MAIN THEME OF MR. DALENA'S REBUTTAL**  
2 **TESTIMONY?**

3 A. The areas of Mr. Dalena's rebuttal that address my testimony had a very  
4 consistent theme of "Pennsylvania-produced gas is the highest cost and least  
5 desirable gas supply from Equitable's perspective." This theme is exactly the  
6 opposite of what Equitable has been testifying to for years in their annual  
7 purchased cost gas ("PGC") rate proceedings, and is also opposite of what Mr.  
8 Dalena himself testified in the 2006 failed acquisition attempt.

9 **Q. WHAT DOES MR. DALENA SAY ABOUT EQUITABLE'S GATHERING**  
10 **FACILITY INVESTMENTS?**

11 A. On page 4 of his testimony rebuttal testimony, Mr. Dalena claims that Equitable  
12 has invested \$19 million in improvements on gathering system pipelines that are  
13 designed to bring local Pennsylvania gas to market.

14 **Q. IS THIS AN ACCURATE PORTRAYAL?**

15 A. No. Mr. Dalena is incorrect in stating that \$19 million was spent entirely on the  
16 gathering system pipelines. The response to data request IOGA I-1 (Exhibit JLC-  
17 5) in IOGA's complaint case points out that many of the improvements were  
18 classified to transmission and distribution facilities accounts. From the years  
19 2000-07, \$3.6 million of improvements were made that were classified as  
20 gathering. Those improvements do not enable producers to move their gas to off-  
21 system markets, that is, to access a wide variety of purchasers of natural gas  
22 available through connections with an interstate pipeline system. The response to  
23 data request IOGA III-1 (Exhibit JLC-5) in the base rate case states that "for the  
24 calendar years 2005, 2006, and 2007, all of the gas entering Equitable's gathering  
25 facilities, net of lost and unaccounted for gas and compressor fuel was delivered

1 to customers of Equitable Gas.” Those gathering system improvements Mr.  
2 Dalena references were made so that Equitable was able to obtain additional  
3 Pennsylvania production gas for one market, the system supply of the Equitable  
4 Gas distribution utility. This has been a benefit to the customers of Equitable  
5 Gas.

6 **Q. WHAT WAS THE SOURCE OF THE FUNDS FOR THOSE**  
7 **INVESTMENTS?**

8 A. Mr. Dalena’s testimony gives the impression that Equitable altruistically invested  
9 \$19 million of is own money, but that is not accurate. The response to IOGA IV-  
10 3 (Exhibit JLC-5) shows that in 2007 alone Equitable collected \$5,169,989 from  
11 producers under Rate AGS. In the years that Rate AGS has been in effect (since  
12 2003) the Company has collected their investment from the gas producers to pay  
13 for these piping improvements, according to Mr. Rafferty’s rebuttal testimony.

14 **Q. WHAT DOES MR. DALENA SAY ABOUT THE NATURE OF**  
15 **PENNSYLVANIA PRODUCED GAS?**

16 A. On page 6, Mr. Dalena expresses his opinion that Pennsylvania produced gas  
17 cannot be a substitute for Southwest gas delivered to Equitable through their  
18 pipeline affiliate Equitrans.

19 **Q. DO YOU AGREE?**

20 A. No. Data provided by the Company illustrate that Pennsylvania produced gas has  
21 been increasing as a portion of the Company’s system supply, while Southwest  
22 gas has been decreasing as a portion of the Company’s system supply. This is  
23 what I mean when I say that Pennsylvania produced gas has been a substitute or  
24 replacement for Southwest gas.

1 **Q. HOW DOES PENNSYLVANIA PRODUCTION FLOW ON EQUITABLE'S**  
2 **SYSTEM?**

3 A. On page 6 of his testimony, Mr. Dalena states that Pennsylvania gas flows evenly  
4 on a continuous basis and is not decreased in the summertime and increased in the  
5 wintertime when customer demand increases.

6 **Q. IS HIS TESTIMONY ACCURATE?**

7 A. No. As evidenced in the Company's 2008 1307f filing (Docket Number R-2008-  
8 2021160) Item 53.64 (c) (a), Section I, Part D, Sheet 2 of 4 and Section I, Part B,  
9 Sheet 2 of 6 (Revised) (Exhibit JLC-6), the seasonality of Pennsylvania gas is  
10 clear. The Summary of 2007 Actual data shows the three summer months of  
11 June, July and August for total Appalachian purchases to be 1,906,699 Dth and  
12 the three winter months of December, January, and February to be 3,269,161 Dth.  
13 That illustrates a summer decrease of 41%. In their 2008 Estimate the  
14 Appalachian Direct was broken out from the Total Appalachian volumes. The  
15 three summer months total 214,612 Dth compared to the three winter months of  
16 675,000 Dth, which is an even greater summer decrease of 69%. Another  
17 illustration is demonstrated in Equitable's response to OCA I-21 (Exhibit JLC-5)  
18 which I am including along with my Exhibit JLC-7 based on that data. The flow  
19 of Pennsylvania gas, similar to Southwest gas is increased in the wintertime to  
20 supply the greater customer demands due to seasonal heating requirements. Mr.  
21 Dalena's contention that Pennsylvania gas flows evenly on a continuous basis is  
22 just plain wrong.

23 **Q. YOU MENTIONED EARLIER THAT MR. DALENA'S TESTIMONY IS**  
24 **THAT PENNSYLVANIA GAS IS HIGHER COST THAN INTERSTATE**  
25 **GAS. WHAT IS MR. DALENA'S SUPPORT FOR THIS POSITION?**

1 A. Mr. Dalena has constructed an exhibit that purportedly illustrates that the cost of  
2 Pennsylvania produced gas is higher than the cost of interstate gas that flows  
3 through Equitable's affiliate

4 **Q. WHAT IS YOUR RESPONSE TO THIS EXHIBIT?**

5 A. *There are many fallacies contained in this exhibit and in my opinion purported*  
6 *conclusions are not valid. Mr. Dalena has constructed his exhibit by not*  
7 *describing the aggregate cost of gas supplies and selectively choosing data from a*  
8 *moment in time that illustrates the point he is trying to make. Such data is not*  
9 *representative of the actual situations which Equitable has experienced over*  
10 *several years in terms of the cost of their system supply gas. My first comment*  
11 *on this exhibit is that it is exactly a snapshot in time. Mr. Dalena selected October*  
12 *2008 as the basis for the price data he cites to construct his comparison. Such a*  
13 *snapshot is totally inappropriate for a comparison of the gas supply costs of the*  
14 *Equitable system. A review of PGC data illustrates clearly that for several years*  
15 *interstate gas supply was the more expensive source of gas compared to*  
16 *Pennsylvania production.*

17 My second comment is that the starting point for the comparison, the  
18 index or purchase price of gas, is not a fair starting point. In the Pennsylvania  
19 Appalachian case and the Equitrans Gathering examples Mr. Dalena selected the  
20 Nymex settled price of October 2008 was \$7.472/Dth. For the Interstate example  
21 Mr. Dalena selected the TETCO East Texas Index of \$6.53/Dth. One can see that  
22 the spread between these two numbers is \$0.94. However, if a dozen year history  
23 of this data is examined as I did in my Exhibit JLC-7, one can see that the average  
24 difference is not \$0.94, but instead \$0.43. This indicates that there has been no

1 significant change in the historic price differential to warrant the logical result of  
2 Mr. Dalena's testimony: that Equitable should be buying all Southwest gas to  
3 serve its customers. It seems Mr. Dalena has deliberately picked his month of  
4 comparison at an extreme point which skews the result. In fact, the difference in  
5 the two indices has not been that great since February 2006. Mr. Dalena's  
6 comparison is not valid.

7 My third comment is that Mr. Dalena's assumption of a lost and  
8 unaccounted for factor for Pennsylvania Appalachian of 10% to 20% is arbitrary  
9 and overstated. He used tariffed retainage amounts in the Interstate examples of  
10 5.8% on TETCO and 3.7% on Equitrans. His 10% to 20% numbers for  
11 Pennsylvania Appalachian are not part of any tariff and not contained in the  
12 current local production contracts as an acceptable retainage percentage, but  
13 merely amounts submitted in this proceeding while Equitable had submitted an  
14 LUGF study in its 2008 PGC proceeding (which was pending after Equitable  
15 made its base rate filing) supporting its tariffed retainage of 6% and 8% for  
16 transportation customers (Rule 11.4).

17 **Q. WHAT IS THE COST OF PENNSYLVANIA PRODUCTION IN MR.**  
18 **DALENA'S EXHIBIT?**

19 A. Mr. Dalena assumed an \$0.89/dth gathering cost for Pennsylvania Appalachian  
20 gas. But this is not appropriate because it includes the sunk cost of the gathering  
21 investments at the full proposed rate increase. See IOGA responses to Equitable  
22 II-10 and II-64 (Exhibit JLC-5). Clearly \$0.89 grossly exaggerates the cost of  
23 Pennsylvania gas, which is the deception that Mr. Dalena was attempting.

