

**EQUITABLE GAS COMPANY,**  
a division of **Equitable Resources, Inc.**  
before the  
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Docket No. R-2008-2029325**

INFORMATION SUBMITTED PURSUANT TO:  
Title 52 Pennsylvania Code § 53.51, et seq.,  
Pa. P.U.C. Regulations Re: Filing of Rate Changes

**EXHIBIT III**  
**VOLUME 1 OF 1**

**Balance Sheet and Operating Statement**

11/19/08

12/5

Equitable Exhibit III

Docket No. R-2008-2029325

Volume 1 of 1

**EQUITABLE GAS COMPANY**

A Division of

**EQUITABLE RESOURCES, INC.**

Before the

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**EXHIBIT III**

**Balance Sheet and Operating Statement**

INFORMATION SUBMITTED PURSUANT TO:

Title 52 Pennsylvania Code § 53.51, et seq.,  
Pa. P.U.C. Regulations Re Filing of Rate Changes

Equitable Gas Company's 2008 General Rate Filing

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**EXHIBIT III**  
**Balance Sheet and Operating Statement**  
**Volume 1 of 1**

EQUITABLE GAS COMPANY

Tariff Gas – Pa. P.U.C. No. 22

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Pa. P.U.C. Regulation 53.53

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4	J. C. Mitchell
5	J. C. Mitchell
6	J. C. Mitchell
7	J. C. Mitchell
8	J. C. Mitchell
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10	J. C. Mitchell
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12	J. C. Mitchell
13	J. C. Mitchell
14	J. C. Mitchell
15	D. Ross
16	D. Ross
17	J. C. Mitchell
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23	J. C. Mitchell
24	J. C. Mitchell
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26	R. M. Narkevic
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**Balance Sheet and Operating Statement**  
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EQUITABLE GAS COMPANY

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	40	J. C. Mitchell
	41	R. M. Narkevic
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	45	J. C. Mitchell
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71	J. Warren
E. Gas Utilities Only	
1	J. C. Mitchell
2	J. C. Mitchell
3	R. M. Narkevic
4	R. M. Narkevic
5	J. M. Quinn
6	J. C. Mitchell
7	J. C. Mitchell
8	R. M. Narkevic
9	R. M. Narkevic
10	R. M. Narkevic
11	R. M. Narkevic
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19	R. M. Narkevic
20	R. M. Narkevic
21	R. M. Narkevic
22	R. M. Narkevic
23	R. M. Narkevic
24	J. M. Quinn
25	J. M. Quinn
26	J. M. Quinn
27	J. M. Quinn
28	J. M. Quinn
29	J. M. Quinn
30	J. M. Quinn
31	J. M. Quinn
32	J. C. Mitchell
33	J. C. Mitchell
34	J. C. Mitchell
35	R. M. Narkevic
36	J. M. Quinn
37	R. M. Narkevic
38	J. M. Quinn
39	J. M. Quinn

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

1. Provide a comparative balance sheet for the test year and the preceding year which corresponds with the test year date.

Response:

The Company does not project a future test year balance sheet. Sheets 2 through 5, herein detail the historic (and preceding) year balance sheet of Equitable Gas Company.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

		As of December 31, 2007			
Line No.	Account No	Total Company	Pennsylvania	West Virginia	Kentucky
1	<u>Utility Plant</u>				
2	101 Gas Plant in Service	819,705,633	778,313,518	40,537,944	854,171
3	105 Gas Plant Held for Future Use	156,946	156,946	-	-
4	106 Completed Construction not Classified	58,180,743	57,472,936	707,807	-
5	107 Construction Work in Progress	11,619,899	11,566,092	53,807	-
6	108 Accumulated Provision for Depreciation	(272,491,107)	(258,025,642)	(14,160,975)	(304,490)
7	111 Accumulated Provision for Amortization	(10,610,636)	(10,448,821)	(161,815)	-
8	Total Utility Plant	606,561,478	579,035,029	26,976,768	549,681
9	<u>Current and Accrued Assets</u>				
10	131 Cash	-	-	-	-
11	135 Working Funds	27,876	27,876	-	-
12	141 Notes Receivable	490,541	490,541	-	-
13	142 Customer Accounts Receivable	44,995,730	43,327,347	1,064,880	603,504
14	143 Accounts Receivable from Affiliated Companies	169,835,632	169,835,632	-	-
15	144 Accumulated Provision for Uncollectible Accounts	(17,741,752)	(17,581,752)	(160,000)	-
16	154 Material & Supplies	1,015,253	1,015,253	-	-
17	164 Gas Stored Underground - Current	96,517,392	92,072,205	4,445,187	-
18	165 Prepayments	14,281,934	14,275,684	6,250	-
19	173 Accrued Utility Revenues	48,744,063	47,754,768	989,295	-
20	174 Miscellaneous Current and Accrued Assets	3,570,923	3,570,923	-	-
21	Total Current and Accrued Assets	361,737,592	354,788,477	6,345,612	603,504
22	<u>Deferred Debits</u>				
23	182 Regulatory Assets	49,728,763	49,728,763	-	-
24	186 Miscellaneous Deferred Debits	(20,732)	(20,732)	-	-
25	190 Accumulated Deferred Income Taxes	11,975,238	12,183,121	(322,415)	114,532
26	191 Unrecovered Purchased Gas Costs	39,081,044	40,271,751	(1,672,072)	481,365
27	Total Deferred Debits	100,764,313	102,162,903	(1,994,487)	595,897
28	Total Assets and Other Debits	1,069,063,383	1,035,986,409	31,327,893	1,749,081

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.		As of December 31, 2007			
			Total Company	Pennsylvania	West Virginia	Kentucky
		<u>Proprietary Capital</u>				
1	201	Common Stock Issued	12,435,650	12,435,650	-	-
2	211	Other Paid in Capital	203,683,152	203,683,152	-	-
3	216	Unappropriated Retained Earnings	248,863,188	248,863,188	-	-
4	219	Other Comprehensive Income	(17,083,417)	(17,083,417)	-	-
5		Total Proprietary Capital	447,898,573	447,898,573	-	-
6		<u>Other Noncurrent Liabilities</u>				
7	228.2	Accumulated Provision for Injuries and Damages	1,113,706	1,113,706	-	-
8	228.3	Accumulated Provision for Pensions and Benefits	34,939,517	34,939,517	-	-
9	228.4	Accumulated Misc. Operating Provisions	900,745	900,745	-	-
10	230	Asset Retirement Obligations	1,379,131	1,379,131	-	-
11	245	Derivative Instrument Liabilities - Hedges	160,447	160,447	-	-
12		Total Other Noncurrent Liabilities	38,493,546	38,493,546	-	-
13		<u>Current and Accrued Liabilities</u>				
14	231	Notes Payable	84,429	84,429	-	-
15	232	Accounts Payable	112,666,933	112,666,933	-	-
16	233	Notes Payable to Associated Companies	333,211,000	333,211,000	-	-
17	235	Customer Deposits	3,484,804	3,484,804	-	-
18	236	Taxes Accrued	(48,228,494)	(50,584,033)	2,412,991	(57,452)
19	241	Tax Collections Payable	820,074	805,925	7,109	7,040
20	242	Misc. Current and Accrued Liabilities	4,277,216	4,277,216	-	-
21		Total Current and Accrued Liabilities	406,315,962	403,946,274	2,420,100	(50,412)
22		<u>Deferred Credits</u>				
23	253	Other Deferred Credits	8,627,051	8,627,051	-	-
24	254	Other Regulatory Liabilities	305,875	305,875	-	-
25	255	Accum. Deferred Investment Tax Credit	5,581,308	5,581,308	-	-
26	282	Accum. Deferred Income Taxes - Other Property	128,732,826	123,074,830	5,472,995	185,001
27	283	Accum. Deferred Income Taxes - Other	33,108,242	32,922,258	3,144	182,840
28		Total Deferred Credits	176,355,302	170,511,322	5,476,140	367,840
29		Total Liability and Other Credits	1,069,063,383	1,060,849,715	7,896,240	317,428

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

		As of December 31, 2006			
Line No.	Account No.	Total Company	Pennsylvania	West Virginia	Kentucky
1		<u>Utility Plant</u>			
2	101	753,791,081	713,822,426	39,089,709	878,946
3	101.1	156,946	156,946	-	-
4	105	87,694,130	86,549,878	1,127,940	16,312
5	106	21,200,231	21,055,736	108,091	36,404
6	107	(267,630,391)	(253,696,230)	(13,591,585)	(342,576)
7	108	(10,945,873)	(10,788,864)	(157,009)	-
8	111	-	-	-	-
9		<u>584,266,124</u>	<u>557,099,892</u>	<u>26,577,146</u>	<u>589,086</u>
17		<u>Current and Accrued Assets</u>			
19	135	29,076	29,076	-	-
21	141	628,268	628,268	-	-
22	142	40,797,246	40,797,246	-	-
23	143	808,986	808,986	-	-
24	144	(18,402,843)	(18,402,843)	-	-
27	154	1,556,229	1,556,229	-	-
28	163	-	-	-	-
29	164	159,001,212	154,892,064	4,109,148	-
30	165	15,779,138	15,779,138	-	-
32	173	40,626,856	39,548,463	1,078,393	-
34		<u>240,824,168</u>	<u>235,636,626</u>	<u>5,187,542</u>	<u>-</u>
35		<u>Deferred Debits</u>			
37	182	54,612,239	54,612,239	-	-
39	184	118,498	118,498	-	-
40	186	1,587,522	1,587,522	-	-
42	190	13,747,739	13,747,739	-	-
43	191	54,062,496	53,518,991	(39,025)	582,530
44		<u>124,128,494</u>	<u>123,584,989</u>	<u>(39,025)</u>	<u>582,530</u>
		<u>949,218,786</u>	<u>916,321,507</u>	<u>31,725,663</u>	<u>1,171,616</u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No		As of December 31, 2006			
			Total Company	Pennsylvania	West Virginia	Kentucky
		<u>Proprietary Capital</u>				
1	201	Common Stock Issued	12,435,650	12,435,650	-	-
2	211	Other Paid in Capital	48,933,152	48,933,152	-	-
3	216	Unappropriated Retained Earnings	243,772,715	243,772,715	-	-
7	219	Other Comprehensive Income	(20,357,520)	(20,357,520)	-	-
8		Total Proprietary Capital	284,783,997	284,783,997	-	-
		<u>Other Noncurrent Liabilities</u>				
12						
13	228.2	Accumulated Provision for Injuries and Damages	1,581,131	1,581,131	-	-
14	228.3	Accumulated Provision for Pensions and Benefits	40,529,854	40,529,854	-	-
15	228.4	Accumulated Misc. Operating Provisions	3,048,375	3,048,375	-	-
16	230	Asset Retirement Obligations	150,000	150,000	-	-
18		Total Other Noncurrent Liabilities	45,309,360	45,309,360	-	-
		<u>Current and Accrued Liabilities</u>				
19						
20	231	Notes Payable	117,357	117,357	-	-
21	232	Accounts Payable	251,220,528	251,220,528	-	-
22	233	Notes Payable to Associated Companies	266,211,000	266,211,000	-	-
23	234	Accounts Payable to Affiliated Companies	111,078,600	111,078,600	-	-
24	235	Customer Deposits	4,153,198	4,153,198	-	-
25	236	Taxes Accrued	(162,506,524)	(163,147,160)	640,636	-
28	241	Tax Collections Payable	599,031	584,337	8,759	5,935
29	242	Misc. Current and Accrued Liabilities	3,939,718	3,939,718	-	-
30		Total Current and Accrued Liabilities	474,812,908	474,157,578	649,395	5,935
		<u>Deferred Credits</u>				
31						
33	253	Other Deferred Credits	475,372	475,372	-	-
34	254	Other Regulatory Liabilities	6,262,308	6,262,308	-	-
36	282	Accum. Deferred Income Taxes - Other Property	123,931,409	123,931,409	-	-
37	283	Accum. Deferred Income Taxes - Other	13,643,432	13,643,432	-	-
38		Total Deferred Credits	144,312,521	144,312,521	-	-
39		Total Liability and Other Credits	949,218,786	948,563,456	649,395	5,935

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

2. Set forth the major items of Other Physical Property, Investments in Affiliated Companies and Other Investments.

Response: None.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

3. Supply the amounts and purpose of Special Cash Accounts of all types, such as:
- a. Interest and Dividend Special Deposits.
  - b. Working Funds other than general operating cash accounts.
  - c. Other special cash accounts and amounts (Temporary cash investments).

Response:

Please see attached schedule.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

<u>Account 135 - Working Funds</u>	<u>As of</u> <u>December 31, 2007</u>
General Operating	\$ 4,576
Land Agent	\$ 10,000
Customer Refunds	\$ 3,300
Street Permits	\$ 10,000
Total	<u>\$ 27,876</u>

This account includes the amounts of all working funds.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

4. Describe the nature and/or origin and amounts of notes receivable, accounts receivable from associated companies, and any other significant receivables, other than customer accounts, which appear on balance sheet.

Response:

	<u>As of</u> <u>December 31, 2007</u>
<u>Account 141 - Notes Receivable</u>	
<u>Allegheny Center</u> Represents the amortization of rent expense due over the period of the lease agreement.	<u>490,541</u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

4. Describe the nature and/or origin and amounts of notes receivable, accounts receivable from associated companies, and any other significant receivables, other than customer accounts, which appear on balance sheet.

These receivable balances owed by associated companies contain transportation services, gas purchases, interest, labor, benefits, insurance, legal, rent, safety training, other corporate services, and cash receipts due to associated companies.

**Account 146 - Accounts Receivable from Affiliated Companies**

Eastern States	66,863
Equitable Supply Marketing	534,142
Equitable Gathering LLC	318,719
EPC Gathering	(162,033)
Equitable Production Services LP	9,329
Equitrans Big Sandy	(2,297)
Equitable Gathering Equity LLC	(32,572)
Equitable Gas Eliminations	(31,211,939)
Kentucky West Virginia Gas Company	184,941
Kentucky West Virginia Production	34,940
Equitrans Pipeline	(1,808,036)
Carnegie Pipeline	262,675
Goodwin PA	(10,736)
Equitable Capital Corporation	8,294,606
Corp Services Gas Purchases	10,794,779
Headquarters	178,443,560
ERI Corporate Payroll	2,978,857
Equitable Homeworks LLC	220,460
Equitable Energy	6,963,585
Utility Marketing	(6,037,232)
Third Party Other	(6,979)
Total	<u><u>169,835,632</u></u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued, and amounts written-off in each of the last three years.

Response:

See the attached for a roll forward of the Accumulated Provision for Uncollectible Accounts.

In accordance with the generally accepted accounting principle of matching revenues and expenses, the balance in Account 144.0 – Accumulated Provision for Uncollectible Accounts was established to recognize those accounts in the receivable balance estimated to be uncollectible.

In general, Equitable Gas Company (EGC) recognizes bad debt expense (provision for uncollectible accounts) each month based on a percentage of residential revenue. This amount is an estimate based on historical trends and analysis. On a quarterly basis, the adequacy of the Accumulated Provision for Uncollectible Accounts (reserve) is reviewed in comparison to the aged accounts receivable balance, the percentage of billed revenue collected, and the net write-off activity. After completing the quarterly review, adjustments to bad debt expense are recorded to adjust the Accumulated Provision for Uncollectible Accounts balance to approximate the amount of receivables that will not be collected in the future.

EGC writes-off receivables for inactive accounts only. Upon the cancellation or termination of service, the customer's account moves to an inactive status and up to three final bills are issued. In the event that the customer's account remains unpaid for 46 days after being deactivated, the remaining balance will be written off to the Accumulated Provision for Uncollectible Accounts (Account 144).

Equitable Gas Company  
§ 53.53 III. Balance Sheet and Operating Statement  
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5. Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued, and amounts written-off in each of the last three years

Accumulated Provision for Uncollectible Accounts (144)	Equitable Gas Company Year ended, December 31,		
	2007	2006	2005
Beginning Balance	\$ 18,402,842	\$ 20,510,710	\$ 27,325,285
Annual Provision for Uncollectible Accounts	\$ 8,559,290	\$ 6,609,930	\$ 12,585,268
Accounts written-off (net of recoveries)	\$ 6,929,567	\$ 7,078,065	\$ 18,760,771
Adjustments to Accumulated Provision	\$ (2,450,814)	\$ (1,639,732)	\$ (639,072)
Ending Balance	<u>\$ 17,581,752</u>	<u>\$ 18,402,843</u>	<u>\$ 20,510,710</u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

6. Provide a list of prepayments and give an explanation of special prepayments.

Response:

**Account 165 – Prepayments**

As of  
December 31, 2007

Prepaid Pension	\$ 14,039,402
Prepaid Rent-Allegheny Center Bridge	30,808
Prepaid AGA Dues	62,432
Prepaid Maintenance	91,313
Prepaid Retention Bonus	36,667
Prepaid-Other Rent	15,062
	<hr/>
Total	\$ 14,275,684

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

7. Explain in detail any other significant (in amount) current assets listed on the balance sheet.

Response:

**Account 142 – Customer Accounts Receivable**

	As of <u>December 31, 2007</u>
Gas Services	\$ 42,748,919
Pooling Services	426,805
Gathering Sales	151,545
Natural Gas Vehicles	78
	<hr/>
Total	\$ 43,327,347

**Account 154 – Plant Materials & Operating Supplies**

	As of <u>December 31, 2007</u>
Materials & Operating Supplies Inventory	\$ 1,015,253
	<hr/>
Total	\$ 1,015,253

This account includes the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes.

**Account 164 – Gas Stored Underground**

	As of <u>December 31, 2007</u>
Gas Storage Inventory	\$ 92,072,205
	<hr/>
Total	\$ 92,072,205

This amount represents the value of gas inventories in storage.

**Account 173 – Accrued Utility Revenue**

As of  
December 31, 2007

Unbilled Revenues	\$ 45,919,724
Unbilled Service Charges	1,835,044
	<hr/>
Total	\$ 47,754,768

The balance in this account is comprised of the estimated gas revenues and associated charges accrued for service rendered but not billed at the end of the stated accounting period.

**Account 174 – Other Current Assets**

As of  
December 31, 2007

Supply Hedge Valuation	\$ 3,570,923
	<hr/>
Total	\$ 3,570,923

This amount represents the valuation of the Company's supply hedges.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

8. Explain in detail, including the amount and purpose, the deferred asset accounts that currently operate to effect or will at a later date effect the operating account supplying:
- a. Origin of these accounts.
  - b. Probable changes to this account in the near future.
  - c. Amortization of these accounts currently charged to operations or to be charged in the near future.
  - d. Method of determining yearly amortization for the following accounts:
    - Temporary Facilities
    - Miscellaneous Deferred Debits
    - Research and Development
    - Property Losses
    - Any other deferred accounts that effect operating results

Response:

**Account 181 Unamortized Debt Discount and Expenses**

As of December 31, 2007, there is no debt issuance expense to be deferred or amortized.

**Account 182 Regulatory Assets**

As of  
December 31, 2007

AFUDC Equity - Regulatory Asset	\$ 1,261,781
FASB 106 - Regulatory Asset	\$ 866,252
FASB 109 - Regulatory Asset	\$ 45,866,244
AR PUC Recovery-Regulatory Asset	<u>\$ 1,734,486</u>
Total	\$ 49,728,763

AFUDC Equity – Regulatory Asset

The Company capitalizes the carrying costs for the construction of certain long-term assets and amortizes the costs over the life of the related assets. For these regulated assets, the costs include allowance for equity funds used during construction (AFUDC – Equity) for 2005-2007.

FASB 106 – Regulatory Asset

This amount represents Equitable's accumulated incremental SFAS 106 expense from January 1993 through August 1995 established at Docket Number R-00943246. In accordance with GAAP, the regulatory asset, originally valued at \$2,598,758, is being amortized over 15.1 years beginning December 1, 1997. At December 31, 2007, the balance of this regulatory asset is \$866,252, with 5 years left of amortization.

FASB 109 – Regulatory Asset

This amount represents the Regulatory Asset established in accordance with Equitable's adoption of FASB 109 – "Accounting for Income Taxes" in 1993. This regulatory asset relates to the flow through of state tax timing differences.

AR Special Arrears – Regulatory Asset

This amount represents the remaining balance to be recovered related to the Delinquency Reduction Opportunity Program ("DROP") that was approved by the PUC in July 2002. The program permits the company to recover accounts receivable balances in arrears from low-income customers as of the implementation date. This is funded through an existing \$.06 per mcf surcharge and customer payments. The program includes an arrearage forgiveness incentive, which provides for additional credits to the customer's bill when the customer makes a payment towards their balance in arrears. The program commenced in 2003 and it was estimated that full recovery would occur over a ten-year period.

**Account 186 Miscellaneous Deferred Debits**

As of  
December 31, 2007

LIURP Program

\$ (20,732)

**Account 191 Unrecovered Purchased Gas Cost**

As of  
December 31, 2007

Under (over) collection of PGC

\$ 43,864,237

MTM unrealized (gain)/loss

\$ (3,592,486)

Total

\$ 40,271,751

The balance in this account represents the over/under collection of purchased gas costs and the amortization of these costs in accordance with the fuel cost adjustment clauses to the Company's tariffs.

This account balance is also comprised of the Mark-to-Market gains/loss for supply hedges.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

9. Explain the nature of accounts payable to associated companies, and note amounts of significant items.

Response:

**Account 233 - Notes Payable to Associated Companies**

Equitable Capital Corporation

This amount represents debt at an average rate of 7.33%.

333,211,000

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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10. Provide details of other deferred credits as to their origin and disposition policy (e.g. amortization).

Response: See attached.

EQUITABLE GAS COMPANY

53 Pa. Code Ch. 53, Annex A  
Part III - Balance Sheet and Operating Statement  
A-10 - Deferred Credits  
Future Test Year Ending December 31, 2007

A-10 Provide details of other deferred credits as to their origin and disposition policy (e.g. - amortization).

**As of**  
**December 31, 2007**

**Account 253 - Other Deferred Credits**

Unrecognized Tax Benefit Liability - Long Term

This amount represents the Equitable Corporate Allocation of deferred taxes based on FIN 48 Accounting for Uncertainty in Income Taxes.

8,627,051

**Account 254 - Other Regulatory Liabilities**

Deferred Regulatory Liability - ERI Corp

This amount represents the net book value of Allegheny Center Mall assets that were impaired in June 2005 with the move to the North Shore Office Building. For regulatory purposes, the assets continued to be depreciated. For financial reporting purposes, this liability was created to be accreted over the life of the asset and net the depreciation expense to zero.

305,875

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

11. Supply basis for Injury and Damages reserve and amortization thereof.

Response:

Account 228200 Accumulated Provision for Injuries and Damages Balance as of  
December 31, 2007:

<i>Reserve for Injuries and Damages</i>	<u>\$ 1,113,706</u>
Total Account 228.2	\$ 1,113,706

This amount represents the reserve for third party injuries and damages, and workers' compensation matters. This reserve is evaluated on a quarterly basis and includes specifically identified accruals for known, probable future expenses, as determined by the Insurance and Risk Department. At the time the accrual is determined, operating expense is charged and operating reserve (Account 228) is credited with the dollar value of the estimated exposure. As each claim or case is resolved, the costs are charged directly to the operating reserve account.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

12. Provide details of any significant reserves, other than depreciation, bad debt, injury and damages, appearing on the balance sheet.

Response:

The following are liabilities established on the balance sheet as of December 31, 2007:

In Account 232000 liabilities totaling \$3,960,883 have been established for accruals and estimated capital expenditures incurred but not yet invoiced at year end.

In Account 242000 liabilities totaling \$4,275,439 have been established for the annual short-term incentive bonus plan.

*In Account 228000 liabilities totaling \$1,379,131 have been established for asset retirement obligations.*

In Account 228300 liabilities totaling \$12,190,855 have been established for Defined Pension and Other Retirement Benefits per SFAS 158.

In Account 228300 liabilities totaling \$16,224,675 have been established for Defined Pension Obligations per SFAS 88 and SFAS 158.

In Account 228300 liabilities totaling \$6,523,987 have been established for Other Post Retirement Benefits per FAS 106.

In Account 228400 liabilities totaling \$750,000 have been established for ongoing litigation matters.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

13. Provide an analysis of unappropriated retained earnings for the test year and three preceding calendar years.

Response: See attached.

Equitable Gas Company

52 PA Code Ch.53.53 Annex A  
Part III - Balance Sheet and Operating Statement  
A-13 - Analysis of Unappropriated Retained Earnings  
Future Test Year Ending December 31, 2008

A-13 Provide an analysis of unappropriated retained earnings for the test year and three preceding calendar years

	Year Ended Dec-07	Year Ended Dec-06	Year Ended Dec-05	Year Ended Dec-04
216 Unappropriated Retained Earnings				
Balance - beginning of Year	243,772,715	218,448,384	201,710,379	182,321,550
Net Income (Loss) per Books	5,411,076	52,324,331	29,788,005	30,938,829
Dividends to Shareholders	-	-	-	(11,550,000)
Dividends to Subsidiaries	-	(27,000,000)	(13,050,000)	-
Adjustment due to cumulative effect of FIN 48	(320,603)	-	-	-
Balance - End of Year	248,863,188	243,772,715	218,448,384	201,710,379

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

14. Provide schedules and data in support of the following working capital items:
- a. Prepayments – List and identify all items
  - b. Federal Excise Tax accrued or prepaid
  - c. Federal Income Tax accrued or prepaid
  - d. Pennsylvania State Income Tax accrued or prepaid.
  - e. Pennsylvania Gross Receipts Tax accrued or prepaid.
  - f. Pennsylvania Capital Stock Tax accrued or prepaid.
  - g. Pennsylvania Public Utility Realty Tax accrued or prepaid.
  - h. State sales tax accrued or prepaid.
  - i. Payroll taxes accrued or prepaid.
  - j. Any adjustment related to the above items for ratemaking purposes.

Response:

- a. See Item III-A-6.
- b. None.
- c. See Item III-A-66.
- d. See Item III-A-66.
- e. See Item III-A-66.
- f. See Item III-A-66.
- g. See Item III-A-66.
- h. None.
- i. See Item III-A-66.
- j. Adjustments reliant to the above are presented in Item III-A-17, and included in working capital requirements based on the lead-lag study at Item III-A-15.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

15. Supply an exhibit supporting the claim for working capital requirement based on the lead-lag method.
- a. Pro forma expenses and revenues are to be used in lieu of book data for computing lead-lag days.
  - b. Respondent must either include sales for resale and related expenses in revenues and in expenses or exclude from revenues and expenses. Explain procedures followed (exclude telephone).

Response:

- a. Refer to the testimony of David W. Ross which provide the support for the lead-lag study and working capital requirements.
- b. Sales for resale and related expenses are excluded from revenues and expenses.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

16. Provide detailed calculations showing the derivation of the tax liability offset against gross cash working capital requirements.

Response:

Refer to the testimony of David W. Ross which provide the support for the lead-lag study and working capital requirements.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

17. Prepare a Statement of Income for the various time frames of the rate proceeding including:
- Column 1 – Book recorded statement for the test year.
  - Column 2 – Adjustments to book record to annualize and normalize under present rates.
  - Column 3 – Income statement under present rates after adjustment in Column 2.
  - Column 4 – Adjustment to Column 3 for revenue increase requested.
  - Column 5 – Income statement under requested rates.
- a. Expenses may be summarized by the following expense classifications for purposes of this statement:
- Operating Expenses (by category)
    - Depreciation
    - Amortization
    - Taxes, Other than Income Taxes
    - Total Operating Expense
  - Operating Income Before Taxes
    - Federal Taxes
    - State Taxes
    - Deferred Federal
    - Deferred State
    - Income Tax Credits
    - Other Credits
    - Other Credits and Charges, etc.
    - Total Income Taxes
  - Net Utility Operating Income
  - Other Income & Deductions
    - Other Income
      - Detailed listing of Other Income used in Tax Calculation
    - Other Income Deduction
      - Detailed Listing
  - Taxes Applicable to Other Income and Deductions
    - Detailed Listing
  - Income Before Interest Charges
    - Listing of all types of Interest Charges and all amortization of Premiums and/or Discounts and Expenses on Debt issues
  - Total Interest
  - Net Income After Interest Charges<sup>i</sup>

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<sup>i</sup> Each adjustment to the above statements with explanation in sufficient clarifying detail.

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Description	Reference	Per Books TME 12/31/2007	Adjustments to Reflect Normalization & Annualization at Present Rates	Pro Forma Historic Test Year at Present Rates
			(1)	(2)	(3=1+2)
			\$	\$	\$
1	Operating Revenue	Sheet 3	441,183,747	21,393,898	462,577,645
	Operating Expenses				
	Operation and Maintenance Expenses:				
2	Purchased Gas Costs	Sheet 4	291,187,233	13,500,202	304,687,435
3	Non-purchased Gas Costs	Sheet 4	85,853,180	4,375,579	90,228,759
4	Total Operation and Maintenance		377,040,413	17,875,781	394,916,194
5	Depreciation and Amortization	Sheet 5	19,180,602	2,265,654	21,446,256
6	Taxes Other than Income Taxes	Sheet 6	1,441,739	883,816	2,325,555
7	Total Operating Expenses		397,662,754	21,025,251	418,688,005
8	Operating income before income taxes		43,520,993	368,647	43,889,640
9	Income Taxes:				
10	Federal Income Taxes	Sheet 8	12,854,764	(6,303,847)	6,550,916
11	State Income Taxes	Sheet 8	2,745,522	(668,176)	2,077,346
12	Deferred Federal Income Taxes	Sheet 8	2,238,418	2,014,128	4,252,547
13	Deferred State Income Taxes	Sheet 8	518,553	(518,553)	-
14	Investment Tax Credit - Amortization	Sheet 8	(9,114)	-	(9,114)
15	Total Income Taxes		18,348,143	(5,476,448)	12,871,695
16	Losses from Disposition of Utility Plant		-	-	-
17	Net Utility Operating Income		25,172,850	5,845,095	31,017,945
18	Rate Base	Item I-A-2			540,406,680
	<b>Overall Rate of Return</b>				<b>5.74%</b>

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III, Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	Reference	Per Books TME 12/31/2007	Adjustment to Reflect Annualization at Present Rates	Pro Forma Historic Test Year at Present Rates
				(1)	(2)	(3=1+2)
				\$	\$	\$
<b>Operating Revenue</b>						
1	480	Residential Sales	Item III.E.10	306,414,733	10,858,379	317,273,113
2	481	Commercial & Industrial	Item III.E.10	64,917,299	552,002	65,469,301
3		Total Sales of Gas		371,332,032	11,410,381	382,742,414
<b>Other Operating Revenues</b>						
4	487	Forfeited Discounts	Item III.E.10	1,557,851	-	1,557,851
5	488	Miscellaneous service revenues	Item III.E.10	1,208,555	-	1,208,555
6	489	Transportation Revenues	Item III.E.10	61,853,829	9,983,516	71,837,345
7	489.1	Transportation Revenues - Gathering	Item III.E.10	5,169,989	-	5,169,989
8	493	Rent from Gas Property	Item III.E.10	1,588	-	1,588
9	495	Other Gas Revenues	Item III.E.10	59,903	-	59,903
10		Total Other Operating Revenues		69,851,715	9,983,516	79,835,231
11		Total Revenues		441,183,747	21,393,898	462,577,645

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

**Adjustments to Historic Test Year**

Line No.	Account No.	Description	Reference	Per Books TME 12/31/2007	Adjustment to Reflect Annualization at Present Rates	Pro Forma Historic Test Year at Present Rates
				(1)	(2)	(3=1+2)
				\$	\$	\$
1	801.0 - 805.0,	Purchased Gas Cost				
2	808.1, 808.2,					
3	& 813.0			291,013,125	13,500,202	304,513,327
4	750.0 - 769.0	Natural Gas Production & Gathering Exp.	Sheet 9 (A)	797,798	517,954	1,315,752
5	807.0 & 812.0	Other Gas Supply Exp.		174,108	-	174,108
6	870.0 - 894.0	Distribution Exp.	Sheet 9 (B)	23,322,147	732,663	24,054,810
7	901.0 - 905.0	Customer Accounts Expense	Sheet 9 (C)	18,872,698	5,653,947	24,526,645
8	907.0 - 910.0	Customer Service and Information Exp.	Sheet 9 (D)	1,082,684	54,997	1,137,681
9	911.0 - 916.0	Sales Exp.	Sheet 9 (E)	839,993	(84,457)	755,536
10	920.0 - 935.0	Administrative & General Exp.	Sheet 9 (F)	40,937,860	(2,499,524)	38,438,335
		<b>Total Operations and Maintenance Expense</b>		<u>377,040,413</u>	<u>17,875,781</u>	<u>394,916,194</u>

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Historic Test Year Depreciation Expense Adjustment

Line No.	Account No.	Description	Reference	Amount
				\$
1		Historic Test Year Calculation	Item I-A-4	\$ 22,912,069
2		Less: Amounts charged to Clearing Accounts		
3	392	Transportation Equipment Auto, Trucks & Trailers	1,188,487	
4	396	Power Operated Equipment	<u>277,326</u>	<u>1,465,813</u>
5				\$ 21,446,256
6		Historic Test Year Per Books	Sheet 1	<u>19,180,602</u>
7		Adjustment		<u><u>\$ 2,265,654</u></u>

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

**Adjustments to Historic Test Year**

Acco Line No.	unt No.	Description	Reference	Per Books TME 12/31/2007 (1) \$	Adjustment to Reflect Annualization at Present Rates (2) \$	Pro Forma Historic Test Year at Present Rates (3=1+2) \$
<b>Taxes Other than Income</b>						
1		Federal Social Security Tax		1,620,396	(159,035) (G)	1,461,361
2		Federal Unemployment Tax		17,825	(1,749) (H)	16,076
3		Pennsylvania Unemployment Tax		178,268	(17,496) (I)	160,772
4		Total Payroll Taxes included in Accts 801.0 to 935.0 (1)		1,816,490	(178,281)	1,638,209
5		Capital Stock Tax		298,392	403,663 (J)	702,055
6		Public Utility Commission		991,708	32,173 (K)	1,023,881
7		Real Estate Taxes		63,214		63,214
8		Public Utility Realty Tax		71,213	447,980 (L)	519,193
9		Miscellaneous Taxes		17,212		17,212
10		Total Taxes Other Than Income		1,441,739	883,816	2,325,555
<u>(G) Federal Social Security Tax Adjustment:</u>						
11		Annualized labor	Sheet 11	21,725,852		
12		Effective Social Security Tax Rate	Sheet 10	6.73%		
13		Calculated Social Security Tax		1,461,361		
14		Per books Social Security Tax		1,620,396		
15		Adjustment		(159,035)		
<u>(H) Federal Unemployment Tax Adjustment:</u>						
16		Annualized labor	Sheet 11	21,725,852		
17		Effective Federal Unemployment Tax Rate	Sheet 10	0.07%		
18		Calculated Federal Unemployment Tax		16,076		
19		Per books Federal Unemployment Tax		17,825		
20		Adjustment		(1,749)		
<u>(I) Pennsylvania Unemployment Tax Adjustment:</u>						
21		Annualized labor	Sheet 11	21,725,852		
22		Effective Pennsylvania Unemployment Tax Rate	Sheet 10	0.74%		
23		Calculated Pennsylvania Unemployment Tax		160,772		
24		Per books Pennsylvania Unemployment Tax		178,268		
25		Adjustment		(17,496)		

**Equitable Gas Company - Pennsylvania Division**  
**§ 53.53 III. Balance Sheet and Operating Statement**  
**A. All Utilities**

26	(J) Capital Stock tax expense normalization		403,663
	(K) <u>Public Utility Commission Fee:</u>		
27	Sales revenue Adjustment	Sheet 3	11,410,381
28	PUC rate (1)		<u>0.282%</u>
29	Calculated PUC Fee Adjustment		32,173
30	(L) Board of Public Works tax expense normalization		447,980

(1) Payroll taxes are charged to the same FERC account as labor charges

(2) General Assessment Invoice for the fiscal year July 2006 - June 2007

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Adjustments to Historic Test Year

Line No	Description	Reference	Amount
			\$
	<u>Income Tax Calculation:</u>		
1	Operating Income Before Income Taxes	Sheet 1	43,889,640
2	Additions to Book Income:		
3	Book Depreciation	Sheet 1	<u>21,446,256</u>
4	Total Additions		21,446,256
	Deductions from Book Income:		
5	Tax Depreciation		28,808,319
6	Interest Expense (A)		<u>15,725,834</u>
7	Total Deductions		44,534,153
8	State Taxable Income/(loss)		20,794,250
	<u>Income Taxes at Current Rates:</u>		
9	State Income Taxes (at 9.99%)		2,077,346
10	Federal Taxable Income		18,716,904
11	Federal Taxes based on Income (at 35.0%)		6,550,916
12	ITC		<u>(9,114)</u>
13	Total Federal Current Income Taxes		6,541,802
	<u>(A) Interest Deduction:</u>		
14	Rate Base	Sheet 1	540,406,680
15	Weighted Cost of Debt		<u>2.91%</u>
16	Interest Deduction		15,725,834
	<u>Deferred Taxes-Federal</u>		
17	Provision for deferred income taxes- accelerated depreciation		4,252,547
18	Flowback of excess deferred income taxes- accelerated depreciation		-
19	Deferred State Income Taxes		-

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

**Adjustments to Historic Test Year**

Description	Amount
	\$
A. 750.0 - 769.0 Natural Gas Production & Gathering Exp.	
- Right of way mowing costs understated in 2007 books.	384,431
- Compliance costs related to increased Department of Transportation requirements.	133,524
Total	517,954
B. 870.0 - 894.0 Distribution Exp.	
- Annualize labor costs. See sheet 10 for further detail.	466,415
- Annualize telecommunication charges. 2007 costs understated by a credit adjustment for 2006 billing errors.	266,248
Total	732,663
C. 901.0 - 905.0 Customer Accounts Expense	
- Cap Program shortfall. See CAP workpapers for more detail.	6,053,531
- Normalize bad debts. See bad debt workpapers for more detail.	(1,162,312)
- Reclass of collection costs from accounts receivable reserve to collection expense.	612,202
- Annualize telecommunication charges. 2007 costs understated by a credit adjustment for 2006 billing errors.	88,772
- Annualize labor costs. See sheet 10 for further detail.	61,755
Total	5,653,947
D. 907.0 - 910.0 Customer Service and Information Exp.	
- Annualize labor costs. See sheet 10 for further detail.	54,997
E. 911.0 - 916.0 Sales Exp.	
- Annualize labor costs. See sheet 10 for further detail.	(84,457)
F. 920.0 - 935.0 Administrative & General Exp.	
- Annualize labor costs. See sheet 10 for further detail.	(3,177,272)
- Insurance reserve adjustments related to various cases settled in 2007.	1,010,049
- Short-term incentive adjustment related to all labor adjustments. See sheet 10 for further information.	(394,357)
- Adjust credits recorded related to prior year construction order billings.	76,169
- Exclude costs associated with legal settlement related to gas dispute.	(55,569)
- Annualize telecommunication charges. 2007 costs understated by a credit adjustment for 2006 billing errors.	41,456
Total	(2,499,524)
Grand Total Non-Purchased Gas Costs	4,375,579

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Adjustments to Historic Test Year

Line No	Ferc Description	Ferc Account	Per Books TME 12/31/2007			Adjustment to Reflect Annualization at Present Rates				Pro Forma Historic Test Year at Present Rates (8) = (3) + (7) \$
			Labor	Fringe	Total	Labor Open Positions	Labor Reclass to other Div	Fringe	Total	
			(1) \$	(2) \$	(3) = (1) + (2) \$	(4) \$	(5) \$	(6) \$	(7) = (4)+(5)+(6) \$	
1	Operation supervision and engineering	750	83,781	25,109	108,890	-	-	-	-	108,890
2	Gas wells expense	752	780	234	1,013	-	-	-	-	1,013
3	Field lines expense	753	151,168	45,305	196,473	-	-	-	-	196,473
4	Field compressor station expense	754	24,466	7,332	31,798	-	-	-	-	31,798
5	Maintenance of structures and improvements	762	1,427	428	1,854	-	-	-	-	1,854
6	Maintenance of producing gas wells	763	2,021	606	2,627	-	-	-	-	2,627
7	Maintenance of field lines	764	98,367	29,481	127,848	-	-	-	-	127,848
8	Maintenance of field compressor station equipment	765	50,940	15,267	66,206	-	-	-	-	66,206
9	Well expenses - purchased gas	807.1	112,551	33,731	146,282	-	-	-	-	146,282
10	Maintenance of purchased gas measuring stations	807.3	2,677	802	3,479	-	-	-	-	3,479
11	Operation supervision and engineering	870	870,302	260,830	1,131,132	358,840	-	107,544	466,385	1,597,516
12	Distribution load dispatching	871	75,474	22,620	98,094	-	-	-	-	98,094
13	Mains and services expenses	874	1,487,208.63	445,716	1,932,925	-	-	-	-	1,932,925
14	Measuring and regulating station expenses - general	875	39,329	11,787	51,115	-	-	-	-	51,115
15	Measuring and regulating station expenses - industrial	876	69	21	90	-	-	-	-	90
16	M and R station expenses - city gate check station	877	0	0	0	-	-	-	-	-
17	Meter and house regulator expenses	878	2,756,201	826,033	3,582,234	-	-	-	-	3,582,234
18	Customer installation expenses	879	6,131	1,837	7,968	-	-	-	-	7,968
19	Other expenses	880	341,014	102,202	443,216	-	-	-	-	443,216
20	Maintenance supervision and engineering	885	590,214	176,887	767,101	-	-	-	-	767,101
21	Maintenance of structures and improvements	886	162,089	48,578	210,667	-	-	-	-	210,667
22	Maintenance of mains	887	2,207,098	661,467	2,868,565	-	-	-	-	2,868,565
23	Maintenance of M&R station equipment - gen	889	592,952	177,708	770,660	-	-	-	-	770,660
24	Maintenance of M&R station equipment - industrial	890	0	0	0	-	-	-	-	-
25	Maint. Of M&R station expenses - city gate ck. station	891	6,906	2,070	8,975	-	-	-	-	8,975
26	Maintenance of services	892	292,740	87,734	380,474	-	-	-	-	380,474
27	Maintenance of meters and house regulators	893	44,922	13,463	58,385	-	-	-	-	58,385
28	Maintenance of other equipment	894	43,545	13,050	56,595	-	-	-	-	56,595
29	Supervision	901	173,556	52,015	225,571	-	-	-	-	225,571
30	Meter reading expenses	902	150,134	44,995	195,129	-	(8,387)	(2,514)	(10,901)	184,227
31	Customer records and collections expenses	903	3,783,380	1,133,879	4,917,259	132,423	(76,521)	16,754	72,656	4,989,915
32	Customer assistance exp	908	237,617	71,214	308,830	42,315	-	12,682	54,997	363,827