24 **Q. WHAT IS A MORE RELIABLE COMPARISON OF THE COST OF**  
25 **PENNSYLVANIA GAS AND SOUTHWEST GAS?**

1 A. A more reliable comparison of the data would use the true costs of interstate gas  
2 and Pennsylvania produced gas. The data from Equitable Gas' 2008 PGC  
3 proceeding would be a more reliable indicator because that data encompasses the  
4 gas supply costs for the entire year. Looking at my exhibit of data from the  
5 Company's 2008 PGC filing (Docket Number R-2008-2021160), Item 53.64 (c)  
6 (a), Section I, Part D, Sheet 2 of 4 and Section I, Part B, Sheet 2 of 6 (Revised)  
7 (Exhibit JLC-6), it can be seen that Pennsylvania produced gas is actually less  
8 expensive than interstate gas. I used this exhibit earlier to illustrate the  
9 seasonality of local production. Now I am using the Company's exhibit to  
10 demonstrate the lower cost of Pennsylvania gas. Using 2007 Actual data and  
11 calculating the Appalachian purchase cost by dividing \$72,688,925 by 9,869,200  
12 Dth results in \$7.36/Dth. The southwest purchases for that period were  
13 \$58,302,851 divided by 6,289,883 Dth which results in \$9.26/Dth.

14 Looking at what the Company calls "Estimated Purchased Gas Costs" for  
15 2008-2009, which includes the month of October 2008 used in Mr. Dalena's  
16 exhibit, similar calculations are:

- 17 - Appalachian Direct:  $\$21,309,274 / 2,248,441 \text{ Dth} = \$9.47/\text{Dth}$
- 18 - Appalachian Transport:  $\$68,959,641 / 6,970,500 \text{ Dth} = \$9.89/\text{Dth}$
- 19 - Southwest:  $\$49,062,398 / 4,660,602 \text{ Dth} = \$10.52/\text{Dth}$

20 So if one looks at commodity costs it is clear from the Company's own evidence  
21 that local Pennsylvania gas is less expensive Southwest gas. This is why the  
22 Company has consistently testified in their PGC cases that local gas is beneficial

1 to their customers and why the Company continues to expand its purchases of  
2 local gas.

3 **Q. WERE YOU ABLE TO CONSTRUCT A SIMILAR COMPARISON USING**  
4 **MONTHLY DATA?**

5 A. Yes. The data contained in the response to the PGC data request OCA I-1 was  
6 examined. I have included that data request and the data tables as an exhibit. I  
7 have added the average numbers at the bottom of each of the three categories of  
8 gas supply. The price relationships remain the same with the highest cost being  
9 Southwest at \$9.92/Dth, then Appalachian Transport at \$9.56/Dth, and the lowest  
10 being Appalachian Direct at \$9.13/Dth.

11 **Q. ARE THERE OTHER COSTS INVOLVED?**

12 A. Yes. There are the expensive upstream demand charges.

13 **Q. WHAT ARE THE DATA FOR THOSE CHARGES?**

14 A. From the same PGC filing, looking at the Actual costs for 2007 the Demand is  
15 listed as \$52,299,042 and the 2008-2009 Estimate is \$52,049,793. The Estimate  
16 costs are actually broken down in the Company's table into "Upstream Demand  
17 Costs" and "Equitrans Demand Costs".

18 **Q. WHAT ARE EACH OF THOSE COSTS?**

19 A. The Upstream Demand costs, which are the costs of the TETCO Pipeline, are  
20 \$17,357,551, and the Equitrans costs are \$34,692,242. So the affiliate pipeline  
21 demand costs are approximately twice the non-affiliate costs.

22 **Q. WHERE DOES THE TETCO PIPELINE ORIGINATE?**

23 A. That pipeline brings gas from Texas up to Pennsylvania, approximately 1,200  
24 miles.

- 1 **Q. WHERE DOES THE EQUITRANS PIPELINE ORIGINATE?**
- 2 A. That pipeline brings gas from West Virginia to Pennsylvania, approximately 200
- 3 miles.
- 4 **Q. DOES EQUITABLE AGREE WITH IOGA THAT PENNSYLVANIA**
- 5 **PRODUCTION IS A NECESSARY PART OF ITS SUPPLY FOR ITS**
- 6 **CUSTOMERS?**
- 7 A. No. On page 9 Mr. Dalena states that if Pennsylvania production were to
- 8 disappear tomorrow or return to the level of 10 years ago, that the customers of
- 9 Equitable gas would be unaffected.
- 10 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY.**
- 11 A. Mr. Dalena's comments reverse a long-standing company position and is not
- 12 consistent with the data shown above. This is the first time anyone from Equitable
- 13 has expressed the thought to not incorporate Pennsylvania produced gas in its gas
- 14 supply plan. Traditionally, Equitable's supply strategy has included using
- 15 Pennsylvania produced gas, and this has increased over the past years. In the
- 16 2008 PGC case, which was pending when Equitable filed its base rate case,
- 17 Company witness Wiggers stated: "I would expect the percentage of supply from
- 18 other Appalachian sources to continue to increase during the next several years
- 19 and the percentage from the Southwest production area to decline accordingly."
- 20 (Equitable St. No. 3, p. 8, lines 3-6).
- 21 **Q. MR. DALENA CITES A 100 YEAR PERIOD WHERE EQUITABLE DID**
- 22 **NOT OPERATE WITH PENNSYLVANIA PRODUCTION. IS THIS**
- 23 **ACCURATE?**
- 24 A. No. Historically Equitable operated gas wells, and in fact still does have
- 25 operating gas wells which they own and produce gas for use on their system.
- 26 They have always had Pennsylvania production as part of their gas supply mix.

1 **Q. DOES MR. DALENA SAY ANYTHING ABOUT THE RELIABILITY OF**  
2 **PENNSYLVANIA GAS?**

3 A. Yes. On page 9 Mr. Dalena acknowledges that Pennsylvania Gas is relatively  
4 reliable.

5 **Q. WHAT VALUE DOES THIS STATEMENT HAVE?**

6 A. According to the PGC testimony provided by Equitable witnesses, the reliability  
7 of Pennsylvania gas is desirable and has value. Mr. Wiggers states: "Multiple  
8 pricing options have enabled the Company to encourage the development of new  
9 supplies while attempting to reduce price volatility and operational uncertainties  
10 that have been customary within the natural gas industry." (Equitable St. No. 3,  
11 p. 6, lines 21-23).

12 **Q. WHAT IS THE PURPOSE OF PENNSYLVANIA GAS ON EQUITABLE'S**  
13 **SYSTEM?**

14 A. According to Mr. Dalena (p. 11), Equitable's baseload demand is entirely satisfied  
15 by the purchase of local Pennsylvania gas.

16 **Q. IS THIS STATEMENT ACCURATE?**

17 A. No, it is not. Reviewing PGC data it can be seen that the baseload demands of  
18 Equitable are met in part with Pennsylvania produced gas, but not exclusively.  
19 Examining the 2007 actual data it can be seen that the summer load for July,  
20 August and September totaled 1,061,659 Dth from Appalachian Purchases or  
21 73.5% of the total and 382,598 Dth from Upstream Pipeline Supply or 26.5% of  
22 the total. The Company did not break out the data in their exhibit but has testified  
23 elsewhere that Appalachian Purchases consist of Appalachian Direct  
24 (Pennsylvania gas) and Appalachian Transport (gas that flows through Equitrans).

1 In fact, there is still room for growth of Pennsylvania based gas provided on a  
2 continuous year around basis.

3 **Q. ON PAGE 12 MR. DALENA EXPLAINS THAT IT WAS THE**  
4 **COMPANY'S VIEW THAT THEIR INVESTMENT IN GATHERING**  
5 **SYSTEM IMPROVEMENTS WOULD BE RECOVERED BY**  
6 **REDUCTIONS IN PGC GAS COSTS. DOES NOT THIS TESTIMONY**  
7 **SUPPORT YOUR POINT?**

8 A. Yes, the Company clearly believed that increased use of local gas production  
9 would result in savings of interstate pipeline costs for customers.

10 **Q. WHO SHOULD BEAR THE EXPENSE OF LOST AND UNACCOUNTED**  
11 **FOR GAS?**

12 A. In the case of the Apollo acquisition it should clearly be borne by the shareholders  
13 of Equitable Resources. If Equitable was lax on their due diligence associated  
14 with this piping acquisition, as Mr. Dalena seems to acknowledge indirectly, they  
15 should not be permitted the safety net of having customers or producers pay an  
16 extraordinary amount to improve this leaky system or to pay for an extremely  
17 high LUGF charge. At the time of acquisition, Equitable stated they were not  
18 going to recover any acquisition costs associated with this system. Just because  
19 several years have passed and Equitable allegedly has only recently learned of the  
20 mistakes they made in their assessment prior to purchase, this does not create a  
21 justification for attempting to recover such costs now from customers or  
22 producers. The leaky pipes would have been evident in 1999 when the system  
23 was operating at 8 psig. Equitable's position that they did not know how leaky  
24 those pipes were until the operating pressure increased is a transparent excuse for  
25 not making the necessary repairs when they should have and a transparent after  
26 the fact rationalization to support putting the LUGF costs on producers.

1 Q. **ONCE GAS PRODUCERS HAVE DRILLED A WELL THAT BECOMES**  
2 **CONNECTED TO THE EQUITABLE SYSTEM, DO THEY HAVE A**  
3 **STRONG NEGOTIATING POSITION WITH RESPECT TO CHARGES**  
4 **EQUITABLE MAY ASSESS THEM IN THE FUTURE?**

5 A. No. This is best evidenced by Mr. Dalena's testimony on page 16, line 14, where  
6 he disputes Ms. Burgraff's testimony that under Equitable's proposal gathering  
7 costs will become PGC "gas costs" by firmly stating "unequivocally this will not  
8 happen. If producers were to demand such a price (that includes increased  
9 gathering costs), Equitable would simply refuse to buy the gas as Equitable has  
10 many other supply options."

11 Q. **ON PAGE 17 MR. DALENA STATES THAT YOU DID NOT PROVIDE**  
12 **ANY PROOF THAT PENNSYLVANIA GAS WAS LOWER COST. DOES**  
13 **SUCH PROOF EXIST?**

14 A. Yes. With the many years of Company PGC filings, I was surprised when I read  
15 Mr. Dalena's comment because I did not expect the Company to do a complete  
16 reversal of its position regarding the attractiveness of Pennsylvania gas and its  
17 cost advantages. The proof which I relied on is the Company's testimony and  
18 exhibits in their PGC cases. My surrebuttal testimony contains many references  
19 and exhibits from the 2008 PGC case.

20 Q. **ON PAGE 19 MR. DALENA CITES A SECTION OF THE**  
21 **PENNSYLVANIA CODE. WHAT IS THE RELATIONSHIP OF THAT**  
22 **SECTION IN THIS PROCEEDING?**

23 A. I am not sure. In my direct testimony I cited the sections from Chapter 60 that  
24 addressed development of local Pennsylvania gas. Section 60.1 specifically  
25 states: "The development of Pennsylvania natural gas should be promoted,  
26 because it will achieve benefits that accrue to gas utilities and their customers."  
27 That is clearly addressing local gas production. Section 60.2 states: "The tariff

1 may not unreasonably restrict Commonwealth natural gas producer access to gas  
2 utility facilities.” Mr. Dalena cites a section that refers to natural gas  
3 transportation customers, which is really not a topic that I addressed in my direct  
4 testimony, except when discussing the Agency program, and otherwise is not  
5 involved in this case.

6 **Q. ON PAGE 19 MR. DALENA CLAIMED THAT EQUITABLE DOES NOT**  
7 **PURCHASE GAS FROM ITS AFFILIATE AND OFFERS THAT AS AN**  
8 **INDICATION THAT EQUITABLE RESOURCES WILL NOT ACT IN ITS**  
9 **FINANCIAL SELF-INTEREST IF AN OPPORTUNITY AROSE. IS HIS**  
10 **STATEMENT CORRECT?**

11 **A.** No. It is wrong on both claims. Equitable does indeed buy gas from its affiliate as  
12 described in Attachment 1 to Item 53.65(1) in the 2008 PGC filing (Exhibit JLC-  
13 8). My direct testimony was describing actions that Equitable Resources could  
14 take prospectively, and one of those actions is purchasing gas from their  
15 production or marketing affiliates. Equitable Resources’ presentations to the  
16 financial community have stressed their role as a production company and  
17 downplayed their role as a regulated public utility.

18 **Q. MR. DALENA CLAIMS ON PAGE 20 TO HAVE “DEMONSTRATED**  
19 **THAT THESE INTERSTATE DELIVERED GAS VOLUMES UNLIKE**  
20 **PENNSYLVANIA PRODUCTION ARE TRULY LOW COST.” WAS THIS**  
21 **DEMONSTRATED?**

22 **A.** No. I already discussed Mr. Dalena’s contrived exhibit. That one self-serving  
23 example does nothing to refute years of evidence in the Company’s own PGC  
24 filings. Those filings state clearly that Pennsylvania production is their low cost  
25 gas source. Mr. Dalena should also reread my direct testimony where I cite his  
26 coworker, Mr. Quinn, who states: “Equitable also believes that a benefit will exist  
27 for residential, commercial, and industrial distribution customers of Equitable if

1 Pennsylvania production can be acquired and transported to Equitable's  
2 distribution system at prices less than city gate delivered interstate natural gas  
3 supply." (Equitable Response to IOGA I-28).

4 **Q. FINALLY ON PAGE 21 MR. DALENA TAKES ISSUE WITH YOUR**  
5 **COMMENT THAT ONCE A PRODUCER DRILLS A WELL THAT IS**  
6 **CONNECTED TO EQUITABLE'S SYSTEM THAT THEY ARE CAPTIVE**  
7 **TO THE SYSTEM. HOW DOES HE REFUTE YOUR CLAIM?**

8 A. In his response, Mr. Dalena does not address my points regarding producers  
9 having no negotiation capability once they are hooked into the Equitable system.

10 Perhaps this is because he already laid out his "negotiation" technique earlier  
11 when he pointed out that Equitable could simply not buy Pennsylvania producer  
12 gas as they have many other supply options.

13 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO MR. DALENA'S**  
14 **TESTIMONY CONCERNING PRODUCER ISSUES.**

15 A. Mr. Dalena's claims that Pennsylvania gas is the high cost supply source of  
16 system gas is the opposite of what the Company has been stating in their PGC  
17 filings for years. It is a contradiction of Company witness sworn testimony,  
18 including Mr. Wiggers, the Director of Gas Supply, and Mr. Quinn, the Vice  
19 President of Marketing and Rates. Lastly, it is in conflict with Mr. Dalena's own  
20 sworn testimony. In the failed acquisition case in 2006, when Mr. Dalena was  
21 asked about the impact of the merger on the natural gas supply market, he stated  
22 that the Company believed that "the combination of the two companies will  
23 increase access to locally produced direct feed gas." He goes on to extol the  
24 benefits of Pennsylvania gas by testifying that: "Natural gas fed directly into our  
25 distribution system allows NGSs to reduce their need to contract for more  
26 expensive upstream pipeline capacity."

1                    Pennsylvania gas has long been recognized by the Commission as a  
2                    desirable and reliable component of gas supply for the customers. The Company  
3                    should not be permitted to institute new, higher charges for obtaining local gas  
4                    because that disadvantages the customer. The Company should stand by its  
5                    testimony in other regulatory proceedings and develop additional capabilities to  
6                    bring local gas to customers so that all can benefit.

7    **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

8    A.    Yes, but I reserve the right to respond in oral rejoinder to other parties' surrebuttal  
9                    testimony concerning the issues addressed in my surrebuttal.

## **Exhibit JLC-5**

Equitable's Responses to:

Docket No. C-20066800

IOGA I-1

Docket No. R-2008-2029325

IOGA I-3

IOGA I-28

IOGA III-1

IOGA IV-3

Docket No. R-2008-2021160

OCA I-1

OCA I-21

OCA III-1

IOGA's Responses to Equitable:

Docket No. R-2008-2029325

Equitable II-10

Equitable II-64



Docket No. R-2008-2029325  
Item: IOGA-I-3  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-3

- (a) Please list the number of customers currently using Rate AGS and provide the information in a tabular format listing customers by number (not name) separating the customers into the following categories: producer, end user, marketer, other. Please provide the information in Excel format.
- (b) For each customer listed in (a), please list next to the customer the rate currently being paid by the customer. If the customer is paying a discounted rate (i.e., a rate less than the highest rate currently being charged) please provide the reason for the discount next to the rate. If the reason is a competitive alternative, list the distance of the alternative pipeline and the name of the pipeline's owner (i.e., Dominion Peoples, 1 mile, etc) that the customer could use. If the reason for the discount rate is not a competitive alternative, explain why a discount is being offered.
- (c) For each customer listed in (a), adding onto the schedule prepared in (b) add another column showing the level of shrinkage (or retainage) being charged by customer. If the retainage rate for a customer is less than the maximum amount currently being charged under Rate AGS please also explain why the customer is receiving a discount from maximum retainage charged.

Response:

Please see the attached for a list of the current gathering and retainage charges being assessed to Rate AGS customers. All Rate AGS charges are negotiated. The agreements related to the attached are confidential and are in possession of each IOGA member who is a party to the agreement. The agreements could be made available to counsel on a limited and confidential basis pursuant to terms of an appropriate confidentiality agreement and protective order.