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III, Balance Sheet and Operating Statement  
A. All Utilities

Adjustments to Historic Test Year

Line No	Ferc Description	Ferc Account	Per Books TME 12/31/2007			Adjustment to Reflect Annualization at Present Rates				Pro Forma Historic Test Year at Present Rates (8) = (3) + (7) \$
			Labor	Fringe	Total	Labor Open Positions	Labor Reclass to other Div	Fringe	Total	
			(1) \$	(2) \$	(3) = (1) + (2) \$	(4) \$	(5) \$	(6) \$	(7) = (4)+(5)+(6) \$	
33	Supervision	911	46,191	13,843	60,034	-	-	-	-	60,034
34	Demonstrating and selling exp	912	493,671	147,953	641,625	-	(64,982)	(19,475)	(84,457)	557,167
35	Administrative and general salaries	920	6,301,216	1,888,474	8,189,691	169,230	(2,483,521)	(693,593)	(3,007,884)	5,181,807
36	Injuries and damages	925	22,045	6,607	28,652	-	-	-	-	28,652
37	Maintenance of general plant	935	282,944	84,798	367,743	-	(130,329)	(39,060)	(169,388)	198,355
38	Total Labor		21,535,125	6,454,076	27,989,201	702,808	(2,763,740)	(617,661)	(2,678,593)	25,310,608
39	A & G-Employee Pension & Benes	926	2,555,081	765,758	3,320,838	88,127	(391,548)	(90,935)	(394,357)	2,926,481
40	Total Including Bonus		24,090,205	7,219,834	31,310,039	790,935	(3,155,288)	(708,597)	(3,072,950)	28,237,089

Note: Labor costs only = (1) + (4) + (5)

Breakdown of Fringe Included Above:

Fringe Description	Fringe %						
41 Health Savings Account	1.19%		287,227	9,430	(37,620)	(28,190)	259,037
42 Medical	10.93%		2,632,882	86,443	(344,850)	(258,406)	2,374,476
43 Dental	0.92%		220,490	7,239	(28,879)	(21,640)	198,850
44 Active Life, AD&D, LTD	0.69%		165,998	5,450	(21,742)	(16,292)	149,706
45 Vision	0.23%		55,796	1,832	(7,306)	(5,476)	50,320
46 401K	7.61%		1,833,787	60,207	(240,186)	(179,979)	1,653,808
47 Other	0.86%		207,164	6,802	(27,134)	(20,332)	186,832
48 Total Benefits Allocation/Amount	22.43%		5,403,344	177,404	(707,720)	(530,316)	4,873,029
49 Soc. Security - ER	5.24%		1,261,532	41,419	(165,233)	(123,814)	1,137,718
50 Medicare - ER	1.49%		358,864	11,782	(47,003)	(35,221)	323,643
51 Federal Unemploy. Tax—FUCA	0.07%		17,825	585	(2,335)	(1,749)	16,076
52 State Unemploy. Ins. - ER ----SUI	0.74%		178,268	5,853	(23,349)	(17,496)	160,772
53 Total Payroll Taxes Allocation/Amount	7.54%		1,816,490	59,639	(237,920)	(178,281)	1,638,209
54 Total Fringe Allocation/Amount	29.97%		7,219,834	237,043	(945,640)	(708,597)	6,511,237

**Equitable Gas Company**  
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17. Prepare a *Statement of Income* for the various time frames of the rate proceeding including:
- Column 1 – Book recorded statement for the test year.
  - Column 2 – Adjustments to book record to annualize and normalize under present rates.
  - Column 3 – Income statement under present rates after adjustment in Column 2.
  - Column 4 – Adjustment to Column 3 for revenue increase requested.
  - Column 5 – Income statement under requested rates.
- a. Expenses may be summarized by the following expense classifications for purposes of this statement:
- Operating Expenses (by category)
    - Depreciation
    - Amortization
    - Taxes, Other than Income Taxes
    - Total Operating Expense
  - Operating Income Before Taxes
    - Federal Taxes
    - State Taxes
    - Deferred Federal
    - Deferred State
    - Income Tax Credits
    - Other Credits
    - Other Credits and Charges, etc.
    - Total Income Taxes
  - Net Utility Operating Income
  - Other Income & Deductions
    - Other Income
      - Detailed listing of Other Income used in Tax Calculation
    - Other Income Deduction
      - Detailed Listing
  - Taxes Applicable to Other Income and Deductions
    - Detailed Listing
  - Income Before Interest Charges
    - Listing of all types of Interest Charges and all amortization of Premiums and/or Discounts and Expenses on Debt issues
  - Total Interest
  - Net Income After Interest Charges<sup>i</sup>

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<sup>i</sup> Each adjustment to the above statements with explanation in sufficient clarifying detail.

**Equitable Gas Company**  
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A. All Utilities

Line No.	Description	Reference	Per Books	Adjustment to Reflect Normalization & Annualization		Annualized at Present Base Rates	Adjustments at Proposed Rates	Pro Forma Future Test Year at Proposed Rates
				at Present Rates	at Present Rates			
			(1)	(2)	(3=1+2)	(4)	(5=3+4)	
			\$	\$	\$	\$	\$	
4	Operating Revenue	Sheet 3	462,577,645	54,039,885	516,617,530	51,949,391	568,566,920	
	Operating Expenses							
	Operation and Maintenance Expenses:							
5	Purchased Gas Costs	Sheet 4	304,687,435	54,628,338	359,315,773		359,315,773	
6	Non-purchased Gas Costs	Sheet 4	90,228,759	14,879,392	105,108,151	1,103,413	106,211,564	
7	Total Operation and Maintenance		394,916,194	69,507,730	464,423,924	1,103,413	465,527,337	
8	Depreciation and Amortization	Sheet 5	21,446,256	2,024,799	23,471,055		23,471,055	
9	Taxes Other than Income Taxes	Sheet 6	2,325,555	(139,689)	2,185,866	146,479	2,332,345	
10	Total Operating Expenses		418,688,005	71,392,840	490,080,845	1,249,892	491,330,737	
11	Operating income before income taxes		43,889,640	(17,352,955)	26,536,685	50,699,499	77,236,183	
12	Income Taxes:							
13	Federal Income Taxes *	Sheet 8	6,550,916	(9,733,789)	(3,182,873)	15,972,117	12,789,244	
14	State Income Taxes	Sheet 8	2,077,346	(3,086,659)	(1,009,313)	5,064,880	4,055,567	
15	Deferred Federal Income Taxes *	Sheet 8	4,252,547	4,293,200	8,545,747	-	8,545,747	
16	Deferred State Income Taxes	Sheet 8	0	-	-	-	-	
17	Investment Tax Credit - Amortization	Sheet 8	(9,114)	3,585	(5,529)	-	(5,529)	
	Total Income Taxes		12,871,695	(8,523,663)	4,348,032	21,036,996	25,385,028	
	Losses from Disposition of Utility Plant		-	-	-	-	-	
	Net Utility Operating Income		31,017,945	(8,829,292)	22,188,653	29,662,502	51,851,155	
	Rate Base	Item I-A-2	540,406,680		583,252,589		583,252,589	
	Overall Rate of Return		5.74%		3.80%		8.89%	

**Equitable Gas Company - Pennsylvania Division**  
 § 53.53 III. Balance Sheet and Operating Statement  
 A. All Utilities

Line No.	Account No.	Description	Reference	Pro Forma	Adjustments at	Pro Forma Future
				Historic Test Year at Present Rates		Test Year at Present Rates
				(1)	(2)	(3=1+2)
				\$	\$	\$
<b>Operating Revenue</b>						
1	480	Residential Sales	Item III. E. 10	317,273,113	31,796,454	349,069,566
2	481	Commercial	Item III. E. 10	65,469,301	9,098,708	74,568,009
3		Total Sales of Gas		<u>382,742,414</u>	<u>40,895,162</u>	<u>423,637,575</u>
<b>Other Operating Revenues</b>						
4	487	Forfeited Discounts	Item III. E. 10	1,557,851	-	1,557,851
5	488	Miscellaneous service revenues	Item III. E. 10	1,208,555	-	1,208,555
6	489	Transportation Revenues	Item III. E. 10	71,837,345	12,988,258	84,825,604
7	489.1	Transportation Revenues - Gathering	Item III. E. 10	5,169,989	156,465	5,326,454
8	493	Rent from Gas Property	Item III. E. 10	1,588	-	1,588
9	495	Other Gas Revenues	Item III. E. 10	59,903	-	59,903
10		Total Other Operating Revenues		<u>79,835,231</u>	<u>13,144,723</u>	<u>92,979,954</u>
11		Total Revenues		<u>462,577,645</u>	<u>54,039,885</u>	<u>516,617,530</u>

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**Adjustments to Future Test Year**

Line No.	Account No.	Description	Reference	Pro Forma Historic Test Year at Present Rates (1) \$	Adjustments at Present Rates (2) \$	Pro Forma Future Test Year at Present Rates (3=1+2) \$
1	801.0 - 805.0,	Purchased Gas Cost				
2	808.1, 808.2,					
3	& 813.0			304,513,327	54,628,338	359,141,665
4	750.0 - 769.0	Natural Gas Production & Gathering Exp.	Sheet 9 (A)	1,315,752	1,493,078	2,808,830
5	807.0 & 812.0	Other Gas Supply Exp.		174,108	-	174,108
6	870.0 - 894.0	Distribution Exp.	Sheet 9 (B)	24,054,810	(12,841)	24,041,969
7	901.0 - 905.0	Customer Accounts Expense	Sheet 9 (C)	24,526,645	11,605,824	36,132,469
8	907.0 - 910.0	Customer Service and Information Exp.	Sheet 9 (D)	1,137,681	69,640	1,207,321
9	911.0 - 916.0	Sales Exp.	Sheet 9 (E)	755,536	(71,661)	683,875
10	920.0 - 935.0	Administrative & General Exp.	Sheet 9 (F)	38,438,335	1,795,351	40,233,686
Total Operations and Maintenance Expense				<u>394,916,194</u>	<u>69,507,730</u>	<u>464,423,924</u>

Equitable Gas Company - Pennsylvania Division  
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Future Test Year Depreciation Expense Adjustment

Line No.	Account No.	Description	Reference	Amount
				\$
1		Future Test Year Calculation	Item I-A-4	\$ 25,017,503
2		Less: Amounts charged to Clearing Accounts		
3	392	Transportation Equipment Auto, Trucks & Trailers	1,299,146	
4	396	Power Operated Equipment	<u>247,302</u>	<u>1,546,448</u>
5				\$ 23,471,055
6		Historic Test Year Per Books	Sheet 1	<u>21,446,256</u>
7		Adjustment		<u><u>\$ 2,024,799</u></u>

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
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**Adjustments to Future Test Year**

Line No.	Account No.	Description	Reference	Pro Forma Historic Test Year at Present Rates (1) \$	Adjustments at Present Rates (2) \$	Pro Forma Future Test Year at Present Rates (3=1+2) \$
<b>Taxes Other than Income</b>						
1		Federal Social Security Tax		1,461,361	151,538 (G)	1,612,899
2		Federal Unemployment Tax		16,076	1,667 (H)	17,743
3		Pennsylvania Unemployment Tax		160,772	16,671 (I)	177,443
4		Total Payroll Taxes included in Accts 801.0 to 935.0 (1)		1,638,209	169,876	1,808,085
5		Capital Stock Tax		702,055	(254,999) (J)	447,056
6		Public Utility Commission		1,023,881	115,310 (K)	1,139,191
7		Real Estate Taxes		63,214		63,214
8		Public Utility Realty Tax		519,193		519,193
9		Miscellaneous Taxes		17,212		17,212
10		Total Taxes Other Than Income		2,325,555	(139,689)	2,185,866
	(G)	<u>Federal Social Security Tax Adjustment:</u>				
11		Annualized labor	Sheet 11	23,978,744		
12		Effective Social Security Tax Rate	Sheet 10	6.73%		
13		Calculated Social Security Tax		1,612,899		
14		Per books Social Security Tax		1,461,361		
15		Adjustment		151,538		
	(H)	<u>Federal Unemployment Tax Adjustment:</u>				
16		Annualized labor	Sheet 11	23,978,744		
17		Effective Federal Unemployment Tax Rate	Sheet 10	0.07%		
18		Calculated Federal Unemployment Tax		17,743		
19		Per books Federal Unemployment Tax		16,076		
20		Adjustment		1,667		
	(I)	<u>Pennsylvania Unemployment Tax Adjustment:</u>				
21		Annualized labor	Sheet 11	23,978,744		
22		Effective Pennsylvania Unemployment Tax Rate	Sheet 10	0.74%		
23		Calculated Pennsylvania Unemployment Tax		177,443		
24		Per books Pennsylvania Unemployment Tax		160,772		
25		Adjustment		16,671		

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26	(J)	Capital Stock tax expense normalization		(254,999)
	(K)	<u>Public Utility Commission Fee:</u>		
27		Sales revenue Adjustment	Sheet 3	40,895,162
28		PUC rate (2)		<u>0.282%</u>
29		Calculated PUC Fee Adjustment		115,310

- (1) Payroll taxes are charged to the same FERC account as labor charges  
(2) General Assessment Invoice for the fiscal year July 2006 - June 2007

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
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**Adjustments to Future Test Year**

Line No	Description	Reference	Amount \$
<u>Income Tax Calculation:</u>			
1	Operating Income Before Income Taxes	Sheet 1	26,536,685
2	Additions to Book Income:		
3	Book Depreciation	Sheet 1	<u>23,471,055</u>
4	Total Additions		23,471,055
Deductions from Book Income:			
5	Tax Depreciation		43,138,325
6	Interest Expense		<u>16,972,820</u>
7	Total Deductions		60,111,145
8	State Taxable Income/(loss)		(10,103,405)
<u>Income Taxes at Current Rates:</u>			
9	State Income Taxes (at 9.99%)		(1,009,313)
10	Federal Taxable Income		(9,094,092)
11	Federal Taxes based on Income		(3,182,873)
12	ITC		<u>(5,529)</u>
13	Total Federal Current Income Taxes		(3,188,402)
(A) Interest Deduction:			
14	Rate Base	Sheet 1	583,258,407
15	Weighted Cost of Debt		<u>2.91%</u>
16	Interest Deduction		16,972,820
<u>Deferred Taxes-Federal</u>			
17	Provision for deferred income taxes- accelerated depreciation		8,545,747
18	Flowback of excess deferred income taxes- accelerated depreciation		-
19	Deferred State Income Taxes		-

**Equitable Gas Company - Pennsylvania Division**  
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A. All Utilities

**Adjustments to Future Test Year**

Description	Amount
	\$
A. 750.0 - 769.0 Natural Gas Production & Gathering Exp.	
- Annualize labor costs. See sheet 10 for further detail.	975,492
- Maintenance costs (materials, outside services).	510,000
- Vehicle gasoline cost increase.	7,586
Total	1,493,078
B. 870.0 - 894.0 Distribution Exp.	
- Anodes costs previously expensed, to be capitalized in 2008.	(1,000,000)
- PA One Call services outsourced.	572,000
- Annualize labor costs. See sheet 10 for further detail.	312,949
- Vehicle gasoline cost increase.	172,346
- Corporate overhead allocation - safety and environmental.	(70,136)
Total	(12,841)
C. 901.0 - 905.0 Customer Accounts Expense	
- Cap Program shortfall.	10,113,378
- Normalize bad debts.	758,208
- Arrearage forgiveness regulatory asset amortization.	727,731
- Vehicle gasoline cost increase.	18,627
- Annualize labor costs. See sheet 10 for further detail.	(12,119)
Total	11,605,824
D. 907.0 - 910.0 Customer Service and Information Exp.	
- LIURP Adjustment.	62,439
- Annualize labor costs. See sheet 10 for further detail.	7,201
Total	69,640
E. 911.0 - 916.0 Sales Exp.	
- Annualize labor costs. See sheet 10 for further detail.	(71,661)
F. 920.0 - 935.0 Administrative & General Exp.	
- Annualize labor costs. See sheet 10 for further detail.	1,389,972
- Corporate overhead allocation - general corporate services and information technology.	(1,106,427)
- Corporate overhead allocation - rent and facilities.	766,327
- Annual amortization of rate case expenses. See Item § 53.53 III-A-20 for detail.	503,387
- Short-term incentive adjustment related to all labor adjustments. See sheet 10 for further information.	232,206
- Vehicle gasoline cost increase.	9,886
Total	1,795,351
Grand Total Non-Purchased Gas Costs	14,879,392

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Adjustments to Future Test Year

Line No	Ferc Description	Ferc Account	Pro Forma Historic Test Year at Present Rates			Adjustments at Present Rates					Pro Forma Future Test Year at Present Rates
			Labor	Fringe	Total	Labor 3% merit Increase	Labor New Hires	Labor Promotion & Other Allocation	Fringe	Total	
			(1) \$	(2) \$	(3) = (1) + (2) \$	(4) \$	(5) \$	(6) \$	(7) \$	(8)=(4)+(5)+(6)+(7) \$	
1	Operation supervision and engineering	750	83,781	25,109	108,890	-	-	27,288	8,178	35,466	144,356
2	Gas wells expense	752	780	234	1,013	-	-	(780)	(234)	(1,013)	-
3	Field lines expense	753	151,168	45,305	196,473	-	-	3,093	927	4,020	200,492
4	Field compressor station expense	754	24,466	7,332	31,798	-	-	27,366	8,202	35,568	67,366
5	Maintenance of structures and improvements	762	1,427	428	1,854	-	-	2,617	784	3,401	5,255
6	Maintenance of producing gas wells	763	2,021	606	2,627	-	-	1,858	557	2,415	5,043
7	Maintenance of field lines	764	98,367	29,481	127,848	-	577,056	76,413	195,845	849,313	977,161
8	Maintenance of field compressor station equipment	765	50,940	15,267	66,206	-	-	35,640	10,681	46,322	112,528
9	Well expenses - purchased gas	807.1	112,551	33,731	146,282	-	-	-	-	-	146,282
10	Maintenance of purchased gas measuring stations	807.3	2,677	802	3,479	-	-	-	-	-	3,479
11	Operation supervision and engineering	870	1,229,142	368,374	1,597,516	21,758	-	-	6,521	28,278	1,625,795
12	Distribution load dispatching	871	75,474	22,620	98,094	1,887	-	-	565	2,452	100,546
13	Mains and services expenses	874	1,487,209	445,716	1,932,925	40,061	-	-	12,006	52,067	1,984,992
14	Measuring and regulating station expenses - general	875	39,329	11,787	51,115	983	-	-	295	1,278	52,393
15	Measuring and regulating station expenses - industrial	876	69	21	90	2	-	-	1	2	92
16	M and R station expenses - city gate check station	877	0	0	0	-	-	-	-	-	-
17	Meter and house regulator expenses	878	2,756,201	826,033	3,582,234	68,905	-	-	20,651	89,556	3,671,790
18	Customer installation expenses	879	6,131	1,837	7,968	153	-	-	46	199	8,168
19	Other expenses	880	341,014	102,202	443,216	8,525	-	-	2,555	11,080	454,297
20	Maintenance supervision and engineering	885	590,214	176,887	767,101	14,755	-	-	4,422	19,178	786,278
21	Maintenance of structures and improvements	886	162,089	48,578	210,667	4,052	-	-	1,214	5,267	215,934
22	Maintenance of mains	887	2,207,098	661,467	2,868,565	55,177	-	-	16,537	71,714	2,940,280
23	Maintenance of M&R station equipment - gen	889	592,952	177,708	770,660	14,824	-	-	4,443	19,266	789,926
24	Maintenance of M&R station equipment - industrial	890	0	0	0	-	-	-	-	-	-
25	Maint. Of M&R station expenses - city gate ck. station	891	6,906	2,070	8,975	173	-	-	52	224	9,200
26	Maintenance of services	892	292,740	87,734	380,474	7,319	-	-	2,193	9,512	389,986
27	Maintenance of meters and house regulators	893	44,922	13,463	58,385	1,123	-	-	337	1,460	59,844
28	Maintenance of other equipment	894	43,545	13,050	56,595	1,089	-	-	326	1,415	58,010
29	Supervision	901	173,556	52,015	225,571	-	-	-	-	-	225,571
30	Meter reading expenses	902	141,746	42,481	184,227	2,562	-	(370)	657	2,849	187,076
31	Customer records and collections expenses	903	3,839,282	1,150,633	4,989,915	97,469	103,322	(212,308)	(3,452)	(14,968)	4,974,947
32	Customer assistance exp	908	279,932	83,895	363,827	5,738	-	(197)	1,661	7,201	371,028
33	Supervision	911	46,191	13,843	60,034	-	-	(46,005)	(13,788)	(59,793)	241
34	Demonstrating and selling exp	912	428,689	128,478	557,167	8,099	(16,776)	(454)	(2,737)	(11,868)	545,299

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Adjustments to Future Test Year

Line No	Ferc Description	Ferc Account	Pro Forma Historic Test Year at Present Rates			Adjustments at Present Rates					Pro Forma Future Test Year at Present Rates (9) = (3) + (8) \$
			Labor (1) \$	Fringe (2) \$	Total (3) = (1) + (2) \$	Labor 3% merit Increase (4) \$	Labor New Hires (5) \$	Labor Promotion & Other Allocation (6) \$	Fringe (7) \$	Total (8)=(4)+(5)+(6)+(7) \$	
35	Administrative and general salaries	920	3,986,926	1,194,882	5,181,807	133,396	559,060	335,268	308,009	1,335,732	6,517,539
36	Injuries and damages	925	22,045	6,607	28,652	659	-	18,230	5,661	24,550	53,202
37	Maintenance of general plant	935	152,616	45,739	198,355	5,050	17,174	619	6,846	29,690	228,044
38	Total Labor		19,474,193	5,836,415	25,310,608	493,759	1,239,837	268,277	599,961	2,601,834	27,912,442
39	A & G-Employee Pension & Benefits	926	2,251,659	674,822	2,926,481	61,914	155,466	33,640	75,231	326,251	3,252,732
40	Total Including Short Term Bonus		21,725,852	6,511,237	28,237,089	555,672	1,395,303	301,917	675,192	2,928,085	31,165,174

Note: Labor costs only = (1) + (4) + (5) + (6)

Breakdown of Fringe Included Above:

Fringe Description	Fringe %							
41 Health Savings Account	1.19%		259,037	6,625	16,636	3,600	26,861	285,898
42 Medical	10.93%		2,374,476	60,731	152,496	32,997	246,225	2,620,700
43 Dental	0.92%		198,850	5,086	12,771	2,763	20,620	219,470
44 Active Life, AD&D, LTD	0.69%		149,706	3,829	9,615	2,080	15,524	165,230
45 Vision	0.23%		50,320	1,287	3,232	699	5,218	55,538
46 401K	7.61%		1,653,808	42,299	106,213	22,982	171,494	1,825,302
47 Other	0.86%		186,832	4,779	11,999	2,596	19,374	206,205
48 Total Benefits Allocation %/Amount	22.43%		4,873,029	124,635	312,961	67,719	505,316	5,378,344
49 Soc. Security - ER	5.24%		1,137,718	29,099	73,068	15,810	117,977	1,255,695
50 Medicare - ER	1.49%		323,643	8,278	20,785	4,498	33,561	357,204
51 Federal Unemploy. Tax—FUCA	0.07%		16,076	411	1,032	223	1,667	17,743
52 State Unemploy. Ins. - ER —SUI	0.74%		160,772	4,112	10,325	2,234	16,671	177,443
53 Total Payroll Taxes Allocation %/Amount	7.54%		1,638,209	41,900	105,211	22,766	169,876	1,808,085
54 Total Fringe Allocation %/Amount	29.97%		6,511,237	166,535	418,172	90,485	675,192	7,186,429

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

18. Provide comparative operating statements for the test year and the immediately preceding 12 months showing increases and decreases between the two periods. These statements should supply detailed explanation of the causes of the major variances between the test year and preceding year by detailed account number.