EQUITABLE GAS COMPANY  
 Response to Interrogatories of IOGA

Docket No. R-2008-2029325  
 Item: IOGA-I-3

Customer		Rate	
Type	Number	Gathering	Retainage
Producer	56	\$ -	0.00%
Producer	1	\$ 0.1400	0.00%
Producer	5	\$ 0.2500	0.00%
Producer	2	\$ 0.3000	0.00%
Producer	1	\$ 0.3500	0.00%
Producer	2	\$ 0.4000	0.00%
Producer	10	\$ 0.5000	0.00%
Producer	1	\$ 0.5000	2.00%
Producer	5	\$ 0.2500	5.00%
Producer	15	\$ 0.3000	5.00%
Producer	7	\$ 0.3500	5.00%
Producer	1	\$ 0.4000	5.00%
Producer	4	\$ 0.4500	5.00%
Producer	1	\$ 0.4656	5.00%
Producer	1	\$ 0.5000	5.00%
Producer	2	\$ 0.2500	5.40%
Producer	1	\$ 0.3000	5.40%
Producer	4	\$ 0.3500	5.40%
Producer	2	\$ 0.4000	5.40%
Producer	2	\$ 0.4500	5.40%
Producer	19	\$ 0.4656	6.68%
Producer	2	\$ 0.4756	6.68%
Producer	8	\$ 0.4791	6.68%
Producer	5	\$ 0.6500	7.50%
Marketer	1	\$ 0.1656	0.00%
Marketer	4	\$ 0.2500	0.00%
Marketer	1	\$ 0.3000	0.00%
Marketer	2	\$ 0.3500	0.00%
Marketer	1	\$ 0.4500	0.00%
Marketer	1	\$ 0.4656	0.00%
Marketer	1	\$ 0.4657	0.00%
Marketer	1	\$ 0.4791	0.00%
Marketer	2	\$ 0.5000	0.00%
Marketer	1	\$ 0.5500	0.00%
Marketer	1	\$ 1.0000	0.00%
Marketer	4	\$ -	0.00%
Marketer	1	\$ 0.4656	6.68%

Docket No. R-2008-2029325  
Item: IOGA-I-28  
Respondent: John M. Quinn  
Position: Vice President, LDC Rates and Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-I-28

Does Equitable view its gathering system as a benefit to its ratepayers? Please explain.

Response:

Equitable views its gathering system as a benefit to its ratepayers. Customers receive natural gas service directly from gathering lines (service from field lines). Absent Equitable's service from field lines, distribution service line extensions, for the most part, would be uneconomic and therefore, many customers would be denied natural gas service.

Equitable also believes that a benefit will exist for residential, commercial, and industrial distribution customers of Equitable if PA production can be acquired and transported to Equitable's distribution system at prices less than city gate delivered interstate natural gas supply. Producers who use the gathering system to bring their gas to market also benefit from the gathering system.

Docket No. R-2008-2029325  
Item: IOGA-III-1  
Prepared by: Thomas P. Wiggers  
Title: Director Gas Supply

**EQUITABLE GAS COMPANY**  
Response to Interrogatories of the  
Independent Oil and Gas Association of Pennsylvania

Item: IOGA-III-1

For calendar years 2005, 2006 and 2007, what percentage of gas entering Equitable's system through its gathering facilities is delivered to customers of Equitable Gas?

Response:

For the calendar years 2005, 2006 and 2007, all of the gas entering Equitable's gathering facilities, net of lost and unaccounted for gas and compressor fuel was delivered to customers of Equitable Gas.

Equitable Gas Company  
Docket No. R-2008-2029325  
IOGA-IV-3

	<u>\$</u>	
2007 Rate AGS Revenue	\$ 5,169,989	
Adjustment 1 - Expiration of gas purchase agreements	(727,263)	
Adjustment 2 - Estimated additional revenue due to negotiated rate increases	391,921	
Adjustment 3 - estimated well declines; producers exercising competitive offers; line abandonment	(238,193)	5% decline in throughput @ avg. rate of \$.33
Adjustment 4 - Projected additions	<u>730,000</u>	approximately 2,000 per day of increased throughput
Forecasted Rate AGS throughput	\$ 5,326,454	

Docket No. R-2008-2021160  
Item: OCA-I-1  
Respondent: Robert M. Narkevic  
Position: Manager, Rates

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Office of Consumer Advocate

Item: OCA-I-1

Please provide an explanation of, identify the assumptions made in, and provide a copy of all workpapers, correspondence, or other documentation, including computer spreadsheet files, supporting the derivation of the projected monthly purchase volumes and rates for all gas supply and transportation sources during the period February 2008 through September 2009.

Response:

Please see the attached schedules which support the rates used by EGC for gas supply and transportation. Also, please refer to the responses for OCA 2, OCA 3, OCA 4, and OCA 5, discussing the detail for projecting monthly volumes.

**Estimate of Southwest Gas Purchases for the Period  
February 2007 through September 2008**

	<u>Estimated NYMEX</u>	<u>Estimated Retainage</u>	<u>Estimated Variable Costs</u>	<u>City-Gate Cost \$/Dth</u>
February 2008	\$ 7.996	\$ 1.03	\$ 0.0833	\$ 9.11
March	\$ 8.660	\$ 1.12	\$ 0.0833	\$ 9.86
April	\$ 8.668	\$ 1.01	\$ 0.0833	\$ 9.76
May	\$ 8.680	\$ 1.01	\$ 0.0833	\$ 9.77
June	\$ 8.730	\$ 1.01	\$ 0.0833	\$ 9.83
July	\$ 8.806	\$ 1.02	\$ 0.0833	\$ 9.91
August	\$ 8.872	\$ 1.03	\$ 0.0833	\$ 9.98
September	\$ 8.885	\$ 1.03	\$ 0.0833	\$ 10.00
October	\$ 8.970	\$ 1.04	\$ 0.0833	\$ 10.09
November	\$ 9.260	\$ 1.07	\$ 0.0833	\$ 10.42
December	\$ 9.580	\$ 1.11	\$ 0.0833	\$ 10.77
January 2008	\$ 9.800	\$ 1.14	\$ 0.0833	\$ 11.02
February	\$ 9.785	\$ 1.13	\$ 0.0833	\$ 11.00
March	\$ 9.535	\$ 1.11	\$ 0.0833	\$ 10.72
April	\$ 8.285	\$ 0.96	\$ 0.0833	\$ 9.33
May	\$ 8.215	\$ 0.95	\$ 0.0833	\$ 9.25
June	\$ 8.265	\$ 0.96	\$ 0.0833	\$ 9.31
July	\$ 8.325	\$ 0.97	\$ 0.0833	\$ 9.37
August	\$ 8.380	\$ 0.97	\$ 0.0833	\$ 9.44
September	\$ 8.392	\$ 0.97	\$ 0.0833	\$ 9.45

Equitable Gas Company

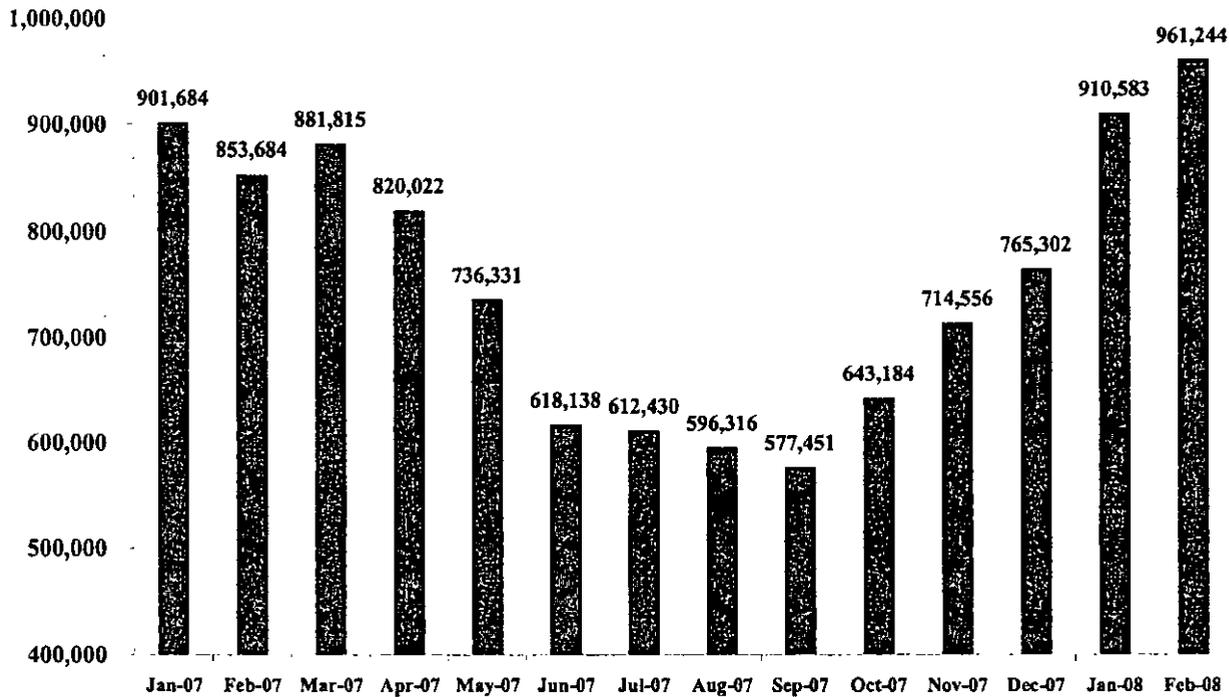
Estimate of Appalachian Costs  
February 2007 through September 2008