Response:

See the attached Operating Statement for the Equitable Gas Company-Pennsylvania Division and corresponding analysis of significant variances between the test year and preceding year.

Equitable Gas Company- Pennsylvania Division  
53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Exhibit III  
Item: 53.53 III -A-18  
Sheet 2 of 8

Line No.	Account No.	Description	Pennsylvania Division		Increase (Decrease) (3=1-2)
			Total 2007 (1)	Total 2006 (2)	
<b>Revenues</b>					
1	480	Residential Sales	306,414,733	292,579,331	13,835,402
2	481	Commercial and Industrial	64,917,299	63,754,351	1,162,948
3		Total Gas Sales Revenue	371,332,032	356,333,682	14,998,350
<b>Other Operating Revenues</b>					
4	487	Forfeited Discounts	1,557,851	1,512,240	45,611
5	488	Miscellaneous service revenues	1,208,555	1,164,789	43,766
6	489	Revenues from transportation of others	61,853,829	63,457,558	(1,603,729)
7	489.1	Revenues from transportation - gathering	5,169,989	4,423,273	746,716
8	493	Rent from Gas Property	1,588	5,311	(3,723)
9	495	Other Gas Revenues	59,903	236,194	(176,291)
10		Total Other Operating Revenues	69,851,715	70,799,365	(947,650)
11		Total Operating Revenues	441,183,747	427,133,047	14,050,700
<b>Production Expenses</b>					
<b>Operation</b>					
12	750	Operation supervision and engineering	124,401	113,481	10,920
13	751	Production maps and records	-	-	-
14	752	Gas wells expense	1,361	859	502
15	753	Field lines expense	245,000	196,196	48,804
16	754	Field compressor station expense	46,927	28,202	18,725
17	755	Field compressor station fuel and power	-	-	-
18	756	Field measuring and regulating station expenses	29,471	22,620	6,851
19	757	Purification expenses	-	-	-
20	758	Gas well royalties	-	-	-
21	759	Other expenses	-	-	-
22	760	Rents	-	17,001	(17,001)
23		Total Operation	447,160	378,359	68,801

Equitable Gas Company- Pennsylvania Division  
53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Exhibit III  
Item: 53.53 III -A-18  
Sheet 3 of 8

Line No.	Account No.	Description	Pennsylvania Division		Increase (Decrease) (3=1-2)
			Total 2007 (1)	Total 2006 (2)	
<b>Maintenance</b>					
24	761	Maintenance supervision and engineering	76	-	76
25	762	Maintenance of structures and improvements	2,399	574	1,825
26	763	Maintenance of producing gas wells	3,381	6,076	(2,695)
27	764	Maintenance of field lines	260,495	175,517	84,978
28	765	Maintenance of field compressor station equipment	84,287	36,141	48,146
29	766	Maintenance of field compressor station equipment	-	-	-
30	767	Maintenance of purification equipment	-	-	-
31	768	Maintenance of drilling and cleaning equipment	-	-	-
32	769	Maintenance of other equipment	-	-	-
33		Total Maintenance	350,638	218,308	132,330
34		Total Production and Gathering	797,798	596,667	201,131
<b>Other Gas Supply Expenses</b>					
35	800	Natural gas wellhead purchases	-	-	-
36	800.1	Natural gas wellhead purchases Intracompany transfers	-	-	-
37	801	Natural gas field line purchases	78,311,651	101,588,429	(23,276,778)
38	803	Natural gas transmission line purchases	140,425,426	140,759,516	(334,090)
39	804	Natural gas city gate purchases	-	-	-
40	805	Other gas purchases	18,047,867	(1,628,290)	19,676,157
41	805.1	Purchased gas cost adjustments	-	-	-
42	806	Exchange gas	-	-	-
43	807.1	Well expenses - purchased gas	167,604	15,252	152,352
44	807.3	Maintenance of purchased gas measuring stations	6,504	7,173	(669)
45	807.4	Purchased gas calculation expenses	-	-	-
46	807.5	Other purchased gas expenses	-	-	-
47	808.1	Gas withdrawn from storage - debit	79,416,051	63,589,443	15,826,608
48	808.2	Gas delivered to storage - credit	(86,777,591)	(79,825,092)	(6,952,499)
49	813	Other gas supply expenses	61,589,721	60,314,110	1,275,611
50		Total Gas Supply Expense	291,187,233	284,820,541	6,366,692
<b>Gas Used in Utility Operations</b>					
51	810	Gas used for compressor fuel - cr	-	-	-
52	811	Gas used for products extraction - cr	-	-	-
53	812	Gas used for other utility operations - cr	-	-	-
54		Total gas used in operations	-	-	-
55		Total Other Gas Supply Expenses	291,187,233	284,820,541	6,366,692

Equitable Gas Company- Pennsylvania Division  
53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Exhibit III  
Item: 53.53 III -A-18  
Sheet 4 of 8

Line No.	Account No.	Description	Pennsylvania Division		Increase (Decrease) (3=1-2)
			Total 2007 (1)	Total 2006 (2)	
<b>Distribution Expenses</b>					
<b>Operation</b>					
56	870	Operation supervision and engineering	1,270,634	1,086,404	184,230
57	871	Distribution load dispatching	109,598	372,883	(263,285)
58	872	Compressor station labor and expenses	-	-	-
59	873	Compressor station fuel and power	(66)	670	(736)
60	874	Mains and services expenses	5,430,587	4,685,227	745,360
61	875	Measuring and regulating station expenses - general	98,543	116,472	(17,929)
62	876	Measuring and regulating station expenses - industrial	114	1,293	(1,179)
63	877	M and R station expenses - city gate check station	-	-	-
64	878	Meter and house regulator expenses	5,911,479	5,542,608	368,871
65	879	Customer installation expenses	61,892	38,381	23,511
66	880	Other expenses	1,288,739	1,162,843	125,896
67	881	Rents	601,663	676,463	(74,800)
68		<b>Total Operation</b>	<b>14,773,183</b>	<b>13,683,244</b>	<b>1,089,939</b>
<b>Maintenance</b>					
69	885	Maintenance supervision and engineering	859,352	779,311	80,041
70	886	Maintenance of structures and improvements	500,985	336,665	164,320
71	887	Maintenance of mains	5,389,511	5,739,931	(350,420)
72	888	Maintenance of field compressor station equipment	-	-	-
73	889	Maintenance of M&R station equipment - gen	973,651	1,243,304	(269,653)
74	890	Maintenance of M&R station equipment - industrial	-	-	-
75	891	Maint. Of M&R station expenses - city gate ck. station	10,085	2,731	7,354
76	892	Maintenance of services	643,444	505,789	137,655
77	893	Maintenance of meters and house regulators	105,975	101,030	4,945
78	894	Maintenance of other equipment	65,961	57,191	8,770
79		<b>Total maintenance</b>	<b>8,548,964</b>	<b>8,765,952</b>	<b>(216,988)</b>
80		<b>Total Distribution Expenses</b>	<b>23,322,147</b>	<b>22,449,196</b>	<b>872,951</b>
<b>Customer Accounts Expense</b>					
<b>Operation</b>					
81	901	Supervision	225,221	198,678	26,543
82	902	Meter reading expenses	586,933	707,783	(120,850)
83	903	Customer records and collections expenses	9,500,849	9,686,069	(185,220)
84	904	Uncollectible accounts	8,559,290	6,182,394	2,376,896
85	905	Miscellaneous customer accounts expense	405	51	354
86		<b>Total Customer Accounts Expense</b>	<b>18,872,698</b>	<b>16,774,975</b>	<b>2,097,723</b>

Equitable Gas Company- Pennsylvania Division  
53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Exhibit III  
Item: 53.53 III -A-18  
Sheet 5 of 8

Line No.	Account No.	Description	Pennsylvania Division		Increase (Decrease) (3=1-2)
			Total 2007 (1)	Total 2006 (2)	
<b>Customer Service and Informational Expenses</b>					
<b>Operation</b>					
87	907	Supervision	-	-	-
88	908	Customer assistance exp	446,984	588,310	(141,326)
89	909	Informational and instructional exp	-	-	-
90	910	Misc customer service and informational exp	635,700	635,700	-
91		Total Customer Service and Informational expenses	1,082,684	1,224,010	(141,326)
<b>Sales Expenses</b>					
<b>Operation</b>					
92	911	Supervision	60,028	56,356	3,672
93	912	Demonstrating and selling exp	755,844	808,992	(53,148)
94	913	Advertising exp	24,121	35,845	(11,724)
95	916	Misc sales exp	-	-	-
96		Total Sales Expenses	839,993	901,193	(61,200)
<b>Administrative and General Expenses</b>					
<b>Operation</b>					
97	920	Administrative and general salaries	8,162,302	4,996,641	3,165,661
98	921	Office supplies and expenses	849,774	973,226	(123,452)
99	922	Administrative expenses transferred - cr	(112,737)	(12,779)	(99,958)
100	923	Outside services employed	19,497,892	13,006,892	6,491,000
101	924	Property insurance	(2,809,822)	(1,030,360)	(1,779,462)
102	925	Injuries and damages	4,420,599	3,211,819	1,208,780
103	926	Employee pensions and benefits	5,887,574	7,972,462	(2,084,888)
104	927	Franchise requirements	-	-	-
105	928	Regulatory Commission expenses	13,474	25,699	(12,225)
106	929	Duplicate charges - cr	-	-	-
107	930.1	General advertising exp	201,106	54,216	146,890
108	930.2	Miscellaneous general expenses	156,308	153,562	2,746
109	931	Rents	3,258,962	2,444,930	814,032
110		Total A&G Operation	39,525,432	31,796,308	7,729,124
<b>Maintenance</b>					
111	935	Maintenance of general plant	1,412,428	1,507,906	(95,478)
112		Total Administrative and General Expenses	40,937,860	33,304,214	7,633,646
113		Total Operation and Maintenance Expense	377,040,413	360,070,796	16,969,617

Equitable Gas Company- Pennsylvania Division  
53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Exhibit III  
Item: 53.53 III -A-18  
Sheet 6 of 8

Line No.	Account No.	Description	Pennsylvania Division		Increase (Decrease) (3=1-2)
			Total 2007 (1)	Total 2006 (2)	
<b>Other Operating Expenses</b>					
114	403/404	Depreciation/Amortization	19,180,602	18,986,338	194,264
115	408	Taxes Other Than Income	1,441,739	1,492,991	(51,252)
116		Total Other Operating Expenses	20,622,341	20,479,329	143,012
117		Deductions Before Federal and State Income Taxes	397,662,754	380,550,125	17,112,629
118		Net Utility Operating Income Before Income Taxes	43,520,993	46,582,922	(3,061,929)
119	409.1	Income Taxes - Federal	12,854,764	(7,729,922)	20,584,686
120	409.1	Income Taxes - State	2,745,522		
121	410.1	Provision for Deferred Income Taxes - Federal	2,238,418	(27,384,400)	29,622,818
122	410.1	Provision for Deferred Income Taxes - State	518,553		
123	411.1	Provision for Deferred Income Taxes - Credit	(9,114)	(19,800)	10,686
124		Total Income Taxes	18,348,143	(35,134,122)	50,218,190
125		Net Utility Operating Income	25,172,850	81,717,044	(53,280,120)

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

ACCOUNT 480 – RESIDENTIAL SALES

The increase in revenues resulted from an increase in sales volumes of 2,235,620 Mcf due to colder weather which more than offset the decrease in weighted average rate per Mcf of \$1.21. The weighted average rate per Mcf decreased from \$15.31 for the twelve months ended December 31, 2006 to \$14.10 for the twelve months ended December 31, 2007.

ACCOUNT 481 – COMMERCIAL AND INDUSTRIAL SALES

The increase in revenues resulted from an increase in sales volumes of 461,497 Mcf due to colder weather which more than offset the decrease in weighted average rate per Mcf of \$0.92. The weighted average rate per Mcf decreased from \$14.33 for the twelve months ended December 31, 2006 to \$13.41 for the twelve months ended December 31, 2007.

ACCOUNT 489 – REVENUES FROM TRANSPORTATION OF OTHERS

The decrease in revenues resulted from transportation related prior year non-volumetric adjustments, a decrease in the customer choice program revenues from reduced participation, partially offset by an increase in transportation volumes, and an increase in CAP revenues from increased participation.

ACCOUNT 489.1 – REVENUES FROM TRANSPORTATION – GATHERING

The increase in revenues resulted from an increase in volumes and rates.

GAS PURCHASE EXPENSE

The increase in expense was primarily caused by an increase in volumes due to higher sales from colder weather which more than offset the decrease in weighted average rate per Mcf of \$0.83. The weighted average rate per Mcf decreased from \$10.27 for the twelve months ended December 31, 2006 to \$9.44 for the twelve months ended December 31, 2007.

**Equitable Gas Company**  
§ 53.53 III. Comparative Operating Statements  
All Utilities

**DISTRIBUTION – OPERATION EXPENSES**

The increase in expense was primarily due to an increase in field operation labor and fringe, material costs, customer service related to PA One Call, and corrosion and leak surveys.

**DISTRIBUTION – MAINTENANCE EXPENSES**

The decrease in expense was primarily due to a reduction in street crew operations, telephone expense, offset by an increase in field operation labor and fringe, and building maintenance.

**CUSTOMER ACCOUNTS EXPENSE**

The increase in expense was related to an increase in CAP credits due to increased customer participation, partially offset by the reduction in bad debt expense primarily related to the improved collections results.

**CUSTOMER SERVICE AND INFORMATIONAL EXPENSES**

The decrease in expense was primarily related to the outsourcing of the customer call center and other miscellaneous expenses.

**ADMINISTRATIVE AND GENERAL EXPENSES**

The increase in expense was due to increases in corporate overhead allocations, customer experience survey, legal settlements, insurance premiums, rent, information technology related charges and customer operations expenses offset by a reduction in general liability insurance reserves.

**INCOME TAXES**

Taxes are not typically booked to reflect the actual effective tax rate at each division within Equitable Resources. However, for 2007, the books do reflect a correct tax rate of approximately 42%.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

19. List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization. Sufficient supporting data must be provided.

Response:

None.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

20. Supply detailed calculations of amortization of rate case expense, including supporting data for outside services rendered. Provide the items comprising the rate case expense claim (include the actual billings or invoices in support to each kind of rate case expense), the items comprising the actual expenses of prior rate cases and the unamortized balances.

Response:

See attached schedule for current estimated rate case expenses. There are no remaining unamortized balances from a prior rate case included in this claim.

**Equitable Gas Company - Pennsylvania Division**  
 § 53.53 III. Balance Sheet and Operating Statement  
 A. All Utilities

Line No.	Account No.	Description	Estimated Costs (1) \$	Amortization Period (2)	Amortization Included in Future Test Year = (1) / (2) \$
1	928	Legal services	750,000	3 Years	250,000
2	928	Rate of Return services	46,160	3 Years	15,387
3	928	Cost Allocation services	165,000	3 Years	55,000
4	928	Depreciation services	25,000	3 Years	8,333
5	928	Tax services	<u>65,000</u>	3 Years	<u>21,667</u>
6		Total	1,051,160		350,387

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

21. Submit detailed computation of adjustments to operating expenses for salary, wage and fringe benefit increases (union and non-union merit, progression, promotion and general) granted during the test year and six months subsequent to the test year. Supply data showing for the test year:
- a. Actual payroll expense (regular and overtime separately) by categories of operating expenses, i.e. maintenance, operating transmission, distribution, other.
  - b. Date, percentage increase, and annual amount of each general payroll increase during the test year.
  - c. Dates and annual amounts of merit increases or management salary adjustments.
  - d. Total annual payroll increases in the test year.
  - e. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data (by categories of expenses).
  - f. Detailed list of employee benefits and cost thereof for union and non-union personnel. Any specific benefits for executives and officers should also be included, and cost thereof.
  - g. Support the annualized pension cost figures.
    - (i) State whether these figures include any unfounded pension costs. Explain.
    - (ii) Provide latest actuarial study used for determining pension accrual rates.
  - h. Submit a schedule showing any deferred income and consultant fee to corporate officers or employees.

**Equitable Gas Company - Pennsylvania Division**  
 § 53.53 III. Balance Sheet and Operating Statement  
 A. All Utilities

21. Submit detailed computation of adjustments to operating expenses for salary, wage and fringe benefit increases ( union and non-union merit, progression, promotion and general) granted during the test year and six months subsequent to the test year. Supply data showing for the test year:

a. Actual payroll expense ( regular and overtime separately) by categories of operating expenses, i.e., maintenance, operating transmission, distribution, other.

Line No.	Description	Operation (1) \$	Maintenance (2) \$	Total = (1)+(2) \$
<b>Labor Distribution</b>				
1	Distribution	5,578,406	3,940,465	9,518,871
2	Gathering	260,194	152,755	412,949
3	Customer Service & Info.	4,344,687		4,344,687
4	Other Gas Supply	112,551		112,551
5	Sales	539,862		539,862
6	Admin. & General	6,323,261	282,944	6,606,206
	Total Labor Charged to Expense	17,158,960	4,376,164	21,535,125

Refer to Item: § 53.53 III. A. 17 Historic Test Year, sheet 10 for further labor detail.

Neither the Uniform Systems of Accounts nor Company records distinguish between regular and overtime labor charged to functional accounts.

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

21.b. Date, percentage, increase and annual amount of each general payroll increase during the test year.

	<u>Date</u> <u>Effective</u>	<u>Percent</u> <u>Increase</u>	<u>Estimated</u> <u>Annual</u> <u>Amount</u>
International Brotherhood Electrical Workers - Local 1956	1/22/2007	2.5%	\$ 49,716
United Steelworkers of America - Local 12050	9/24/2007	2.5%	\$ 207,611
			<u>\$ 257,327</u>

21.c. Dates and annual amounts of merit increases or management salary adjustments

	<u>Date</u> <u>Effective</u>	<u>Estimated</u> <u>Gross</u>
Non-exempt - merit increases	2/26/2007	\$ 63,824
Non-Exempt - other increases ( promotions, adjustments)	various	\$ 50,975
Exempt - merit increases	2/26/2007	\$ 376,598
Exempt - other increases ( promotions, adjustments)	various	\$ 364,295
		<u>\$ 855,692</u>

21.d. Total annual payroll increases in the test year.

	<u>Estimated</u> <u>Gross</u>
Non-exempt	\$ 114,799
Exempt	\$ 740,893
Union	\$ 257,327
	<u>\$ 1,113,019</u>

21 e. Proof that that actual payroll plus the increases equal the payroll expense claimed in the supporting data ( by categories of expenses ).

Total Labor charged to Operating and Maintenance Expenses:

Per Books Twelve Months Ended December 31, 2007	\$ 21,535,125
Adjustments (See Item: § 53.53 III. A. 17 HTY, sheet 11, row 38)	<u>(2,060,932)</u>
Normalized December 31, 2007	\$ 19,474,193
Adjustments (See Item: § 53.53 III. A. 17 FTY, sheet 11, row 38)	<u>2,001,873</u>
Annualized December 31, 2008	<u>\$ 21,476,066</u>

**Equitable Gas Company - Pennsylvania Division**  
**§ 53.53 III. Balance Sheet and Operating Statement**  
**A. All Utilities**

21. f. Detailed list of employee benefits and costs thereof for union and non-union personnel. Any specific benefits for executives and officers should also be included, and cost thereof.

For historic test year, refer to Item: § 53.53 III. A. 17 HTY, sheet 10

For future test year, refer to Item: § 53.53 III. A. 17 HTY, sheet 10

21. g. Support the annualized pension figures.

Annualized pension costs for the historic test year are based upon the company's most current estimated pension cost available.

- (i) State whether these figures include any unfunded pension costs. Explain

Annual pension costs include amortization of unfunded prior service costs as determined by actuaries for the pension plan.

- (ii) Provide latest actuarial study used for determining pension accrual rates.

Annualized historic test year pension expense is based upon the Company's actuary's latest calculation of FASB-87 pension expense as of December 2007.

(See Attached)

21. h. Submit a schedule showing any deferred income and consultant fee to corporate officers or employees.

No deferred income or consultants fees were paid to corporate officers or employees in either the test year or future test year.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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22. Supply an exhibit showing an analysis, by functional accounts, of the charges by affiliates (Service Corporations, etc.) for services rendered included in the operating expenses of the filing company for the test year and for the 12-month period ended prior to the test year:
- a. Supply a copy of contracts, if applicable.
  - b. Explain the nature of the services provided.
  - c. Explain basis on which charges are made.
  - d. If charges allocated, identify allocation factors used.
  - e. Supply the components and amounts comprising the expense in this account.
  - f. Provide details of initial source of charge and reason thereof.

Response:

- a. See sheets 2 through 18, herein.
- b. General natures of the services provided are contained in the affiliated interest service agreement provided on sheets 2 through 18, herein.
- c. See affiliated interest service agreement on sheets 2 through 18, herein.
- d. See affiliated interest service agreement on sheets 2 through 18, herein.
- e. See sheets 19 and 20 for a schedule of charges to the PA division of Equitable Gas.
- f. See affiliated interest service agreement on sheets 2 through 18, herein.

*Affiliate Interest Agreement*

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

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212 LOCUST STREET  
P. O. BOX 9500  
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CHARLES E. THOMAS  
(1913 - 1998)

May 6, 2005

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.  
Affiliated Interest Agreement of Equitable Gas Company,  
a division of Equitable Resources, Inc. and Affiliates

Dear Secretary McNulty:

In accordance with Section 2102 of the Public Utility Code, 66 Pa. C.S. §2102, we have enclosed for filing on behalf of the Equitable Gas Company Division ("Equitable") of Equitable Resources, Inc. an original verified copy and three (3) additional copies of an agreement between Equitable and its affiliates, dated May 5, 2005. 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: Certificate of Service  
Daniel L. Frutchey (w/encl.)

CERTIFICATE OF SERVICE

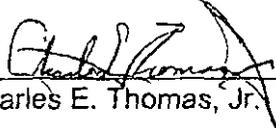
I hereby certify that I have this 6<sup>th</sup> day of May, 2005, served the foregoing letter and Agreement Between Affiliates, upon the persons and in the manner indicated below:

**FIRST CLASS MAIL, POSTAGE PREPAID**

Office of Trial Staff  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, PA 17105-3265

Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923

Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

  
\_\_\_\_\_  
Charles E. Thomas, Jr.

## AGREEMENT BETWEEN AFFILIATES

Agreement dated as of this 5<sup>th</sup> day of May, 2005 between EQUITABLE RESOURCES, INC. ("Equitable Resources"), a Pennsylvania corporation, EQUITABLE GAS COMPANY ("Equitable"), a division of Equitable Resources, Inc., KENTUCKY WEST VIRGINIA GAS COMPANY, LLC ("Kentucky West"), a Delaware limited liability corporation, EQUITABLE GATHERING, LLC, ("Equitable Gathering") a Delaware limited liability corporation, EQUITABLE GATHERING EQUITY, LLC ("Equitable Gathering Equity"), a Delaware limited liability corporation, EQUITABLE PRODUCTION COMPANY ("Equitable Production"), a Pennsylvania corporation, ET BLUE GRASS COMPANY ("ET Blue Grass"), a Delaware Corporation, EQUITABLE ENERGY, LLC ("Equitable Energy") a Delaware limited liability corporation, EQUITRANS, LP ("Equitrans"), a Pennsylvania limited partnership, and EQUITABLE HOMEWORKS, LLC ("Homeworks"), a Pennsylvania limited liability corporation.

### WITNESSETH:

WHEREAS, Equitable Resources intends to maximize cost efficiency by avoiding duplication of staffing and effort; and

WHEREAS, Kentucky West, Equitable Gathering, Equitable Gathering Equity, Equitable Production, ET Blue Grass, Equitable Energy, Equitrans and Homeworks are wholly owned subsidiaries, either by direct or indirect ownership, of Equitable Resources, Inc.; all of the aforementioned companies, including Equitable Resources and Equitable, being affiliated members ("Affiliated Members") of the Equitable Resources

System ("System"), which System is engaged primarily in the business of exploring for, producing, gathering, processing, storing, transmitting, distributing and selling natural gas and oil; and

WHEREAS, other Affiliated Members require from time to time the services, assistance and advice of Equitable, its officers and employees and on certain occasions Equitable may require services, assistance and advice from other Affiliated Members, their officers and employees; and

WHEREAS, Equitable Resources also provides certain centralized services to other Affiliated Members; and

WHEREAS, the Parties have agreed concerning the type and extent of the assistance and service required and the amounts to be paid as compensation therefore;

NOW, THEREFORE, in consideration of the mutual covenants herein, the parties hereto agree as follows:

**ARTICLE I**  
**SERVICES, ETC. FURNISHED BY EQUITABLE**

Equitable will furnish personnel, equipment, and other resources on a regular basis, and sometimes on an emergency basis, in order to perform certain functions on behalf of one or more of the other Affiliated Members, which, without limiting the generality of the foregoing, shall include the following:

- A. Administrative. General management functions; advice as to the need for additions to, or improvements in property, plant and equipment; guidance in developing appropriate changes in rates, rules and regulations; assistance in the conduct of proceedings before those regulatory bodies exercising jurisdiction over

the various members of the System; and assistance in developing guidelines for computing and allocating operating expenses.

B. Accounting and Taxes. Assistance in maintenance of the general books of account; payroll accounting; property accounting; preparation and filing of consolidated federal income tax returns and state and local returns for the System, coordination of associated tax audits, and advice as to tax developments affecting the System.

C. Corporate Organization. Administration of Board of Director and shareholder meetings and other Corporate Secretary functions

D. Data Processing. Accounting, billing and payroll processing.

E. Engineering. Engineering services for the planning, operation, maintenance and construction of plant facilities, including measuring and regulating station equipment, storage, gathering, transmission, distribution and other operating facilities; field investigations to obtain information required for the preparation of studies, reports, maps, designs and drawings; and development of cost estimates, specifications and contracts for construction.

F. Insurance. Placement of property, casualty and workman's compensation insurance and maintenance of appropriate records; disposition of property, casualty and workman's compensation claims; and related risk management services.

G. Maintenance. Providing personnel, equipment and other resources to maintain efficient and economical services and production, and to repair and replace pipelines, compressor stations and other facilities.

H. Personnel. Assistance and advice in the procurement and employment of qualified personnel, salary administration, negotiation with bargaining units representing employees of the various System companies, administration of employee benefit plans, service recognition awards, employee training and health services and maintenance of employee records.

I. Production. Pumping and servicing wells and selling gas and oil on behalf of certain Affiliated Members.

J. Storeroom Service. Maintenance and operation of storeroom for provision of supplies such as pipe, valves, fittings and office supplies.

K. Treasury. Assistance in cash management, negotiation of bank lines of credit and establishment of temporary investment programs; development and implementation of financing programs on behalf of the System and arrangements for the sale of System securities; preparation of reports to be filed with indenture trustees and responses to inquiries made by security holders.

**ARTICLE II**  
**SERVICES, ETC. DIRECTLY FURNISHED TO EQUITABLE**

One or more of the other Affiliated Members may provide direct services to Equitable, including the rental of office space, parking space, storage space and/or other facilities and provide personnel, equipment, materials and supplies and other resources to maintain efficient and economical services and production, and to repair and replace lines and other facilities.

**ARTICLE III**  
**PAYMENT FOR DIRECT SERVICES**  
**FURNISHED BY AND TO EQUITABLE**

A. Services. The company receiving direct services under Articles I and II shall pay to the company providing said services the actual cost thereof, including fringe benefits and overheads.

Payment for services rendered by personnel for another company or in common with another company shall be based on actual time spent by such personnel as reflected in their daily time sheets or other reasonable means of *determination*. *Costs incurred in connection with services rendered which can be readily identified and relate exclusively to a company shall be charged directly to that company.* Costs incurred in rendering services in common which cannot be identified to a specific company shall be allocated among the appropriate companies using allocation methods generally accepted for ratemaking and financial reporting purposes.

B. Supplies and Materials. Supplies and materials provided shall be charged on the basis of actual cost plus a percentage for overhead.

C. Space Rental. Rent for office, parking or storage space shall be at cost allocated on the basis of area provided.

#### **ARTICLE IV** **CENTRALIZED SERVICES PROVIDED BY EQUITABLE RESOURCES**

Equitable Resources will furnish certain personnel, equipment, services and other resources in order to provide management, technical and administrative services to, and perform certain functions on behalf of other Affiliated Members and other subsidiaries. The services to be provided by Equitable Resources shall be those shown on Exhibit I attached hereto ("Centralized Services").

Equitable Resources will charge for Centralized Services provided under this Agreement on a cost of service basis. The methods for determining the allocation of such charges are shown on Exhibit II hereto.

#### **ARTICLE V** **FINANCING**

Equitable Resources may also from time to time, loan funds to other Affiliated Members and other subsidiaries or be loaned funds from other Affiliated Members and other subsidiaries, with interest paid at applicable market rates.

**ARTICLE VI**  
**BILLING PRACTICES**

Transactions by and between Affiliate Members that involve cash being paid by one Affiliate Member entity to another are generally settled within one (1) month following the closing of a particular transaction. Such transactions are settled via accounting functionality contained within the Company's general ledger systems.

This Agreement shall be subject to the approval of any regulatory commission or other regulatory body whose approval is a prerequisite to the execution or delivery or performance of this Agreement. Each Affiliate Member company shall keep its books and records available at all times for inspection by regulatory bodies having jurisdiction over them and shall furnish, upon request, any and all information required with respect to the services rendered, the costs thereof and the allocation of such costs among the parties to this Agreement.

**ARTICLE VII**  
**CONTROLLING AGREEMENT**

This Agreement shall be in full force and effect as of the date first mentioned above, subject to any necessary approval of governmental agencies having jurisdiction over this matter, and shall continue until terminated by any party hereto giving the others ninety (90) day written notice of termination; provided, however, this Agreement shall terminate immediately with regard to any party as of the date such company ceases to be an affiliated member of the System (except to the extent that compensation is still to be

paid for services rendered by, or to, any party prior to the date of such cessation of affiliation).

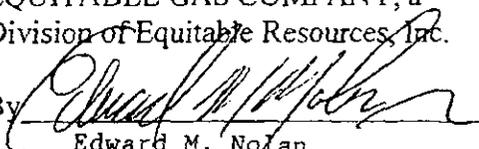
The terms of this Agreement shall be automatically extended to the successors and assignees of the parties and to any subsidiary of any party hereto when such subsidiary begins active operations.

### ARTICLE VIII

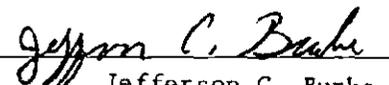
The parties hereto agree that no particular service shall be provided hereunder if the performance of such service shall violate any applicable law, regulation or government policy, shall unreasonably impede competition between Equitable and third party competitors or shall adversely affect the ability of either Equitable or any of its affiliated companies to make independent business decisions.

IN WITNESS WHEREOF, the parties have hereunto executed this Agreement as of the date and year first above written.

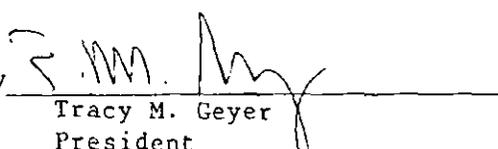
EQUITABLE GAS COMPANY, a  
Division of Equitable Resources, Inc.

By   
Edward M. Nolan  
Senior Vice President

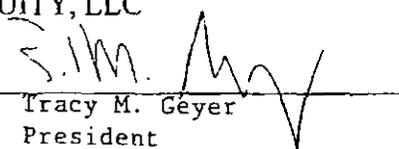
KENTUCKY WEST VIRGINIA  
GAS COMPANY, LLC

By   
Jefferson C. Burke  
President

EQUITABLE GATHERING, LLC

By   
Tracy M. Geyer  
President

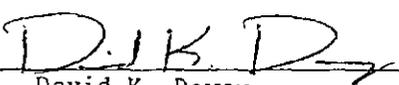
EQUITABLE GATHERING  
EQUITY, LLC

By   
Tracy M. Geyer  
President

EQUITABLE PRODUCTION COMPANY

By   
Diane L. Prier  
President

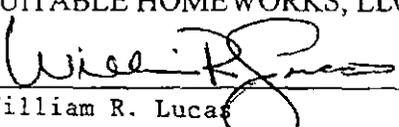
ET BLUE GRASS COMPANY

By   
David K. Dewey  
Vice President

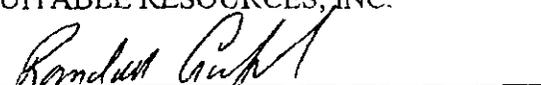
EQUITABLE ENERGY, LLC

By   
Fred K. Dalena  
President

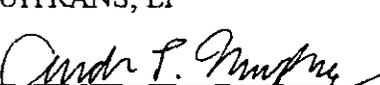
EQUITABLE HOMEWORKS, LLC

By   
William R. Lucas  
Vice President

EQUITABLE RESOURCES, INC.

By   
Randall L. Crawford  
Vice President

EQUITRANS, LP

By   
Andrew L. Murphy  
Vice President

**EXHIBIT I**  
**Centralized Services Provided by**  
**Equitable Resources to Other**  
**Affiliated Members and Other Subsidiaries**

A. Accounting and Taxes. Assistance in maintenance of the general books of accounts, preparation and analysis of financial reports; payroll accounting; property accounting, preparation and filing of consolidated federal income tax returns or state and local returns for the System, coordination of associated tax audits, and advice as to tax developments affecting the System.

B. Administrative. General System management; advice and assistance relating to strategic direction and resource allocation (capital and operating expenditure control) guidance in developing appropriate policies and procedures; assistance in the conduct of proceedings before regulatory bodies exercising jurisdiction over the various members of the System; centralized corporate communications, mail services and reproduction and printing.

C. Auditing. Periodic internal audit of accounting records and procedures; reports and recommendations on improving methods of internal control and accounting procedures.

D. Corporate Organization. Administration of Board of Directors and shareholder meetings and other Corporate Secretary functions.

E. Computer Services. Accounting, billing and payroll processing, and management information system requirements, through a centralized data processing facility; advice and assistance in development and implementation of software for specific applications.

F. Gas Measurement. Personnel, equipment and facilities required to verify, interpret and process gas measurement media and data for billing and reporting purposes.

G. Human Resources. Assistance and advice in the procurement and employment of qualified personnel, salary administration, negotiation with bargaining units representing employees of the various System companies, administration of employee benefit plans, service recognition awards, employee training and health services and development and maintenance of employee records.

H. Insurance. Placement of property, casualty and workman's compensation insurance; processing of insurance claims; and other related risk management services.

I. Legal. Counseling services, including document preparation, review and legal advice; assistance in civil as well as regulatory proceedings.

J. Planning. Advice and assistance in facilities and energy planning relating to gas supply/demand forecasts, supply acquisition, economic forecasts, and special studies.

K. Procurement. Assistance in the purchase of materials, supplies and services; conduct of formal bidding procedures and purchase negotiations; preparation of purchase order agreements; administration of automotive fleet and material control programs.

L. Technical Services. Assistance in design, engineering and operation of facilities; environmental, regulatory and safety compliance and reporting; field investigations required for special studies, reports, maps designs and drawings; and development of cost estimates, specifications and contracts for construction.

M. Telecommunications. Personnel, equipment and facilities necessary to provide and maintain effective and efficient system-wide voice and data communications.

N. Treasury. Assistance in cash management; development and implementation of capital acquisition programs on behalf of the System and arrangements for the sale of System securities; preparation of reports to be filed with indenture trustees and responses to inquiries made by security holders; investor relations matters.

## EXHIBIT II

### **Charges for Centralized Services Provided By Equitable Resources to Other Affiliated Members And Other Subsidiaries**

1. Charges for functional services provided to Equitable Gas on a continuing basis will be determined by allocation of operating costs as listed below:

<u>Function</u>	<u>Basis of Allocation</u>
Accounting and Taxes	Various sub-functions according to appropriate common measures, i.e., items processed, number of employees, system average plant/revenue factor
Auditing	Actual time experience
Corporate Organization	System average plant/revenue factor
Computer Services	Processing time, system and hardware utilized
Gas Measurement	Actual time experience
Human Resources	Number of employees and gross payroll dollars
Insurance	System average plant/revenue/labor factor
Legal	Actual time experience
Planning	System average plant/revenue factor
Purchasing	Orders processed and number vehicles managed
Technical Services	Actual time experience
Telecommunications	Actual time experience
Treasury	Items processed and system average plant/revenue factor

2. Charges for Administrative or general System management will be based on factors developed primarily by averaging allocations determined for subordinate functions in the specific areas of responsibility and weighing with system-wide factors, as appropriate.
3. Charges for employees' benefits and statutory overheads will be in proportion to allocation of labor cost.
4. Incremental expenditures incurred with respect to special services undertaken for Equitable Gas will be charged directly at cost.
5. In addition to the foregoing, charges will be rendered for depreciation/amortization and a fair return on assets utilized in performing services under this agreement. The rate of return will be at the allowed or calculated level determined in Equitable's most recent general rate proceeding. These charges will be allocated in proportion to associated labor costs and/or based on direct usage, as appropriate.
6. Factors applied in the allocation of costs will be re-determined each year with the most recent actual information available. Said factors will be subject to ongoing revision for material changes in operations or level of services provided.



Equitable Gas Company  
Corporate and Shared Service Allocations

Tweleve Months ending December 31,  
(in thousands)

Ferc Account	Description	2008	2007
		PA Budget	PA Actual
923	HQ Allocation	6,430	6,974
923	Central IT	3,874	4,067
931	Facilities & Rent	3,970	3,204
923	Procurement	208	324
923	General Accounting & Tax Services	876	1,130
888	Environmental & Safety	632	702
	Total	<u>15,990</u>	<u>16,400</u>

Equitable Gas Company

53.53. III. Balance Sheet and Operating Statement

Ferc Number	Description	Tweleve Months ending December 31,	
		2008	2007
752	NG Prod/Gath-Gas Well Exps	0	1,361
761	NG Prod/Gath-Maint Supv & Eng	0	76
765	NG Prod/Gath-Maint Field C Sta	0	125
807	Purchased Gas Expenses	0	165,161
807.3	Maint Purch Gas Meas Stations	0	5,164
864	Transmission-Maint C Sta Eqp	116,400	61,557
870	Distribution-Oper Sup & Eng	320,160	161,195
871	Distribution-Load Dispatching	286,756	108,463
874	Distribution-Mains & Svs Exps	82,400	34,015
875	Distribution-Meas/Reg Sta Exp	31,800	56,457
878	Distribution-Meter & House Reg	292,740	164,842
887	Distribution-Maint of Mains	0	31,068
902	Cust Acct-Meter Reading Exps	4,800	1,260
920	A & G-Admin & General Salaries	412,414	193,772
921	A & G-Office Supp & Exps	205,748	21,986
923	A & G-Outside Services Empl	43,775	3,679
926	A & G-Employee Pension & Benes	131,684	56,217
930.2	A & G-Misc General Exps	200	0
		<u>1,928,877</u>	<u>1,066,398</u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

23. Describe costs relative to leasing equipment, computer rentals, and office space, including terms and conditions of the lease. State method for calculating monthly or annual payments.

Response:

Description of Terms and Conditions

Equitable Gas Company's lease agreements fall into the categories of office and service space rental, gas line crossings, office machines, and communication equipment. Because the terms vary by the nature and type of property leased, the following description highlights typical conditions which may be found in lease agreements. Specific terms and conditions are subject to variation from agreement to agreement. For additional detail, see attached on page 3.