	Estimated NYMEX	Estimated Basis	Estimated Appalachian Direct Feed Cost	Estimated Variable Costs	Estimated Retainage	Estimated Appalachian Transport Cost
February 2008	\$ 7.996	\$ 0.414	\$ 8.41	\$ 0.0168	\$ 0.38	\$ 8.81
March	\$ 8.660	\$ 0.382	\$ 9.04	\$ 0.0168	\$ 0.43	\$ 9.49
April	\$ 8.668	\$ 0.326	\$ 8.99	\$ 0.0168	\$ 0.41	\$ 9.42
May	\$ 8.680	\$ 0.319	\$ 9.00	\$ 0.0168	\$ 0.41	\$ 9.42
June	\$ 8.730	\$ 0.312	\$ 9.04	\$ 0.0168	\$ 0.41	\$ 9.46
July	\$ 8.806	\$ 0.315	\$ 9.12	\$ 0.0168	\$ 0.41	\$ 9.55
August	\$ 8.872	\$ 0.315	\$ 9.19	\$ 0.0168	\$ 0.41	\$ 9.62
September	\$ 8.885	\$ 0.312	\$ 9.20	\$ 0.0168	\$ 0.40	\$ 9.62
October	\$ 8.970	\$ 0.322	\$ 9.29	\$ 0.0168	\$ 0.42	\$ 9.73
November	\$ 9.260	\$ 0.322	\$ 9.58	\$ 0.0168	\$ 0.43	\$ 10.03
December	\$ 9.580	\$ 0.322	\$ 9.90	\$ 0.0168	\$ 0.44	\$ 10.38
January 2008	\$ 9.800	\$ 0.322	\$ 10.12	\$ 0.0168	\$ 0.45	\$ 10.59
February	\$ 9.785	\$ 0.322	\$ 10.11	\$ 0.0168	\$ 0.45	\$ 10.57
March	\$ 9.535	\$ 0.322	\$ 9.86	\$ 0.0168	\$ 0.44	\$ 10.31
April	\$ 8.285	\$ 0.322	\$ 8.61	\$ 0.0168	\$ 0.39	\$ 9.01
May	\$ 8.215	\$ 0.322	\$ 8.54	\$ 0.0168	\$ 0.39	\$ 8.94
June	\$ 8.265	\$ 0.322	\$ 8.59	\$ 0.0168	\$ 0.39	\$ 8.99
July	\$ 8.325	\$ 0.322	\$ 8.65	\$ 0.0168	\$ 0.39	\$ 9.06
August	\$ 8.380	\$ 0.322	\$ 8.70	\$ 0.0168	\$ 0.39	\$ 9.11
September	\$ 8.392	\$ 0.322	\$ 8.71	\$ 0.0168	\$ 0.39	\$ 9.13

<b>1307f OCA I-1 Southwest Gas</b>	<b>Estimated NYMEX</b>	<b>Estimated Retainage</b>	<b>Estimated Variable Costs</b>	<b>City-Gate Cost \$.Dth</b>
February-07	\$7.996	\$1.03	\$0.0833	<b>\$9.11</b>
March	\$8.660	\$1.12	\$0.0833	<b>\$9.86</b>
April	\$8.668	\$1.01	\$0.0833	<b>\$9.76</b>
May	\$8.680	\$1.01	\$0.0833	<b>\$9.77</b>
June	\$8.730	\$1.01	\$0.0833	<b>\$9.83</b>
July	\$8.806	\$1.02	\$0.0833	<b>\$9.91</b>
August	\$8.872	\$1.03	\$0.0833	<b>\$9.98</b>
September	\$8.885	\$1.03	\$0.0833	<b>\$10.00</b>
October	\$8.970	\$1.04	\$0.0833	<b>\$10.09</b>
November	\$9.260	\$1.07	\$0.0833	<b>\$10.42</b>
December	\$9.580	\$1.11	\$0.0833	<b>\$10.77</b>
January-08	\$9.800	\$1.14	\$0.0833	<b>\$11.02</b>
February	\$9.785	\$1.13	\$0.0833	<b>\$11.00</b>
March	\$9.535	\$1.11	\$0.0833	<b>\$10.72</b>
April	\$8.285	\$0.96	\$0.0833	<b>\$9.33</b>
May	\$8.215	\$0.95	\$0.0833	<b>\$9.25</b>
June	\$8.265	\$0.96	\$0.0833	<b>\$9.31</b>
July	\$8.325	\$0.97	\$0.0833	<b>\$9.37</b>
August	\$8.380	\$0.97	\$0.0833	<b>\$9.44</b>
September	\$8.392	\$0.97	\$0.0833	<b>\$9.45</b>
				<b>\$9.92</b>
				<b>Average</b>

**1307f OCA I-1  
Appalachian Gas**

	Estimated NYMEX	Estimated Basis	Estimated Appalachian Direct Feed Cost	Estimated Variable Costs	Estimated Retainage	Estimated Appalachian Transport Cost
February-07	\$7.996	\$0.414	<b>\$8.41</b>	\$0.0168	\$0.38	<b>\$8.81</b>
March	\$8.660	\$0.382	<b>\$9.04</b>	\$0.0168	\$0.43	<b>\$9.49</b>
April	\$8.668	\$0.326	<b>\$8.99</b>	\$0.0168	\$0.41	<b>\$9.42</b>
May	\$8.680	\$0.319	<b>\$9.00</b>	\$0.0168	\$0.41	<b>\$9.42</b>
June	\$8.730	\$0.312	<b>\$9.04</b>	\$0.0168	\$0.41	<b>\$9.46</b>
July	\$8.806	\$0.315	<b>\$9.12</b>	\$0.0168	\$0.41	<b>\$9.55</b>
August	\$8.872	\$0.315	<b>\$9.19</b>	\$0.0168	\$0.41	<b>\$9.62</b>
September	\$8.885	\$0.312	<b>\$9.20</b>	\$0.0168	\$0.40	<b>\$9.62</b>
October	\$8.970	\$0.322	<b>\$9.29</b>	\$0.0168	\$0.42	<b>\$9.73</b>
November	\$9.260	\$0.322	<b>\$9.58</b>	\$0.0168	\$0.43	<b>\$10.03</b>
December	\$9.580	\$0.322	<b>\$9.90</b>	\$0.0168	\$0.44	<b>\$10.36</b>
January-08	\$9.800	\$0.322	<b>\$10.12</b>	\$0.0168	\$0.45	<b>\$10.59</b>
February	\$9.785	\$0.322	<b>\$10.11</b>	\$0.0168	\$0.45	<b>\$10.57</b>
March	\$9.535	\$0.322	<b>\$9.86</b>	\$0.0168	\$0.44	<b>\$10.31</b>
April	\$8.285	\$0.322	<b>\$8.61</b>	\$0.0168	\$0.39	<b>\$9.01</b>
May	\$8.215	\$0.322	<b>\$8.54</b>	\$0.0168	\$0.39	<b>\$8.94</b>
June	\$8.265	\$0.322	<b>\$8.59</b>	\$0.0168	\$0.39	<b>\$8.99</b>
July	\$8.325	\$0.322	<b>\$8.65</b>	\$0.0168	\$0.39	<b>\$9.06</b>
August	\$8.380	\$0.322	<b>\$8.70</b>	\$0.0168	\$0.39	<b>\$9.11</b>
September	\$8.392	\$0.322	<b>\$8.71</b>	\$0.0168	\$0.39	<b>\$9.13</b>
			<b>\$9.13</b>			<b>\$9.56</b>
			<b>Average</b>			<b>Average</b>



Month	Appalachian Production Direct Feed	Appalachian Production Gathering	Total Appalachian
Jan-07	393,312	508,372	901,684
Feb-07	365,349	488,335	853,684
Mar-07	291,962	589,853	881,815
Apr-07	405,838	414,184	820,022
May-07	415,942	320,389	736,331
Jun-07	306,816	311,322	618,138
Jul-07	316,979	295,451	612,430
Aug-07	311,867	284,449	596,316
Sep-07	307,814	269,637	577,451
Oct-07	319,488	323,696	643,184
Nov-07	124,060	590,496	714,556
Dec-07	127,911	637,391	765,302
Jan-08	130,344	780,239	910,583
Feb-08	116,363	844,881	961,244
<b>Totals:</b>	<b>3,934,045</b>	<b>6,658,695</b>	<b>10,592,740</b>
<b>Column #:</b>	<b>1</b>	<b>2</b>	<b>Sum of 1 and 2</b>
<b>Equitable Information Reference</b>	OCA-I-21-2nd Revised	OCA-I-21-2nd Revised	

Docket No. R-2008-2021160  
Item: OCA-III-1  
Respondent: Thomas P. Wiggers  
Position: Director, Gas Supply

EQUITABLE GAS COMPANY  
Response to Interrogatories of the  
Office of Consumer Advocate

Item: OCA-III-1

*Reference the response to OCA-I-21 Revised. Please explain:*

- a. how much of the local gas flows over Equitable's gathering facilities;
- b. the extent to which the producers supplying the local production are assessed a retainage charge; and
- c. how PGC customers are assured of not paying for LUGF incurred on local production supplies purchased by transportation customers.

Response:

- a) For the period January 2007 through February 2008, approximately 63% of the local gas received utilized Equitable's gathering facilities. Please see the attached OCA-I-21-2<sup>nd</sup> Revised for monthly detail.
- b) Please see the response to OCA-III-4.
- c) End-use transportation customers are assessed retainage on local production consistent with Rate AGS and distribution retainage as per Tariff Rule 11.4, with the exception of end-use transportation customers who receive discounted retainage percentages as discussed in the Direct Testimony of John Quinn.

**EQUITABLE GAS COMPANY**  
**Response to Interrogatories of the**  
**Office of Consumer Advocate**

**Docket No. R-2008-2021160**  
**Item : OCA-III-1**  
**Item : OCA-I-21-2nd Revised**

<u>Month</u>	<u>Interstate</u> <u>Pipelines</u> (Dth)	<u>Local</u> <u>Production</u> <u>Direct Feed</u> (Dth)	<u>Local</u> <u>Production</u> <u>Gathering</u> (Dth)	<u>Total</u> (Dth)
Jan-07	2,033,668	393,312	508,372	2,935,350
Feb-07	2,361,566	365,349	488,335	3,215,249
Mar-07	1,915,665	291,962	589,853	2,797,479
Apr-07	1,616,530	405,838	414,184	2,436,552
May-07	1,182,815	415,942	320,389	1,919,146
Jun-07	861,083	306,816	311,322	1,479,221
Jul-07	621,993	316,979	295,451	1,234,423
Aug-07	741,846	311,867	284,449	1,338,162
Sep-07	585,163	307,814	269,637	1,162,614
Oct-07	801,954	319,488	323,696	1,445,138
Nov-07	1,529,138	124,060	590,496	2,243,694
Dec-07	2,427,706	127,911	637,391	3,193,008
Jan-08	2,561,760	130,344	780,239	3,472,343
Feb-08	2,786,438	116,363	844,881	3,747,682

**Responses of Independent Oil and Gas Association of Pennsylvania  
to the Interrogatories and Request for Production of Documents  
from Equitable Gas Company, Set II  
Docket Nos. R-2008-2029325, et al. and C-2066800**

**Equitable-II-10:**

10. (Page 14; lines 11-14) If the true cost of local Pennsylvania production is more expensive to Equitable's customers than the prevailing market price of interstate gas, should Equitable continue to purchase local Pennsylvania production? If the answer to this question is anything but "no," please explain how this is consistent with a least cost procurement initiative.

**Response:**

Any comparison of local Pennsylvania production costs and interstate gas costs would have to include upstream transportation and storage costs for interstate gas and exclude any factors that are not the responsibility of local Pennsylvania production (i.e., lost and unaccounted for gas factors). That being said, gas supply acquisition strategy attempts to minimize gas purchase costs while assuring there is adequate, reliable supply. There is not a simple "yes" or "no" answer to this question.

Response provided by James L. Crist

**Responses of Independent Oil and Gas Association of Pennsylvania  
to the Interrogatories and Request for Production of Documents  
from Equitable Gas Company, Set II  
Docket Nos. R-2008-2029325, et al. and C-209661300**

**Equitable-II-64:**

64. (Page 14): Please provide the economic or financial analysis that Ms. Burgraff relies upon in support of the statement, "Interstate supply can cost more than twice as much as Appalachian Supply including demand charges or 25% more excluding demand charges based on 2007 gas costs information."

**Response:**

Ms. Burgraff compared the total unit cost of local versus interstate supply using the "total" column for the 2007 gas cost information in Equitable's response to IOGA I-7. The cost of Equitable's gathering system was not factored into the calculation as part of the cost of local supply, nor should it be.

Response provided by Diane M. Burgraff

## **Exhibit JLC-6**

Docket No. R-2008-2021160

Summary of Estimated Purchased Gas Costs  
(10/2008 - 09/2009)

Summary of 2007 Actual Purchased Gas Costs  
(Total Costs)

Pennsylvania Division  
 Summary of Estimated Purchased Gas Costs  
 for the Period October 2008 through September 2009

Line No.	Description	2008											Total	
		October (1)	November (2)	December (3)	January (4)	February (5)	March (6)	April (7)	May (8)	June (9)	July (10)	August (11)		September (12)
<b>Purchases</b>														
<b>Southwest</b>														
1	Quantity - Dth	414,114	7,753	646,323	522,527	979,344	633,999	1,261,007	195,535	0	0	0	0	4,660,602
2	Rate - \$/Dth	10.34	10.65	11.04	11.30	11.26	10.98	9.40	9.29	9.34	9.41	9.47	9.47	
3	Cost - \$	4,280,099	82,597	7,137,998	5,904,877	11,028,948	6,959,452	11,851,437	1,816,990	0	0	0	0	49,062,398
<b>Appalachian - Direct</b>														
4	Quantity - Dth	225,000	205,000	225,000	225,000	225,000	225,000	225,000	225,000	127,410	98,026	87,104	155,901	2,248,441
5	Rate - \$/Dth	9.51	9.79	10.14	10.37	10.34	10.08	8.67	8.57	8.62	8.68	8.73	8.73	
6	Cost - \$	2,139,469	2,007,719	2,282,344	2,334,094	2,326,219	2,268,844	1,950,469	1,929,094	1,098,370	850,743	760,309	1,361,600	21,309,274
<b>Appalachian - Transport</b>														
7	Quantity - Dth	675,000	615,000	675,000	675,000	675,000	675,000	675,000	675,000	382,500	395,250	395,250	457,500	6,970,500
8	Rate - \$/Dth	9.95	10.25	10.61	10.85	10.81	10.55	9.08	8.98	9.03	9.09	9.14	9.15	
9	Cost - \$	6,717,324	6,302,371	7,162,742	7,324,074	7,299,523	7,120,655	6,128,111	6,061,474	3,453,517	3,592,457	3,612,994	4,184,400	68,959,641
<b>Dominion Storage Withdrawals</b>														
10	Quantity - Dth		0	0	0	0	0	0	0	0	0	0	0	0
11	Rate - \$/Dth		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
12	Cost - \$		0	0	0	0	0	0	0	0	0	0	0	0
13	<b>Total Purchase Cost - \$</b>	<b>13,136,892</b>	<b>8,392,687</b>	<b>16,583,084</b>	<b>15,563,045</b>	<b>20,654,690</b>	<b>16,348,951</b>	<b>19,930,017</b>	<b>9,807,558</b>	<b>4,551,887</b>	<b>4,443,200</b>	<b>4,373,303</b>	<b>5,546,000</b>	<b>139,331,313</b>
<b>Plus: EGT Storage Withdrawals</b>														
14	Quantity - Dth	0	1,700,000	2,800,000	3,300,000	2,900,000	2,300,000	0	0	0	0	0	0	13,000,000
15	Rate - \$/Dth	0.00	7.9987	7.9987	7.9987	7.9987	7.9987	0.00	0.00	0.00	0.00	0.00	0.00	
16	Cost - \$	0	13,597,790	22,396,360	26,395,710	23,196,230	18,397,010	0	0	0	0	0	0	103,983,100
17	<b>Total Commodity Cost for Immediate Consumption - \$</b>	<b>13,136,892</b>	<b>21,990,477</b>	<b>38,979,444</b>	<b>41,958,755</b>	<b>43,850,920</b>	<b>34,745,961</b>	<b>19,930,017</b>	<b>9,807,558</b>	<b>4,551,887</b>	<b>4,443,200</b>	<b>4,373,303</b>	<b>5,546,000</b>	<b>243,314,413</b>
<b>Other Purchased Gas Costs - \$</b>														
18	Upstream Demand Costs	1,400,262	1,511,144	1,511,144	1,511,144	1,511,144	1,511,144	1,400,262	1,400,262	1,400,262	1,400,262	1,400,262	1,400,262	17,357,551
19	Equilibrium Demand Costs	2,610,256	3,284,090	3,284,090	3,284,090	3,284,090	3,284,090	2,610,256	2,610,256	2,610,256	2,610,256	2,610,256	2,610,256	34,692,242
20	Total Other Costs - \$	4,010,518	4,795,234	4,795,234	4,795,234	4,795,234	4,795,234	4,010,518	4,010,518	4,010,518	4,010,518	4,010,518	4,010,518	52,049,793
21	<b>Total Purchased Gas Costs - \$</b>	<b>17,147,410</b>	<b>26,785,710</b>	<b>43,774,677</b>	<b>46,753,989</b>	<b>48,646,154</b>	<b>39,541,195</b>	<b>23,940,535</b>	<b>13,818,076</b>	<b>8,562,405</b>	<b>8,453,718</b>	<b>8,383,820</b>	<b>9,556,518</b>	<b>295,364,206</b>
<b>LESS:</b>														
22	Capacity Release/Standby Credits - \$	861,426	778,406	778,408	778,408	778,408	778,408	861,426	861,426	861,426	861,426	861,426	861,426	8,522,026
23	Balancing Credits	360,701	607,938	876,228	1,050,221	928,864	776,114	504,935	289,765	190,809	190,826	190,119	198,579	8,145,804
24		<b>16,125,283</b>	<b>25,399,364</b>	<b>42,118,044</b>	<b>44,923,359</b>	<b>46,938,881</b>	<b>37,987,672</b>	<b>22,774,174</b>	<b>12,886,884</b>	<b>7,710,369</b>	<b>7,601,467</b>	<b>7,532,275</b>	<b>8,696,513</b>	<b>280,696,286</b>