Office and Service Space Rental

Equitable Gas Company leases premises for office and commercial purposes only. The Company typically pays applicable property taxes and operation and maintenance expenses.

Telecom equipment

Equitable is the lessor and the lessee of radio sites for the location of radio transmitting equipment. These leases generally include the right to install an antenna on an existing structure (water tower, radio tower, etc.) and either the right to install the actual transmitting equipment in an existing communications building or the right to erect a small radio transmitter building near the base of the structure.

Equitable Gas Company  
Rents and Leases  
Historical and Future test year

Exhibit III  
Item: § 53.53 III-A-23  
Sheet 2 of 3

FERC Account	JDE Account	Description	2007	2008
881	781210	General Rents	136,731	136,731
881	781215	Bridge Rent	30,914	30,914
881	781230	Regulator Site, gas crossing, etc.	202,723	202,723
881	781240	Copy machine	18,700	18,700
881	781260	Pagers	10,585	10,585
881	781265	Air Card	91,588	91,588
881	781270	Cell Phone	110,423	110,423
			601,663	601,663

FERC Account	JDE Account	Description	2007	2008
931	868030	Misc Office Equipment	99,631	99,631
931	868040	Telecom Equipment	(44,045)	(44,045)
931	868200	Rent	3,203,376	3,969,703
			3,258,962	4,025,289

Total 3,860,625 4,626,952

Equitable Gas Company (PA)  
Rents and Leases  
Historical and Future test year

Exhibit III  
Item: § 53.53 III-A-23  
Sheet 3 of 3

Lease #	Type of Property	2007 Annual Rent	2008 Annual Rent	Type of Lease	Method
	Headquarters, North Shore, Pgh PA	2,005,300	2,771,637	20 years, expiring 2025	Per Lease Agreement
1984 & 1984-1	Area Office, Allegheny Center Mall, Pgh PA	1,198,068	1,198,068	20 years, expiring 2011	Per Lease Agreement
2065	Field Office, Pgh, PA (Corliss)	45,128	45,128	Monthly - (Perpetual)	Per Lease Agreement
7207	Field Office, Jefferson PA	3,900	3,900	Monthly - (Perpetual)	Per Lease Agreement
2041	Field Office, North Hills, PA	18,300	18,300	Monthly - (Perpetual)	Per Lease Agreement
2042	Field Office, Carnegie, PA	19,700	19,700	Monthly - (Perpetual)	Per Lease Agreement
2045	Field Office, Sharpsburg, PA	19,200	19,200	Monthly - (Perpetual)	Per Lease Agreement
2046	Field Office, N. Versailles, PA	36,500	36,500	Monthly - (Perpetual)	Per Lease Agreement
2047	Field Office, Dravosburg, PA	14,700	14,700	Monthly - (Perpetual)	Per Lease Agreement
various	Road/gas line crossings, bridge rent, etc.	212,940	212,940	various	Per Lease Agreement
		3,573,735	4,340,072		
various	Telecom Equipment (tower rental)	(44,045)	(44,045)	various	Per Lease Agreement
various	Office Machines and Furniture	118,341	118,331	various	Per Lease Agreement
various	Pagers, Air Cards, Cell Phones	212,594	212,594	month to month	various
		286,890	286,880		
Total Rents and Leases		3,860,625	4,626,952		

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

24. Submit detailed calculations (or best estimates) of the cost resulting from major storm damage.

Response:

In September 2007, there was a major flood that resulted in increased overtime of 308.5 hours and \$11,188 in associated wages.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

25. Submit details of expenditures for advertising (National and Institutional and Local media). Provide a schedule of advertising expense by major media categories for the test year and the prior two comparable years with respect to:
- a. Public health and safety
  - b. Conservation of energy
  - c. Explanation of Billing Practices, Rates, etc.
  - d. Provision of factual and objective data programs in educational institutions
  - e. Other advertising programs
  - f. Total advertising expense

Response:

See attached.

**Equitable Gas Company - Pennsylvania Division**  
 § 53.53 III. Balance Sheet and Operating Statement  
 A. All Utilities

For the 12 Months Ended December 31,

Line No.	Description	2007	2006	2005
1	<b><u>Newspaper</u></b>			
2	a. Public Health & Safety	-	-	-
3	b. Conservation	-	-	-
4	c. Billing, Rates, Supply	-	-	-
5	d. Educational institutions	-	-	-
6	e. Other programs	-	1,026	11,051
7	f. Total	<u>\$ -</u>	<u>\$ 1,026</u>	<u>\$ 11,051</u>
8	<b><u>Television</u></b>			
9	a. Public Health & Safety	-	-	-
10	b. Conservation	-	-	-
11	c. Billing, Rates, Supply	-	-	-
12	d. Educational institutions	-	-	-
13	e. Other programs	-	-	-
14	f. Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
15	<b><u>Radio</u></b>			
16	a. Public Health & Safety	-	-	-
17	b. Conservation	-	-	-
18	c. Billing, Rates, Supply	-	-	-
19	d. Educational institutions	-	-	-
20	e. Other programs	-	-	-
21	f. Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<b><u>Magazines and Miscellaneous</u></b>			
22	a. Public Health & Safety	250	250	300
23	b. Conservation	-	-	-
24	c. Billing, Rates, Supply	2,231	2,199	6,000
25	d. Educational institutions	-	5,000	5,000
26	e. Other programs	213,306	212,986	164,550
27	f. Total	<u>\$ 215,787</u>	<u>\$ 220,435</u>	<u>\$ 175,850</u>
	<b><u>Bill Inserts</u></b>			
28	a. Public Health & Safety	-	-	-
29	b. Conservation	-	-	-
30	c. Billing, Rates, Supply	9,460	24,704	22,007
31	d. Educational institutions	-	-	-
32	e. Other programs	-	-	-
33	f. Total	<u>\$ 9,460</u>	<u>\$ 24,704</u>	<u>\$ 22,007</u>
	<b>Total Advertising Expense</b>	<u><u>\$ 225,247</u></u>	<u><u>\$ 246,165</u></u>	<u><u>\$ 208,908</u></u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

26. Provide a list of reports, data, or statements requested by and submitted to the Commission during and subsequent to the test year.

Response:

1. Annual Report to the Pennsylvania PUC for the twelve months ended December 31, 2006, filed April 30, 2007.
2. Quarterly Earnings Reports filed with the PUC for the quarters:
  - a. Quarter ended December 31, 2006, filed on February 23, 2007.
  - b. Quarter ended March 31, 2007, filed on May 18, 2007.
  - c. Quarter ended June 30, 2007, filed on August 28, 2007.
  - d. Quarter ended September 30, 2007, filed on November 27, 2007.
  - e. Quarter ended December 31, 2007, filed on February 28, 2008
3. Pipeline Leak and Safety Reports
  - a. DOT Annual Distribution System Leak Report (Form RSPA F7100.1-1) for the year 2006, filed on March 13, 2007.
  - b. DOT Annual Transmission Report for the year 2006, filed March 13, 2007.
4. Reports Submitted Pursuant to 52 PA Code Section 56.231:
  - a. Residential delinquencies and terminations filed with the Bureau of Consumer Services (BCS). Thirteen monthly reports filed during and subsequent to the test year.
  - b. Commercial and Industrial delinquencies and terminations filed with the BCS. Five quarterly reports filed during and subsequent to the test year.
  - c. Payment and Settlement Agreement summary filed with the BCS monthly. Thirteen monthly reports filed during and subsequent to the test year.
  - d. Report of the results of the Post Termination Survey completed prior to December 1 filed with the BCS with monthly updates in January and February of the following calendar year. Three reports filed during and subsequent to the test year.
  - e. Residential Bill and usage Statistics related to uncollectible accounts.
5. Reports Submitted Pursuant to 52 PA Code Section 58.15:
  - a. Annual report on the residential Low Income Usage Reduction Program (LIURP). Filed with the BCS on April 30, 2007.
6. Other:
  - a. Universal Service Reporting Requirements report filed with the PUC April 1, 2007 and 2008.
  - b. Annual Low Income Home Energy Assistance Program (LIHEAP) leveraged rescues survey filed with the BCS. Two reports filed during and subsequent to the test year.
  - c. An updated Universal Service & Energy Conservation Plan consistent with the September 2007 settlement of the Plan and funding – sent April 30, 2008.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

- d. 2007 Annual Rate Comparison Report (bill calculations by rate schedule for default service rates as of January 31, 2007), filed February 5, 2007.
- e. Management Efficiency Investigation – Implementation Plan (Docket No. D-05MEI020), filed March 28, 2007.
- f. Gas Cost Related: 2007 – 1307(f) Prefiling Information (Docket No. R-00072111) filed February 28, 2007; 2007 – 1307(f) Filing (Docket No. R-00072111) filed April 2, 2007.
- g. Comments to L-00070186 - Proposed Revisions to the Universal Service Reporting Requirements and promulgation of Chapter 76 regulations – April 9, 2008.
- h. Response to Secretarial Letter at L-00060182 – Utility Collection Activity Hours of Operation – January 31, 2008.
- i. Response to Chairman Holland’s December 11, 2007 regarding off accounts sent December 21, 2007.
- j. Comments to Mitch Miller regarding the proposed revisions to the 2007 Cold Weather Survey – sent August 21, 2007.
- k. Comments on Proposed CAP Policy Statement at M-00072036 sent January 9, 2008.
- l. Reporting Requirements for Quality of Service Benchmarks and Standards – Chapter 62, Subsection 62.33 – filed each year on February 1.
- m. Monthly letter sent to Mitch Miller indicating the prior month’s telephone access statistics.
- n. Supplements to Tariff Gas Pa. PUC No. 22 – Equitable Gas Company:

<u>Filed Date</u>	<u>Effective Date</u>	<u>Supplement No. and Description</u>
12/29/06	01/01/07	No. 53 – Increased the Purchased Gas Cost to reflect the Quarterly Gas Cost Filing consistent with 52 Pa. Code Section 53.64(i)(5).
04/02/07	04/10/07	No. 54 – Decreased the State Tax Adjustment Surcharge in accordance with 52 Pa. Code Section 69.51 State Tax Adjustment Procedure.
06/29/07	07/01/07	No. 55 – Increased the Purchased Gas Cost to reflect the Quarterly Gas Cost Filing consistent with 52 Pa. Code Section 53.64(i)(5).

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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09/28/07	10/01/07	No. 56 – Increased the Purchased Gas Cos rate effective October 1, 2007, in compliance with the Order of the PUC at Docket No. R-00072111
10/01/07	10/02/07	No. 57 – Rider D Increase filed to reflect the Joint Settlement Agreement in Docket Nos. P-00062240 and M-00061959 and in compliance with the Order of the PUC entered September 27, 2007.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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27. Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for by the Company and the cost thereof.

Response:

A claim was not made for the recovery of social memberships.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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27. Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for by the Company and the cost thereof.

Response:

A claim was not made for the recovery of social memberships.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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28. Submit a schedule showing, by major components, the expenditures associated with Outside services Employed, Regulatory Commission Expenses and Miscellaneous General Expenses, for the test year and prior two comparable years.

Response:

See the attached.

Equitable Gas Company - Pennsylvania Division  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	<u>For the Period Ended December 31,</u>		
			2007	2006	2005
923		<u>Outside Services Employed</u>			
		ACBA	241	-	-
		A C Coy Company	115,163	-	-
		Accenture LLP	585,000	-	-
		Act 1 Personnel Services	-	700	20,465
		Advantica	-	-	6,000
		Aerotek Inc.	43,139	119,429	-
		AKF Reporters	6,270	402	-
		Alco Parking Corp.	-	-	3,308
		All Staff Temporary Services	-	3,833	-
		Allegheny General Hospital	-	-	2,438
		Allied Office Products	-	-	12,052
		Allin Consulting of PA Inc.	-	2,725	-
		Alltel	-	140	-
		Alternative Resolution Centers	575	-	-
		America Meter Company	-	-	125
		Amy Dubin	56,858	-	-
		Anthony R. Soss, Jr	-	(2,000)	-
		ARRE Associates	2,400	-	-
		Ascent Systems	-	-	-
		Assured Public Adjusters LLC	2,012	-	-
		AT&T	23,755	5,376	24,385
		Baker & Botts	58,201	-	-
		Baker & McKenzie	-	358	1,850
		Barbara Carol Keaton PHD	-	475	-
		Battery Systems Inc.	-	-	1,150
		Bituminous Insurance Company	(50,000)	-	-
		Brickley, Sears & Sorett	-	2,389	4,671
		Buchanan Ingersoll & Rooney	210,836	66,406	20,297
		Burn Care Associates	-	750	-
		Business Expressions	11,843	11,068	10,064
		Business Records Management	64	2,676	300
		C Leon Sherman & Asscs. PC	498,255	197,806	104,929
		CAD Research, Inc.	-	2,350	-
		Carmen Fantini	-	11,250	-
		Cavanaugh, Del Sole, Stroyd LLC	45,918	33,908	25,033
		Center for Musculoskeletal Eva.	-	1,380	-
		Chorus Call Inc.	22	51	-
		Christopher Michael Benninghoff	-	10,505	-
		Clarion Hotel	-	113	-
		COMDOC	-	-	-
		Commonwealth Reporting company	-	-	726

For the Period Ended December 31,

Line No.	Account No.	Description	2007	2006	2005
		Compucom	-	-	47,043
		Corporate Allocation	11,040,735	7,957,244	102,792
		Crawford & Crawford	1,402	5,807	-
		CT Corporation System	222	-	-
		D'Appolonia	34,860	857	14,489
		David A. Petersen, Esq.	-	1,929	-
		David M. Landay	221	-	-
		Deglau Engineering	4,420	-	-
		Dennis D Mosco	-	199	-
		DHL Express USA	-	-	1,777
		Direct Mail Services	-	-	(13)
		Ditto Document Solutions	-	-	565
		Donald S McPherson	3,383	-	1,379
		Duane Morris	-	-	38,663
		Duncan Weinberg Genzer & Pembr	1,104	10,981	54,223
		E Oscar	-	50	-
		Eagle Research Corporation	-	-	3,000
		Elliot Newman	1,650	-	500
		EMC Corporation	179,720	-	-
		Engineering Systems, Inc.	1,478	2,369	9,680
		Equitable Gas Co-Land & Real Estate	-	1,160	-
		Ernst & Young LLP	309,113	275,357	331,566
		ERSC Chgs	997,919	743,928	697,608
		FedEx Kinkos	1,235	-	253
		Field Environmental	-	27	-
		Forbes Garage	-	14	-
		Fox, Rosthschild LLC	5,710	-	-
		Gas Analytical Services Inc.	-	3,184	-
		Gathering	-	-	-
		Gatto Associates	-	2,197	(22)
		General Robinson Association	2,707	1,587	-
		Global Tax Management Inc.	1,375	-	492
		Greenlee Partners	191	257	-
		Griffith, McCague, & Fernsler	(380)	-	-
		Grossman Yanak Ford LLP	33,263	-	-
		Harvey Slater MD LLC	300	-	-
		Health Works	-	800	-
		Heath Consultants	-	250	-
		Highlands Regional Medical	-	26	-
		Hill & Knowlton Inc.	-	-	-
		Hinz Automation Inc.	-	810	-
		HIS Energy Group	-	-	1,050
		Hi-Tops	-	86	-
		Holiday Inn Greentree	-	1,006	2,656
		Holland & Hart LLP	8,667	2,333	16,133
		Home Depot	-	-	11

For the Period Ended December 31,

Line No.	Account No.	Description	2007	2006	2005
		IEBT Corporation	11,214	10,737	12,632
		Imagenet of Pittsburgh	-	892	-
		Iron Mountain Records Mgmt	891	470	-
		J D Power & Associates	35,000	-	-
		J Wine Associates	3,482	5,942	2,670
		Jacobus & Asscs.	16,500	-	600
		James Clair Duff	-	2,703	-
		James L. Kenkel	3,500	-	-
		Joele Frank, Wilkinson Brimmer	-	-	-
		John Caputo & Associates	-	(1,150)	-
		Johnson & Mimless	530	-	-
		Jones Day	-	4,105	-
		Joseph J Bruni Inc	-	-	450
		Joseph R Nolte	-	-	-
		JRL Enterprises Inc.	-	11,100	58,063
		KCRS Inc.	59,139	83,203	70,444
		KFORCE	-	31,172	-
		Klett Rooney Lieber & Schorlin	-	67,665	177,496
		KPMG	512,394	460,043	308,520
		LD Bill	-	1,672	-
		Lee Hecht Harrison LLC	-	1,560	-
		Leslie Merrill McCombs	-	-	-
		Lewis , Glasser, Casey, & Rollin	-	16,591	-
		Lewis R Amis Inc.	1,398	-	1,362
		Lexis Nexis	889	1,847	1,564
		Liberty Mutal	(50,000)	-	-
		Lodestar Corporation	-	2,600	-
		LRP Publications	-	-	201
		M O'Herron Company	(3,099)	-	-
		Market Sphere Consulting LLC	7,200	-	-
		Marriott	-	555	-
		Marsetta Lane Staffing	124	14,337	-
		Master	-	147	-
		Matthew M Franckiewicz	-	-	1,609
		McCoy, West, Frankin, & Beal	-	2,598	15,625
		McHolme Builders, Inc.	(8,000)	-	-
		McNeer, Highland, McMunn & V	1,800	-	-
		MCS Group Inc.	5,425	874	-
		MDSI Mobile Data Solutions	-	12,088	-
		Medvesky Natural Gas Services	-	13,500	-
		Medzone Pharmacy	1,799	-	-
		Mellon Bank	358,606	343,180	221,643
		Mentor 4 Inc.	-	1,202	-
		Metrix Matrix	8,352	(1,440)	7,112
		Meyer, Unkovic, & Scott	1,922	4,910	(182)
		Microsoft Services	-	-	39,325

		<u>For the Period Ended December 31,</u>			
Line No.	Account No.	Description	2007	2006	2005
		Modern Industries Inc.	8,260	-	-
		Monogailia Physical Therapy	-	500	-
		Moore Medical	103	402	224
		MS Tech Support	-	1,059	-
		Mulvihill, Robb, Leonard	-	-	1,087
		Nationwide Insurance	(100,000)	-	6,000
		NCMS	-	-	12,000
		New Image Press Inc.	-	2,412	-
		Norberto Rodriguez, MD	-	-	1,500
		OCE ISA	-	-	1,633
		Open Minds Consulting LTD.	3,960	-	-
		Opinion Research Corporation	119,000	-	-
		Optiron Corporation	30,675	-	-
		Oracle Corporation	11,756	-	-
		Ostrowski & Associates	1,922	-	-
		Other	79,876	172,128	14,943
		Outback	-	37	-
		Outplace Service	-	-	4,250
		P V Nickell MD	-	-	188
		P.L McMickle, CPA	(83)	-	-
		Pacer	-	14	-
		Pancoast Staffing Services, Inc.	-	-	758
		Passant & Passant LTD	-	1,857	3,084
		Peirce Raimond & Coulter PC	-	-	5,000
		Phillips & Associates Inc.	8,304	45,887	18,270
		Physical Exams Inc.	-	-	70
		Pitney Bowes	-	100	-
		Pittsburgh Court Reporting Inc.	6,428	1,694	-
		Pittsburgh Human Resources	-	100	-
		Pittsburgh Mailing	505	3,929	3,120
		Plumbers Training Rev	-	-	(824)
		PNC Bank	-	-	153,826
		Polito & Smock PC	-	8,991	-
		Postedigital LLC	-	-	2,382
		Posti & Associates	-	900	800
		Powers & Garrison & Hughes	-	1,361	3,816
		Price Waterhouse	7,762	18,000	32,516
		Procurement Allocation	324,063	243,996	-
		Purchase Power	466	-	-
		Quick Messenger Inc.	278	276	48
		R&D Strategic Solutions	99,900	-	-
		Raeder Landree Inc.	-	-	16,134
		Reed Smith LLP	213,018	285,111	276,300
		REI	-	293	-
		Reserve Adjustments	2,135,244	868,366	-
		Richard A. Hayhurst	(555)	-	-
		Richard B. Felder	(12,000)	-	-
		Richard Felder	41,560	-	-

For the Period Ended December 31,

Line No.	Account No.	Description	2007	2006	2005
		Richard W. Dissen	-	-	1,181
		Robert Bowman and Associates	-	3,445	-
		Robert C. Hoskins MD	-	-	175
		Robert C. McCall	-	-	1,000
		Robert J DePaul	-	-	15,310
		Robert P Durning MD	-	-	900
		Ronald F. Talarico	-	1,808	-
		Rothfuss Engineering Co.	5,634	21,511	14,284
		SBM Electronics	-	-	1,040
		Sherrard, German & Kelly	1,326	24,641	189
		SLA Consulting	12,250	-	-
		Smallman Associates	-	-	150,000
		Snozone	-	-	255
		Software House International	2,429	-	165
		Software Quality Solutions	14,914	-	-
		Solutions 21, Inc.	21,040	-	-
		Spectrum Medical Services, Inc.	-	-	160
		Springhill Suites-Pittsburgh	-	-	2,768
		Steptoe & Johnson LLC	51,562	15,189	180
		Sunguard Energy Systems Inc.	-	110,895	-
		Tax Allocation	-	-	22,876
		Technical Training	-	-	(33,235)
		Teksystems	410,000	-	-
		Televent	3,679	5,244	21,955
		The Help Center LLC	6,591	1,319	(13)
		The Travelers Idemnity Company	(25,000)	-	-
		Thomas A Will & Associates	(2,000)	-	-
		Thomas G Martin	-	1,238	-
		Thomas L Hewitt	-	1,468	-
		Thomas R Hughes & Associates	-	-	11,275
		Thomas, Thomas,Armstrong, & Nies	221,373	48,662	203,610
		Thorp Reed & Armstrong LLP	43,311	53,846	50,860
		Tina Whittaker & David Landa	3,500	-	-
		UHA-Morgantown	-	-	325
		Unishippers	-	65	-
		US Citizenship & Immigration	3,700	-	-
		Utility Business Education COA	-	-	3,000
		Venturi Staffing Partners	-	90,460	71,641
		Vinson & Elkins	12,659	2,976	18,972
		W L Davison Forensic Services	-	751	-
		Watson Wyatt--FAS 87/88 Admin	262,258	221,332	-
		Webmethods Inc.	149,838	10,500	-
		Wexter & Walker Public Policy	-	-	-
		William J Miller, Jr., Esq.	-	-	13,756
		Wolfblock	-	-	4,985
		Woody Forest Products LLC	6,500	-	-

		<u>For the Period Ended December 31,</u>		
Account No.	Description	2007	2006	2005
	Yukevich Marchetti Liekar & ZA	89,261	134,293	90,639
	Zimmer Kunz	13,714	22,185	10,002
	<b>Total Outside Services</b>	<b><u>\$ 19,497,893</u></b>	<b><u>\$ 13,006,892</u></b>	<b><u>\$ 3,716,152</u></b>
	<u>Regulatory Commission Expenses</u>			
928	PA PUC Gas Cost Filing	4,848	9,303	7,917
	Other Dockets	8,626	16,396	2,500
	<b>Total Regulatory Commissions Expen:</b>	<b><u>\$ 13,474</u></b>	<b><u>\$ 25,699</u></b>	<b><u>\$ 10,417</u></b>
	<u>Miscellaneous General Expenses</u>			
930.2	Industry Association dues	153,034	153,076	201,862
	Miscellaneous	3,274	486	214
	<b>Total Miscellaneous General Expense</b>	<b><u>\$ 156,308</u></b>	<b><u>\$ 153,562</u></b>	<b><u>\$ 202,076</u></b>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

29. Submit details of information covering research and development expenditures, including major projects within the company and forecasted company programs.

Response:

Equitable has no Company research programs nor are any forecast for the immediate future.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

30. Provide a detailed schedule of all charitable and civic contributions by recipient and amount for the test year.

Response:

With occasional exception, charitable and civic contributions are made through the Equitable Resources Foundation, Inc ("Foundation") on behalf of Equitable Resources and its subsidiaries. No claims are made in this filing related to the Foundation's contributions. Charitable and civic contributions paid directly by Equitable Gas Company and included in this filing are shown on the attached schedule.

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	2007
426.1		<b><u>Donations and Contributions</u></b>	
		Urban League of Greater Pittsburgh	2,000
		Total Donations and Contributions	<u>\$ 2,000</u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

31. Provide a detailed analysis of Special Services – Account 795.

Response:

The Company does not record expenses related to outside services in Account 795, rather, such expenses are recorded in Account 923. See Item III – A-28 for further information regarding Account 923 – Outside Services.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

32. Provide a detailed analysis of Miscellaneous General Expense – Account 801.

Response:

The Company does not record expenses related to miscellaneous general expense in Account 801, rather, such expenses are recorded in Account 930.2. See Item III – A -28 for further information regarding Account 930.2 – Miscellaneous General Expense.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

33. Provide a labor productivity schedule.

Response:

See the attached worksheet 2 of 2 for the Labor Productivity Schedule for The Company.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
E. All Utilities

	December 31,			
	2004	2005	2006	2007
<b>(\$ Thousands)</b>				
Labor Charged to Expense	\$ 20,578.4	\$ 19,499.1	\$ 20,909.8	\$ 21,535.1
Distribution Maintenance Expense	\$ 9,754.5	\$ 10,346.8	\$ 8,766.0	\$ 8,549.0
Gross Distribution Plant	\$ 659,360.4	\$ 747,387.1	\$ 740,253.3	\$ 741,876.6
Average Number of Customers	257,404	255,670	255,016	255,833
<b>Rate Per Customer</b>				
Labor Charged to Expense	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
Distribution Maintenance Expense	\$ 0.04	\$ 0.04	\$ 0.03	\$ 0.03
Gross Distribution Plant	\$ 2.56	\$ 2.92	\$ 2.90	\$ 2.90

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

34. List and explain all non-recurring abnormal or extraordinary expenses incurred in the test year which will not be present in future years.

Response:

All adjustments deemed necessary to normalize operating expenses of the future test year are listed and explained in III-A-17, Future Test Year.

All adjustments deemed necessary to normalize operating expenses of the future test year are listed and explained in III-A-17, Historic Test Year.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

35. List and explain all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years. (e.g. – non-yearly maintenance programs, etc)

Response:

All adjustments deemed necessary to normalize operating expenses of the future test year are listed and explained in III-A-17, Future Test Year.

All adjustments deemed necessary to normalize operating expenses of the historic test year are listed and explained in III-A-17, Historic Test Year.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

36. Using the adjusted year's expenses under present rates as a base, give detail necessary for clarification of all expense adjustments. Give clarifying detail for any such adjustments that occur due to changes in accounting procedure, such as charging a particular expense to a different account than was used previously. Explain any extraordinary declined in expense due to such change of account use.

Response:

See III-A-17 for adjustments to operating expenses and references to detailed computations in support thereof.

See III-A-18 for explanation of increases and decreases in expenses including comments regarding amounts charged to different accounts.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

37. Indicate the expenses that are recorded in the test year, which are due to the placement in operating service of major plant additions or the removal of major plant from operating service, and estimate the expense that will be incurred on a full-year's operation.

Response:

During the twelve months ended December 31, 2007 no expenses recorded on the books of the Company were due to the placement of major plant additions into operating service or the removal of plant from service.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

38. Submit a statement of past and anticipated changes, since the previous rate case in major accounting procedures.

Response:

Effective 1/1/96, Equitable disclosed information as required in conjunction with FASB's Statement of Financial Accounting Standard No. 123 – "Accounting for Stock-Based Compensation," but elected to follow Accounting Principles Board Opinion (ABP) No. 25, "Accounting for Stock Issued to Employees."

Effective 1/1/97, Equitable adopted FASB's Statement of Financial Accounting Standard No. 128 – "Earnings per Share."

Effective 1/1/97, Equitable adopted FASB's Statement of Financial Accounting Standard No. 129 – "Disclosure of Information about Capital Structure."

Effective 1/1/98, Equitable adopted FASB's Statement of Financial Accounting Standard No. 130 – "Reporting Comprehensive Income."

Effective 1/1/98, Equitable adopted FASB's Statement of Financial Accounting Standard No. 131 – "Disclosures About Segments of an Enterprise and Related Information."

Effective 1/1/01, Equitable adopted FASB's Statement of Financial Accounting Standard No. 133 – "Accounting for Derivative Instruments and Hedging Activities," as amended by FASB's Statement of Financial Accounting Standard No. 137 – "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133 and by FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of Statement 133."

Effective June 2001, Equitable adopted FASB's Statement of Financial Accounting Standard No. 140 – "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement replaced in its entirety, FASB Statement No. 125.

Effective 1/1/01, Equitable adopted FASB's Statement of Financial Accounting Standard No. 141 – "Business Combinations."

Effective 1/1/02, Equitable adopted FASB's Statement of Financial Accounting Standard No. 142 – "Goodwill and Other Intangible Assets."

Effective 1/1/02, Equitable adopted FASB's Statement of Financial Accounting Standard No. 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets."

Effective September 2002, Equitable adopted Emerging Issues Task Force (EITF) No. 02-03 – "Recognition and Reporting of Gains and Losses on Energy Trading Contracts under EITF Issues No. 98-10 and 00-17, which rescinded guidance contained in EITF No. 98-10."

Effective 1/1/03, Equitable adopted FASB's Statement of Financial Accounting Standard No. 143 – "Accounting for Asset Retirement Obligations."

Effective 1/1/03, Equitable adopted FASB's Statement of Financial Accounting Standard No. 146 – "Accounting for Costs Associated with Exit or Disposal Activities."

Effective 1/1/03, Equitable adopted FASB's Statement of Financial Accounting Standard No. 148 – "Accounting for Stock-Based Compensation- Transition and Disclosure, amending Statement No. 123, Accounting for Stock-Based Compensation."

Effective 1/1/03, Equitable adopted the FASB Interpretation No. 45 – "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

In June 2003, Equitable adopted FASB's Statement of Financial Accounting Standard No. 150 – "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."

In July 2003, Equitable adopted the FASB Interpretation No. 46 – "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51."

In September 2003, Equitable adopted FASB's Statement of Financial Accounting Standard No. 149 – "Amendment of Statement 133 on Derivative Instruments and Hedging Activities."

In December 2003, Equitable adopted FASB's Statement of Financial Accounting Standard No. 132 – "Employers' Disclosure about Pensions and Other Postretirement Benefits"

Effective 1/1/06, Equitable adopted FASB's Statement of Financial Accounting Standard No. 123R – "Accounting for Stock-Based Compensation."

Effective 12/31/06, Equitable adopted FASB's Statement of Financial Accounting Standard No. 158 – "Employers' Accounting for Defined Benefit and Other Postretirement Plans."

Effective 1/1/07, Equitable adopted FASB's Interpretation No. 48 – "Accounting for Uncertain Tax Positions."

Effective 1/1/08, Equitable adopted FASB Statement of Financial Accounting Standard No. 157 – "Fair Value Measurements."

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

39. Identify the specific witness for all statements and schedules of revenues, expenses, taxes, property, valuation, etc.

Response:

The specific witness is referenced in the Table of Contents to the filing material. In addition, items sponsored by each witness are listed in the witness' direct testimony.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

40. Adjustments which are estimated shall be fully supported by basic information reasonably necessary.

Response:

All adjustments used in this filing, which are based on estimates, have been supported by available information considered reasonable in the circumstances.

Operating Income Statement	Item III-A-17 (Historical Test Year), sheet 2
Revenues	Item III-A-17 (Historical Test Year), sheet 3
Expenses	Item III-A-17 (Historical Test Year), sheet 4
Depreciation	Item III-A-17 (Historical Test Year), sheet 5
Taxes Other Than Income	Item III-A-17 (Historical Test Year), sheet 6
Income Taxes	Item III-A-17 (Historical Test Year), sheet 8
Measures of Value	Item I-A-2

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

41. Submit a statement explaining the derivation of the amounts used for projecting future test year level of operations and submit appropriate schedules supporting the projected test year level of operations.

Response:

The projected Future Test Year level of operations, and support for adjustments thereto, are set forth in the following Future Test Year items:

Operating Income Statement	Item III-A-17 (Future Test Year), sheet 2
Revenues	Item III-A-17 (Future Test Year), sheet 3
Expenses	Item III-A-17 (Future Test Year), sheet 4
Depreciation	Item III-A-17 (Future Test Year), sheet 5
Taxes Other Than Income	Item III-A-17 (Future Test Year), sheet 6
Income Taxes	Item III-A-17 (Future Test Year), sheet 8
Measures of Value	Item I-A-2

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

42. If a company has separate operating divisions, an income statement must be shown for each division, plus an income statement for company as a whole.

Response:

See attached income statements by operating division.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

		Per Books - Twelve Months Ended December 31, 2007			
Line No.	Description	Pennsylvania	West Virginia	Kentucky	Total Company
4	Operating Revenue	441,183,747	18,589,912	3,043,341	462,817,000
	Operating Expenses				
	Operation and Maintenance Expenses:				
5	Purchased Gas Costs	291,187,233	11,861,352	2,297,630	305,346,215
6	Non-purchased Gas Costs	85,853,180	4,250,257	823,564	90,927,001
7	Total Operation and Maintenance	377,040,413	16,111,609	3,121,194	396,273,216
8	Depreciation and Amortization	19,180,602	915,248	39,406	20,135,256
9	Taxes Other than Income Taxes	1,441,739	1,803,298	(5,835)	3,239,202
10	Total Operating Expenses	397,662,754	18,830,155	3,154,765	419,647,674
11	Operating income before income taxes	43,520,993	(240,243)	(111,424)	43,169,326
12	Income Taxes:				
13	Federal Income Taxes *	12,854,764	-	-	12,854,764
14	State Income Taxes *	2,745,522	0	0	2,745,522
15	Deferred Federal Income Taxes *	2,238,418	-	-	2,238,418
16	Deferred State Income Taxes *	518,553	-	-	518,553
17	Investment Tax Credit - Amortization	(9,114)	-	-	(9,114)
	Total Income Taxes	18,348,143	-	-	18,348,143
	Losses from Disposition of Utility Plant	-	-	-	-
	Net Utility Operating Income	25,172,850	(240,243)	(111,424)	24,821,183
	Other Income				
	Interest & Dividend Income	(2,058,361)	(137,095)	-	(2,195,456)
	Allowance for Funds Used During Construction	(391,316)	(443)	-	(391,759)
	Miscellaneous Non-Operating Income	(80,658)	-	-	(80,658)
	Gain from Disposition of Property	9,094	-	-	9,094
	Total Other Income	(2,521,241)	(137,538)	-	(2,658,779)
	Other Income Deductions	12,343,068	-	-	12,343,068

Per Books - Twelve Months Ended December 31, 2007

Line No.	Description	Pennsylvania	West Virginia	Kentucky	Total Company
<b>Taxes</b>					
	Taxes Other Than Income				
	Federal Income Taxes *	(6,482,472)	0	0	(6,482,472)
	State Income Taxes	0	0	0	-
	Deferred Federal Income Taxes *	(6,384,801)	0	0	(6,384,801)
	Deferred State Income Taxes	-	0	0	-
	Investment Tax Credit - Amortization	(404,664)	-	-	(404,664)
	Total Taxes	<u>(13,271,938)</u>	-	-	<u>(13,271,938)</u>
<b>Interest Charges</b>					
	Affiliated Debt	22,867,884	-	-	22,867,884
	Allowance for Funds Used During Construction	(229,332)	(252)	-	(229,584)
	Other	359,456	-	-	359,456
	Total Interest	<u>22,998,008</u>	<u>(252)</u>	-	<u>22,997,756</u>
	Net Income	<u>5,624,953</u>	<u>(102,453)</u>	<u>(111,424)</u>	<u>5,411,076</u>

\*Note: Taxes are not typically booked to reflect the actual effective tax rate at each division/state within Equitable Resources. However, for 2007, the books do reflect an appropriate tax rate for PA, but not for WV or KY . If the taxes were recorded on the books of record the amounts for WV and KY would be \$97,749 and \$43,344, respectively.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

43. If a company's business extends into different states or jurisdictions, then statements must be shown listing Pennsylvania jurisdictional data, other state data and federal data separately and jointly (balance sheets and operating accounts).

Response:

See Item III-A-1 for balance sheets by state.

See attached for operating accounts by state.

		Operating Account Data for Year Ended December 31, 2007				
Line No.	Account No.	Description	Pennsylvania	West Virginia	Kentucky	Total Company
<b>Revenues</b>						
1	480	Residential Sales	306,414,733	13,152,197	3,043,341	322,610,271
2	481	Commercial and Industrial	64,917,299	4,733,109	-	69,650,408
		Total Gas Sales Revenue	371,332,032	17,885,306	3,043,341	392,260,679
<b>Other Operating Revenues</b>						
3	487	Forfeited Discounts	1,557,851	74,582	-	1,632,433
4	488	Miscellaneous service revenues	1,208,555	-	-	1,208,555
5	489	Revenues from transportation of others	61,853,829	630,024	-	62,483,853
6	489.1	Revenues from transportation - gathering	5,169,989	-	-	5,169,989
7	493	Rent from Gas Property	1,588	-	-	1,588
8	495	Other Gas Revenues	59,903	-	-	59,903
9		Total Other Operating Revenues	69,851,715	704,606	-	70,556,321
10		Total Operating Revenues	441,183,747	18,589,912	3,043,341	462,817,000
<b>Production Expenses</b>						
<b>Operation</b>						
11	750	Operation supervision and engineering	124,401	0	0	124,401
12	751	Production maps and records	-	0	0	-
13	752	Gas wells expense	1,361	0	0	1,361
14	753	Field lines expense	245,000	0	0	245,000
15	754	Field compressor station expense	46,927	0	0	46,927
16	755	Field compressor station fuel and power	-	0	0	-
17	756	Field measuring and regulating station expenses	29,471	0	0	29,471
18	757	Purification expenses	-	0	0	-
19	758	Gas well royalties	-	0	0	-
20	759	Other expenses	-	0	0	-
21	760	Rents	-	0	0	-
22		Total Operation	447,160	-	-	447,160
<b>Maintenance</b>						
23	761	Maintenance supervision and engineering	76	0	0	76
24	762	Maintenance of structures and improvements	2,399	0	0	2,399
25	763	Maintenance of producing gas wells	3,381	0	0	3,381
26	764	Maintenance of field lines	260,495	89	0	260,584
27	765	Maintenance of field compressor station equipment	84,287	0	0	84,287
28	766	Maintenance of field compressor station equipment	-	0	0	-
29	767	Maintenance of purification equipment	-	0	0	-
30	768	Maintenance of drilling and cleaning equipment	-	0	0	-
31	769	Maintenance of other equipment	-	0	0	-
32		Total Maintenance	350,638	89	-	350,727
33		Total Production and Gathering	797,798	89	-	797,887

Operating Account Data for Year Ended December 31, 2007						
Line No.	Account No.	Description	Pennsylvania	West Virginia	Kentucky	Total Company
<b>Other Gas Supply Expenses</b>						
34	800	Natural gas wellhead purchases	-	0	0	-
35	800.1	Natural gas wellhead purchases Intracompany transfers	-	0	0	-
36	801	Natural gas field line purchases	78,311,651	5,115,881	0	83,427,532
37	803	Natural gas transmission line purchases	140,425,426	0	1,992,890	142,418,316
38	804	Natural gas city gate purchases	-	0	0	-
39	805	Other gas purchases	18,047,867	1,651,040	101,165	19,800,072
40	805.1	Purchased gas cost adjustments	-	0	0	-
41	806	Exchange gas	-	-	-	-
42	807.1	Well expenses - purchased gas	167,604	227,303	0	394,907
43	807.3	Maintenance of purchased gas measuring stations	6,504	306	0	6,810
44	807.4	Purchased gas calculation expenses	-	0	0	-
45	807.5	Other purchased gas expenses	-	283	0	283
46	808.1	Gas withdrawn from storage - debit	79,416,051	3,370,781	0	82,786,832
47	808.2	Gas delivered to storage - credit	(86,777,591)	(3,706,816)	0	(90,484,407)
48	813	Other gas supply expenses	61,589,721	5,202,574	203,575	66,995,870
49		<b>Total Gas Supply Expense</b>	<b>291,187,233</b>	<b>11,861,352</b>	<b>2,297,630</b>	<b>305,346,215</b>
<b>Gas Used in Utility Operations</b>						
50	810	Gas used for compressor fuel - cr	-	0	0	-
51	811	Gas used for products extraction - cr	-	0	0	-
52	812	Gas used for other utility operations - cr	-	0	0	-
53		<b>Total gas used in operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
54		<b>Total Other Gas Supply Expenses</b>	<b>291,187,233</b>	<b>11,861,352</b>	<b>2,297,630</b>	<b>305,346,215</b>
<b>Distribution Expenses</b>						
<b>Operation</b>						
55	870	Operation supervision and engineering	1,270,634	259,502	0	1,530,136
56	871	Distribution load dispatching	109,598	17,597	0	127,195
57	872	Compressor station labor and expenses	-	0	0	-
58	873	Compressor station fuel and power	(66)	0	0	(66)
59	874	Mains and services expenses	5,430,587	99,955	0	5,530,542
60	875	Measuring and regulating station expenses - general	98,543	26,527	0	125,070
61	876	Measuring and regulating station expenses - industrial	114	0	0	114
62	877	M and R station expenses - city gate check station	-	0	0	-
63	878	Meter and house regulator expenses	5,911,479	1,349,945	136,447	7,397,871
64	879	Customer installation expenses	61,892	12,533	0	74,425
65	880	Other expenses	1,288,739	57,103	0	1,345,842
66	881	Rents	601,663	65,883	0	667,546
67		<b>Total Operation</b>	<b>14,773,183</b>	<b>1,889,045</b>	<b>136,447</b>	<b>16,798,675</b>
<b>Maintenance</b>						
68	885	Maintenance supervision and engineering	859,352	41,103	0	900,455
69	886	Maintenance of structures and improvements	500,985	1,550	0	502,535
70	887	Maintenance of mains	5,389,511	277,571	0	5,667,082
71	888	Maintenance of field compressor station equipment	-	0	0	-