Docket Number R-2008-2021160  
 Item 53.64 (a)  
 Section I, Part B  
 Sheet 2 of 6 (REVISED)

Equitable Gas Company  
Pennsylvania Division

Summary of 2007 Actual Purchased Gas Costs  
(Total Costs)

Line No.	Description	January (1)	February (2)	March (3)	April (4)	May (5)	June (6)	July (7)	August (8)	September (9)	October (10)	November (11)	December (12)	Total (13)
<b>COMMODITY</b>														
<b>Appalachian Purchases</b>														
1	Purchases - Dth	954,181	1,129,312	1,276,673	641,957	889,089	1,250,729	303,976	351,994	405,739	463,234	1,016,648	1,185,668	9,869,200
2	Appalachian Cost	2,108,290	8,714,350	10,059,757	5,624,126	7,096,600	10,373,803	2,238,361	2,509,032	2,546,850	3,281,239	8,224,767	9,901,751	72,688,923
<b>Upstream Pipeline Supply</b>														
3	Purchases - Dth	549,858	1,247,222	879,193	339,124	134,860	123,249	125,640	128,214	128,744	113,226	1,121,364	1,399,189	6,289,883
4	Total Cost	8,657,872	12,002,344	8,762,431	4,372,490	(41,221)	903,236	860,861	710,371	603,046	792,859	8,693,025	11,983,337	58,302,851
<b>Cash in</b>														
5	Total Cost		(27,937)		372,611	0	242,372	61,976	2,720	38	103,245	21,362	0	776,387
<b>Total Commodity Cost of Purchases</b>														
6		10,766,161	20,698,957	18,822,187	10,369,227	7,055,379	11,519,412	3,161,198	3,222,123	3,149,934	4,177,343	16,941,154	21,885,088	131,768,163
7	Storage Withdrawals - Dth	2,795,620	3,027,253	1,746,063	1,381,016	0	0	0	0	0	0	566,430	585,311	10,101,693
8	Storage Commodity Costs	20,790,206	24,074,555	13,490,543	11,081,207	0	0	0	0	0	0	4,178,673	4,321,506	77,936,690
9	Storage Withdrawal Costs	25,825	34,802	18,052	9,529	0	0	0	0	0	0	5,250	5,425	98,884
10	Total Storage Costs	20,816,031	24,109,357	13,508,595	11,090,736	0	0	0	0	0	0	4,183,923	4,326,931	78,035,574
<b>Total Commodity Cost of Gas</b>														
11		31,582,192	44,808,314	32,330,782	21,459,963	7,055,379	11,519,412	3,161,198	3,222,123	3,149,934	4,177,343	21,125,077	26,212,019	209,803,737
<b>Other Purchased Gas Costs</b>														
12	Demand	4,432,176	4,478,201	6,519,708	3,908,190	3,890,885	3,905,072	3,914,804	3,916,993	3,919,842	3,923,945	4,728,440	4,760,785	52,299,042
13	Total Current Month Gas Cost	36,014,368	49,286,516	38,850,490	25,368,153	10,946,264	15,424,484	7,076,002	7,139,116	7,069,776	8,101,288	25,853,517	30,972,803	262,102,779
<b>Credits to PGC</b>														
14	Standby Service	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	239,747	2,876,939
15	Cash Out	400,244	224,836	436,360	18,618	895,011	(34,502)	0	0	90,088	0	128,140	764,240	2,923,035
16	Dth systems/Cap release sharing	323,627	693,271	934,975	262,792	38,853	244,386	94,170	184,565	89,636	(140,045)	139,779	104,847	3,172,856
17	Balancing Credit	930,973	1,173,032	680,749	556,106	236,841	181,828	186,739	185,621	199,177	282,365	605,473	859,407	6,078,311
18	Total Credits to PGC	2,096,590	2,330,885	2,291,831	1,077,263	1,410,452	631,458	520,655	609,932	618,648	382,067	1,413,138	1,968,242	15,051,162
19	Total 1307(f) Gas Cost	33,917,778	46,955,630	36,558,658	24,290,890	9,535,813	14,793,026	6,555,346	6,529,184	6,451,129	7,719,221	24,740,379	29,004,563	247,051,618

Docket Number R-2008-2021150  
 Item 53.64 (c) (a)  
 Section 1, Part D  
 Sheet 2 of 4

# **Exhibit JLC-7 (REVISED)**

## **Comparison Index of TETCO and NYMEX**

REVISED Exhibit JC: Comparison of Tetco and NYMEX

	TETCO	NYMEX	NYMEX- TETCO
Jan-96	\$ 2.05	\$ 3.45	\$ 1.40
Feb-96	\$ 1.82	\$ 2.34	\$ 0.52
Mar-96	\$ 1.96	\$ 2.75	\$ 0.79
Apr-96	\$ 2.23	\$ 2.78	\$ 0.55
May-96	\$ 2.13	\$ 2.21	\$ 0.08
Jun-96	\$ 2.25	\$ 2.36	\$ 0.11
Jul-96	\$ 2.56	\$ 2.65	\$ 0.09
Aug-96	\$ 2.19	\$ 2.32	\$ 0.13
Sept-96	\$ 1.69	\$ 1.85	\$ 0.16
Oct-96	\$ 1.73	\$ 1.83	\$ 0.10
Nov-96	\$ 2.61	\$ 2.65	\$ 0.04
Dec-96	\$ 3.69	\$ 3.90	\$ 0.21
Jan-97	\$ 3.92	\$ 4.00	\$ 0.08
Feb-97	\$ 2.75	\$ 2.99	\$ 0.24
Mar-97	\$ 1.63	\$ 1.78	\$ 0.15
Apr-97	\$ 1.73	\$ 1.81	\$ 0.08
May-97	\$ 2.03	\$ 2.12	\$ 0.09
June-97	\$ 2.20	\$ 2.35	\$ 0.15
July-97	\$ 2.06	\$ 2.15	\$ 0.09
Aug-97	\$ 2.10	\$ 2.16	\$ 0.06
Sept-97	\$ 2.45	\$ 2.52	\$ 0.06
Oct-97	\$ 2.93	\$ 3.35	\$ 0.42
Nov-97	\$ 3.17	\$ 3.27	\$ 0.10
Dec-97	\$ 2.38	\$ 2.58	\$ 0.20
Jan-98	\$ 2.16	\$ 2.31	\$ 0.15
Feb-98	\$ 1.92	\$ 2.00	\$ 0.08
Mar-98	\$ 2.16	\$ 2.29	\$ 0.13
Apr-98	\$ 2.22	\$ 2.30	\$ 0.08
May-98	\$ 2.21	\$ 2.26	\$ 0.05
June-98	\$ 1.95	\$ 2.02	\$ 0.07
July-98	\$ 2.28	\$ 2.36	\$ 0.08
Aug-98	\$ 1.88	\$ 1.94	\$ 0.06
Sept-98	\$ 1.54	\$ 1.67	\$ 0.13
Oct-98	\$ 1.95	\$ 2.03	\$ 0.08
Nov-98	\$ 1.91	\$ 1.97	\$ 0.06
Dec-98	\$ 2.03	\$ 2.15	\$ 0.12
Jan-99	\$ 1.68	\$ 1.77	\$ 0.09
Feb-99	\$ 1.74	\$ 1.81	\$ 0.07
Mar-99	\$ 1.56	\$ 1.67	\$ 0.11
Apr-99	\$ 1.81	\$ 1.85	\$ 0.04
May-99	\$ 2.29	\$ 2.35	\$ 0.06
Jun-99	\$ 2.15	\$ 2.23	\$ 0.08
Jul-99	\$ 2.20	\$ 2.26	\$ 0.06
Aug-99	\$ 2.53	\$ 2.60	\$ 0.07
Sep-99	\$ 2.79	\$ 2.91	\$ 0.12
Oct-99	\$ 2.42	\$ 2.56	\$ 0.14
Nov-99	\$ 2.94	\$ 3.09	\$ 0.15
Dec-99	\$ 2.03	\$ 2.12	\$ 0.09
Jan-00	\$ 2.27	\$ 2.34	\$ 0.07
Feb-00	\$ 2.54	\$ 2.61	\$ 0.07

Mar-00	\$	2.54	\$	2.60	\$	0.06
Apr-00	\$	2.81	\$	2.90	\$	0.09
May-00	\$	3.00	\$	3.09	\$	0.09
Jun-00	\$	4.28	\$	4.41	\$	0.13
Jul-00	\$	4.24	\$	4.37	\$	0.13
Aug-00	\$	3.70	\$	3.66	\$	(0.04)
Sep-00	\$	4.46	\$	4.62	\$	0.16
Oct-00	\$	5.13	\$	5.31	\$	0.18
Nov-00	\$	4.35	\$	4.54	\$	0.19
Dec-00	\$	5.86	\$	6.02	\$	0.16
Jan-01	\$	9.83	\$	9.98	\$	0.15
Feb-01	\$	6.02	\$	6.29	\$	0.27
Mar-01	\$	4.79	\$	5.00	\$	0.21
Apr-01	\$	5.21	\$	5.38	\$	0.17
May-01	\$	4.73	\$	4.89	\$	0.16
Jun-01	\$	3.61	\$	3.74	\$	0.13
Jul-01	\$	3.07	\$	3.18	\$	0.11
Aug-01	\$	3.06	\$	3.17	\$	0.11
Sep-01	\$	2.21	\$	2.30	\$	0.09
Oct-01	\$	1.75	\$	1.83	\$	0.08
Nov-01	\$	3.08	\$	3.20	\$	0.12
Dec-01	\$	2.22	\$	2.32	\$	0.10
Jan-02	\$	2.50	\$	2.56	\$	0.06
Feb-02	\$	1.94	\$	2.01	\$	0.07
Mar-02	\$	2.31	\$	2.39	\$	0.08
Apr-02	\$	3.32	\$	3.47	\$	0.15
May-02	\$	3.25	\$	3.32	\$	0.07
Jun-02	\$	3.26	\$	3.42	\$	0.16
Jul-02	\$	3.15	\$	3.28	\$	0.13
Aug-02	\$	2.85	\$	2.98	\$	0.13
Sep-02	\$	3.15	\$	3.29	\$	0.14
Oct-02	\$	3.58	\$	3.69	\$	0.11
Nov-02	\$	4.05	\$	4.13	\$	0.08
Dec-02	\$	4.05	\$	4.14	\$	0.09
Jan-03	\$	4.68	\$	4.99	\$	0.31
Feb-03	\$	5.45	\$	5.66	\$	0.21
Mar-03	\$	9.00	\$	9.13	\$	0.13
Apr-03	\$	5.02	\$	5.15	\$	0.13
May-03	\$	4.97	\$	5.12	\$	0.15
Jun-03	\$	5.82	\$	5.95	\$	0.13
Jul-03	\$	5.18	\$	5.29	\$	0.11
Aug-03			\$	4.69		
Sep-03	\$	4.82	\$	4.93	\$	0.11
Oct-03	\$	4.32	\$	4.43	\$	0.11
Nov-03	\$	4.34	\$	4.46	\$	0.12
Dec-03	\$	4.74	\$	4.86	\$	0.12
Jan-04	\$	6.03	\$	6.15	\$	0.12
Feb-04	\$	5.46	\$	5.78	\$	0.32
Mar-04	\$	4.93	\$	5.15	\$	0.22
Apr-04	\$	5.21	\$	5.37	\$	0.16
May-04	\$	5.80	\$	5.94	\$	0.14
Jun-04			\$	6.68		

Jul-04		\$	6.14			
Aug-04		\$	6.05			
Sep-04	\$	4.88	\$	5.08	\$	0.20
Oct-04	\$	5.56	\$	5.72	\$	0.16
Nov-04	\$	7.34	\$	7.63	\$	0.29
Dec-04	\$	7.58	\$	7.98	\$	0.40
Jan-05	\$	5.79	\$	6.21	\$	0.42
Feb-05	\$	5.81	\$	6.29	\$	0.48
Mar-05	\$	5.97	\$	6.30	\$	0.33
Apr-05	\$	7.14	\$	7.32	\$	0.18
May-05	\$	6.52	\$	6.75	\$	0.23
Jun-05	\$	5.88	\$	6.12	\$	0.24
Jul-05	\$	6.78	\$	6.98	\$	0.20
Aug-05	\$	7.43	\$	7.65	\$	0.22
Sep-05	\$	10.29	\$	10.85	\$	0.56
Oct-05	\$	12.60	\$	13.91	\$	1.31
Nov-05	\$	12.05	\$	13.83	\$	1.78
Dec-05	\$	8.63	\$	11.18	\$	2.55
Jan-06	\$	9.33	\$	11.43	\$	2.10
Feb-06	\$	7.27	\$	8.40	\$	1.13
Mar-06	\$	6.70	\$	7.11	\$	0.41
Apr-06	\$	6.57	\$	7.23	\$	0.66
May-06	\$	6.65	\$	7.20	\$	0.55
Jun-06	\$	5.56	\$	5.93	\$	0.37
Jul-06	\$	5.62	\$	5.89	\$	0.27
Aug-06	\$	6.71	\$	7.04	\$	0.33
Sep-06	\$	6.38	\$	6.82	\$	0.44
Oct-06	\$	3.78	\$	4.20	\$	0.42
Nov-06	\$	6.76	\$	7.15	\$	0.39
Dec-06	\$	7.46	\$	8.32	\$	0.86
Jan-07	\$	5.56	\$	5.84	\$	0.28
Feb-07	\$	6.53	\$	6.92	\$	0.39
Mar-07	\$	6.94	\$	7.55	\$	0.61
Apr-07	\$	6.97	\$	7.56	\$	0.59
May-07	\$	7.17	\$	7.51	\$	0.34
Jun-07	\$	7.24	\$	7.59	\$	0.35
Jul-07	\$	6.61	\$	6.93	\$	0.32
Aug-07	\$	5.78	\$	6.11	\$	0.33
Sep-07	\$	5.15	\$	5.43	\$	0.28
Oct-07	\$	6.06	\$	6.42	\$	0.36
Nov-07	\$	6.88	\$	7.27	\$	0.39
Dec-07	\$	6.51	\$	7.20	\$	0.69
Jan-08	\$	6.83	\$	7.17	\$	0.34
Feb-08	\$	7.66	\$	8.00	\$	0.34
Mar-08	\$	8.46	\$	8.93	\$	0.47
Apr-08	\$	9.11	\$	9.58	\$	0.47
May-08	\$	10.75	\$	11.28	\$	0.53
Jun-08	\$	11.16	\$	11.92	\$	0.76
Jul-08	\$	12.64	\$	13.11	\$	0.47
Aug-08	\$	8.79	\$	9.22	\$	0.43
Sep-08	\$	7.70	\$	8.39	\$	0.69
Oct-08	\$	<b>6.53</b>	\$	<b>7.47</b>	\$	<b>0.94</b>

Nov-08 \$ 5.66 \$ 6.47 \$ 0.81  
\$ 0.29

## **Exhibit JLC-8**

Docket No. R-2008-2021160

Equitable Gas Company's  
Attachment 1 to Item 53.65(1)

**Equitable Gas Company**  
**Attachment 1 to Item 53.65(1)**

Appalachian Gas				
Term	Equitable Energy LLC (Equitrans Delivered) (\$/Dth)	Equitable Energy LLC (DTI) (\$/Dth)	Equitable Energy LLC (TCO) (\$/Dth)	(a.) Market Price (\$/Dth)
February 7, 2007	9.05			n/a
February 15		10.455		10.455
July 1			8.935	6.935
August		7.98 (b)		6.43
September		7.98 (b)		5.81
October 31			7.40	7.235
December		7.553		7.69

(a.) Prices listed for purchases made on the first day of the month are based on Inside FERC's Gas Market Report. Prices listed for purchases made after the first of the month are based on the Gas Daily Midpoint and represent actual flow dates.

(b.) Prices listed were triggered prior to actual month in which the gas flowed and were reflective of market conditions at that time.