Operating Account Data for Year Ended December 31, 2007

Line No.	Account No.	Description	Pennsylvania	West Virginia	Kentucky	Total Company
72	889	Maintenance of M&R station equipment - gen	973,651	185,570	0	1,159,221
73	890	Maintenance of M&R station equipment - industrial	-	2,031	0	2,031
74	891	Maint. Of M&R station expenses - city gate ck. station	10,085	0	0	10,085
75	892	Maintenance of services	643,444	17,035	0	660,479
76	893	Maintenance of meters and house regulators	105,975	561	0	106,536
77	894	Maintenance of other equipment	65,961	0	0	65,961
78		<b>Total maintenance</b>	<b>8,548,964</b>	<b>525,421</b>	<b>-</b>	<b>9,074,385</b>
		<b>Total Distribution Expenses</b>	<b>23,322,147</b>	<b>2,414,466</b>	<b>136,447</b>	<b>25,873,060</b>
<b>Customer Accounts Expense</b>						
<b>Operation</b>						
79	901	Supervision	225,221	35,285	0	260,506
80	902	Meter reading expenses	586,933	121,551	374,446	1,082,930
81	903	Customer records and collections expenses	9,500,849	186,500	121,433	9,808,782
82	904	Uncollectible accounts	8,559,290	160,000	0	8,719,290
83	905	Miscellaneous customer accounts expense	405	0	0	405
84		<b>Total Customer Accounts Expense</b>	<b>18,872,698</b>	<b>503,336</b>	<b>495,879</b>	<b>19,871,913</b>
<b>Customer Service and Informational Expenses</b>						
<b>Operation</b>						
85	907	Supervision	-	0	0	-
86	908	Customer assistance exp	446,984	0	0	446,984
87	909	Informational and instructional exp	-	0	0	-
88	910	Misc customer service and informational exp	635,700	0	0	635,700
89		<b>Total Customer Service and Informational expenses</b>	<b>1,082,684</b>	<b>-</b>	<b>-</b>	<b>1,082,684</b>
<b>Sales Expenses</b>						
<b>Operation</b>						
90	911	Supervision	60,028	0	0	60,028
91	912	Demonstrating and selling exp	755,844	329	0	756,173
92	913	Advertising exp	24,121	0	0	24,121
93	916	Misc sales exp	-	0	0	-
94		<b>Total Sales Expenses</b>	<b>839,993</b>	<b>329</b>	<b>-</b>	<b>840,322</b>
<b>Administrative and General Expenses</b>						
<b>Operation</b>						
95	920	Administrative and general salaries	8,162,302	234,590	132,321	8,529,213
96	921	Office supplies and expenses	849,774	10,946	1,101	861,821
97	922	Administrative expenses transferred - cr	(112,737)	403,508	0	290,771
98	923	Outside services employed	19,497,892	284,212	17,991	19,800,095
99	924	Property insurance	(2,809,822)	64,492	184	(2,745,146)
100	925	Injuries and damages	4,420,599	52,018	0	4,472,617
101	926	Employee pensions and benefits	5,887,574	236,327	39,641	6,163,542
102	927	Franchise requirements	-	0	0	-
103	928	Regulatory Commission expenses	13,474	1,722	0	15,196
104	929	Duplicate charges - cr	-	0	0	-
105	930.1	General advertising exp	201,106	0	0	201,106

Line No.	Account No.	Description	Operating Account Data for Year Ended December 31, 2007			
			Pennsylvania	West Virginia	Kentucky	Total Company
106	930.2	Miscellaneous general expenses	156,308	6,750	0	163,058
107	931	Rents	3,258,962	19,580	0	3,278,542
108		Total A&G Operation	39,525,432	1,314,145	191,238	41,030,815
		<b>Maintenance</b>				
109	935	Maintenance of general plant	1,412,428	17,892	0	1,430,320
110		Total Administrative and General Expenses	40,937,860	1,332,037	191,238	42,461,135
111		Total Operation and Maintenance Expense	377,040,413	16,111,609	3,121,194	396,273,216
		<b>Other Operating Expenses</b>				
112	403/404	Depreciation/Amortization	19,180,602	915,248	39,406	20,135,256
113	408	Taxes Other Than Income	1,441,739	1,803,298	(5,835)	3,239,202
114		Total Other Operating Expenses	20,622,341	2,718,546	33,571	23,374,458
115		Deductions Before Federal and State Income Taxes	397,662,754	18,830,155	3,154,765	419,647,674
116		Net Utility Operating Income Before Income Taxes	43,520,993	(240,243)	(111,424)	43,169,326
117	409.1	Income Taxes - Federal *	12,854,764	-	-	12,854,764
118	409.1	Income Taxes - State *	2,745,522	-	-	2,745,522
119	410.1	Provision for Deferred Income Taxes - Federal *	2,238,418	-	-	2,238,418
120	410.1	Provision for Deferred Income Taxes - State *	518,553	-	-	518,553
121	411.1	Provision for Deferred Income Taxes - Credit	(9,114)	-	-	(9,114)
122		Total Income Taxes	18,348,143	-	-	18,348,143
123		Net Utility Operating Income	25,172,850	(240,243)	(111,424)	24,821,183

\*Note: Taxes are not typically booked to reflect the actual effective tax rate at each division/state within Equitable Resources. However, for 2007, the books do reflect an appropriate tax rate for PA, but not for WV or KY. If the taxes were recorded on the books of record the amounts for WV and KY would be \$97,749 and \$43,344, respectively.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

44. Ratios, percentages, allocations and averages used in adjustments must be fully supported and identified as to source.

Response:

Explanations and support for adjustments are presented in other sections of the Company's responses to the filing regulations and/or in the Company's statements of testimony.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

45. Provide an explanation of any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate case.

Response:

To the best of our knowledge, there have been no significant changes in the basis or procedures used to allocate revenues, expenses, depreciation or taxes from the prior rate case.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Taxes, Other than Income Taxes

46. Supply a copy of internal and independent audit reports of the test year and prior calendar year noting any exceptions and recommendations and disposition thereof.

Response:

A copy of the independent audit report for 2007 is included in the Annual Report to Shareholders, Item II-A-3. Attached is the independent audit report for 2006, as well as copies of internal audit reports and the latest PUC Focused Management and Operations audit.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Equitable Resources, Inc.

We have audited the accompanying consolidated balance sheets of Equitable Resources, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Equitable Resources, Inc. and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Equitable Resources, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2007, expressed an unqualified opinion thereon.

*Ernst + Young LLP*

Pittsburgh, Pennsylvania  
February 19, 2007

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Equitable Resources, Inc.

We have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting and appearing in the accompanying Item 9A Controls and Procedures, that Equitable Resources, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Equitable Resources, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Equitable Resources, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Equitable Resources, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Equitable Resources, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 19, 2007 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

Pittsburgh, Pennsylvania  
February 19, 2007

# **EQUITABLE GAS COMPANY**

## **MANAGEMENT EFFICIENCY INVESTIGATION EVALUATING THE IMPLEMENTATION OF SELECTED RECOMMENDATIONS FROM THE JANUARY 2003 FOCUSED MANAGEMENT AND OPERATIONS AUDIT**

**Prepared By The  
Pennsylvania Public Utility Commission  
Bureau Of Audits  
Issued February 2006**

**Docket No. D-05MEI020**

**EQUITABLE GAS COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION**

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**EQUITABLE GAS COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION**

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**EQUITABLE GAS COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION**

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## I. INTRODUCTION

### A. Background

In April 2002, the Pennsylvania Public Utility Commission's (PUC or Commission) Bureau of Audits (Audit Staff) initiated a focused management and operations audit of Equitable Gas Company (Equitable Gas or Company). The Audit Staff subsequently completed its work and, in January 2003, issued a final report containing 23 recommendations for improvement. Equitable Gas submitted its Implementation Plan in January 2003, indicating acceptance of 20 recommendations, partial acceptance of two recommendations, and rejection of one recommendation. On February 6, 2003, at D-01MGT008, the Commission made the audit report public and directed the Company to:

- Proceed with its January 2003 Implementation Plan.
- Submit progress reports on the implementation annually, by February 1, for the next three years.

Since the audit report was made public, Equitable Gas has submitted three Implementation Plan updates as required by the Commission to ascertain the Company's progress in implementing recommendations from the management audit report. Based on a review of these updates, the Management Audit Division elected to conduct a Management Efficiency Investigation (MEI) of Equitable Gas's progress in implementing 21 of the original 23 recommendations. Specific items of management effectiveness and operational efficiency may be investigated pursuant to Title 66 Pa. C.S. §516(b).

### B. Objectives and Scope

The main objective of this MEI was to review and evaluate the effectiveness of Equitable Gas's efforts to implement certain recommendations contained in the previous Focused Management and Operations Audit Report. The scope of this evaluation was limited to the Company's efforts in implementing 21 prior management audit recommendations in the functional areas of:

- Affiliated Relationships
- Customer Service
- Diversity & Equal Employment Opportunity
- System Operations

- Purchasing/Materials Management
- Human Resource Management

An additional objective of this MEI was to review and evaluate the Corporate Governance related activities at Equitable Gas and its parent, Equitable Resources, Inc., and how management has responded to the new requirements resulting from the Sarbanes-Oxley Act of 2002.

### **C. Approach**

This MEI was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). Actual fieldwork began on June 7, 2005 and continued through October 26, 2005. The fact gathering process included:

- Interviews with key Equitable Resources, Inc. and Equitable Gas personnel.
- Analysis of selected Equitable Gas records, documents, reports, and other information for the period 2000 through 2004 and selected 2005 as available.
- Visits to select Company facilities.

## II. SUMMARY OF MANAGEMENT EFFECTIVENESS AND OPERATING EFFICIENCY

The Audit Staff found that Equitable Gas Company (Equitable Gas or Company) effectively or substantially implemented six of 21 prior management audit recommendations reviewed and took some action on 12 other recommendations. Staff also found that the Company failed to take any action on three recommendations. Among the more notable improvements achieved by the management of Equitable Gas are:

- Competitive bids have been obtained to assure that costs for certain functions are reasonable and service is provided on a least cost basis.
- Residential service terminations have declined, with the Company's termination rate now comparable to a panel of other Pennsylvania gas distribution companies.
- Equitable Gas has decreased its write-offs of uncollectible accounts, achieving savings of approximately \$17.5 million over the period 2002-2004. In addition, it appears the Company will hereafter realize an annual savings of approximately \$9 million.
- The number of indoor residential gas meters has been reduced, and the Company is currently implementing an automated meter reading system.
- Systems have been implemented to assist in pipeline repair and replace decisions.
- The methodology used to track unaccounted for gas is accurate and Pennsylvania-specific.
- The Company has developed and implemented a succession planning process covering Management Team members and their direct reports.

While these accomplishments are commendable, the Audit Staff has identified further improvement opportunities in many areas. In particular, Equitable Gas needs to:

- Implement procedures to improve customer service telephone performance to at least levels comparable with other Pennsylvania gas distribution companies.
- Investigate the causes of the high Justified Consumer Complaint Rate and strive to lower this rate.
- Investigate the causes of the high PUC infraction rate and strive to lower this rate.
- Reduce response times to consumer complaints and payment arrangement requests. Despite the implementation of a new customer information system in February 2004 and other process changes, response times continue to remain high.

- Strive to achieve further reductions in uncollectible account write-offs by continuing efforts such as the outbound calling campaign and other non-termination collection tactics. Had Equitable Gas achieved the same level of write-off expense per residential customer as the panel of Pennsylvania gas distribution companies in 2004 (\$27.74), it would have further reduced write-offs by an additional \$1.3 million during 2004.
- Continue efforts to reduce the under-representation of women and minorities within the Company's workforce.
- Continue efforts to identify new MWDBE vendors and attempt to increase the amount of purchases made from them by increasing their opportunities to bid. Although the Company indicated it would continue to strive to increase MWDBE vendor participation, it did not establish quantitative objectives for MWDBE vendor utilization as originally recommended.
- Continue efforts to reduce the capital project backlog through the improved capital project monitoring process.
- Investigate the causes of high levels of UFG, and initiate appropriate efforts to reduce UFG levels. Based on the Company's cost of purchased gas for 2004, Equitable Gas could have saved approximately \$4.5 million for each 1% reduction in UFG. At that rate, the Company could have saved approximately \$18.8 million in 2004 had it maintained the same level of UFG performance achieved in 2003.
- Strive to reduce distribution expenses by adopting the best operating practices of other gas distribution companies. Had the Company reduced its distribution expenses per 1,000 feet of line to the panel average for 2002-2004, it could have saved \$29.3 million during this period, or approximately \$9.8 million annually.
- Develop, document, and maintain on-site cyber security and business continuity plans in accordance with Commission regulations.
- Continue to increase inventory management efforts and reduce inventory levels to achieve an inventory turnover of at least 4.0. Had the Company maintained an inventory turnover of 4.0 in 2004, the average required inventory balance would have been \$1,127,019. A one-time inventory reduction of approximately \$2,238,000 would have occurred, resulting in additional annual cost savings of approximately \$448,000 based on the 20% cost of carrying inventory.
- Conduct periodic internal audits of the cost allocation process. Although the Company had requested that its internal audit group schedule audits of cost allocations and affiliate transactions, no such audits were performed.
- Initiate additional efforts to further reduce the JPAR rate by more consistently processing payment arrangement requests in compliance with PUC regulations and guidelines. The Company had rejected the original recommendation to implement measures to ensure that payment arrangements were consistently handled in compliance with PUC regulations and guidelines. It claimed it

consistently exercised good faith and fair judgement in its payment plan negotiations with all residential ratepayers, and its representatives regularly considered the requirements in the regulations. However, the Company's JPAR rate is still much higher than the panel of other Pennsylvania gas distribution companies.

- Prepare and file the annual diversity report with the Commission. Although the Company had agreed with the original recommendation to file annual diversity reports with the Commission, it has yet to do so.

Exhibit II-1 summarizes the 21 prior recommendations reviewed and the Audit Staff's follow-up findings, conclusions, and recommendations.

**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**SUMMARY OF JANUARY 2003 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP**  
**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<u>Public Utility Commission Bureau of Audit's Prior Recommendations</u>	<u>Originally Targeted Completion Date</u>	<u>MEI Finding Number</u>	<u>Staff's Follow-up Findings And Conclusions as of October 26, 2005</u>	<u>Staff's Follow-up Recommendations</u>
<b>III. AFFILIATED RELATIONSHIPS</b>				
Develop a cost allocation manual and distribute it to appropriate employees, in order to ensure consistent application of the Company's cost allocation policies and procedures.	December 2003	1	The Company has developed a cost allocation manual which details the policies and procedures to be followed when allocating costs.	None.
9 Conduct periodic detailed internal audits of the cost allocation process.	December 2003	2	Formal internal audits of the cost allocation process have not been performed.	Conduct periodic internal audits of the cost allocation process.
Conduct competitive bids or market comparisons, where feasible, to assure that affiliated charges are not applied above their prevailing market value	December 2003	3	Equitable Gas has solicited competitive bids to assure that costs for certain functions are reasonable and service is provided on a least cost basis.	None.
Ensure that all affiliated interest agreements have been updated and submitted to the Commission for approval.	September 2003	4	The Agreement Between Affiliates (Agreement) submitted to the Commission in May 2005 does not include all affiliates with whom Equitable Gas Company transacts business.	Update the affiliated interest agreement to reflect all affiliates with whom Equitable Gas Company transacts business and submit it to the Commission for review and approval.

**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**SUMMARY OF JANUARY 2003 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP**  
**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's <u>Prior Recommendations</u></b>	<b>Originally Targeted <u>Completion Date</u></b>	<b>MEI Finding <u>Number</u></b>	<b>Staff's Follow-up Findings And Conclusions <u>as of October 26, 2005</u></b>	<b>Staff's Follow-up <u>Recommendations</u></b>
<b>IV. CUSTOMER SERVICE</b>				
Initiate efforts to improve customer service telephone performance.	January 2003	5	Equitable Gas' customer service telephone performance has continued to decline.	Implement procedures to improve customer service telephone performance to at least levels comparable with other Pennsylvania gas distribution companies.
Implement measures to ensure that payment arrangements are consistently handled in compliance with PUC regulations and guidelines.	None (Rejected)	6	Equitable Gas' JPAR rate has improved, but is still much higher than the panel average.	Initiate additional efforts to further reduce the JPAR rate by more consistently processing payment arrangement requests in compliance with PUC regulations and guidelines.
		7	Equitable Gas has a high Justified Consumer Complaint Rate.	Investigate the causes of the high Justified Consumer Complaint Rate and strive to lower this rate.
		8	Equitable Gas has a high infraction rate.	Investigate the causes of the high PUC infraction rate and strive to lower this rate.
Implement methods to reduce response times to customer complaints and payment arrangement requests.	December 31, 2003	9	Equitable Gas' response times to consumer complaints and payment arrangement requests have deteriorated further.	Reduce response times to customer complaints and payment arrangement requests.

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**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**SUMMARY OF JANUARY 2003 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP**  
**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<u>Public Utility Commission Bureau of Audit's Prior Recommendations</u>	<u>Originally Targeted Completion Date</u>	<u>MEI Finding Number</u>	<u>Staff's Follow-up Findings And Conclusions as of October 26, 2005</u>	<u>Staff's Follow-up Recommendations</u>
Examine the cost/benefits of expanding the various collection options available prior to the issuance of termination notices.	December 31, 2003	10	Equitable Gas' number of residential service terminations has declined and its termination rate is now comparable to a panel of other Pennsylvania gas distribution companies.	None.
Strive to implement cost effective methods to reduce uncollectible account write-offs.	December 31, 2003	11	Equitable Gas has decreased its write-offs of uncollectible accounts, however, its rate of write-offs per residential customer is still higher than average.	Strive to achieve further reductions in uncollectible account write-offs by continuing efforts such as the outbound calling campaign and other non-termination collection tactics.
Initiate efforts to improve meter accessibility.	On-going	12	Equitable Gas has reduced the number of indoor residential gas meters and is currently implementing an automated meter reading (AMR) system.	Complete the implementation of the AMR system.
<b>V. DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITY</b>				
Continue efforts towards attainment of full utilization of women and minorities.	December 2002/ Ongoing	13	The under-representation of woman has decreased while the under-representation of minorities has increased within Equitable Gas' work force.	Continue efforts to reduce the under-representation of women and minorities within the Company's workforce.

**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**SUMMARY OF JANUARY 2003 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP**  
**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<i>Public Utility Commission Bureau of Audit's Prior Recommendations</i>	<i>Originally Targeted Completion Date</i>	<i>MEI Finding Number</i>	<i>Staff's Follow-up Findings And Conclusions as of October 26, 2005</i>	<i>Staff's Follow-up Recommendations</i>
Establish reasonable quantitative objectives for minority-, women-, and persons with disabilities-owned business enterprises (MWDBE) and implement procedures to achieve these objectives.	December 2002	14	While purchases from minority-owned vendors have significantly increased, purchases from women-owned vendors have declined and no purchases have been made from persons with disabilities-owned vendors.	Continue efforts to identify new MWDBE vendors and attempt to increase the amount of purchases made from them by increasing their opportunities to bid.
6 Prepare and file annual diversity reports to the Commission according to the most recently issued instructions.	March 2003	15	The Company has not filed an annual diversity report with the Commission since 1997.	Prepare and file the annual diversity report with the Commission.
<b>VI. SYSTEMS OPERATIONS</b>				
Improve the capital project management process to increase progress monitoring and reduce the current capital project backlog.	December 2003	16	Equitable Gas has reduced its Capital Project backlog and improved the capital project monitoring process, but there is opportunity for further improvement.	Continue efforts to reduce the capital project backlog through the improved capital project monitoring process.
Establish a detailed plan with interim steps, to ensure the elimination of all Class 2 leaks over one year old by the June 2005 target date. Submit the plan to the PUC's Gas Safety Division for review and comment.	June 2005	17	Equitable Gas has made significant progress in its efforts to reduce its backlog of Class 2 leaks, but has sought a six month extension to its target date for eliminating its backlog.	Complete the repair of all outstanding Class 2 leaks over one year old by the end of 2005 and keep current.

**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**SUMMARY OF JANUARY 2003 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's Prior Recommendations</b>	<b>Originally Targeted Completion Date</b>	<b>MEI Finding Number</b>	<b>Staff's Follow-up Findings And Conclusions as of October 26, 2005</b>	<b>Staff's Follow-up Recommendations</b>
Expedite the implementation of the Optimain software to assist in system repair and replace decisions.	December 2003	18	Equitable Gas has implemented one phase of the Optimain software along with a geographic information system (GIS) it developed to assist in repair and replace decisions.	None.
Develop a method to accurately track Unaccounted for Gas (UFG) levels and provide actual results to both the PUC and the DOT.	December 2003	19	Equitable Gas has implemented a methodology that accurately tracks UFG and is Pennsylvania specific.	None.
		20	Equitable Gas' UFG levels are high.	Investigate the causes of high levels of UFG, and initiate appropriate efforts to reduce UFG levels.
Effectively track and enforce the Company's line hit damage prevention program.	On-going	21	Equitable Gas is still not effectively tracking and enforcing a line hit damage prevention program.	Effectively track third-party line hits in greater detail, consistently recover damages from the responsible parties, and establish reasonable goals to monitor success.
Identify and implement the best practices for reducing distribution expenses while properly maintaining the system, and monitor progress by benchmarking gas distribution expenses with similar gas distribution companies.	On-going	22	Equitable Gas' distribution expenses are still considerably higher than other Pennsylvania gas distribution companies.	Strive to reduce distribution expenses by adopting the best operating practices of other gas distribution companies.

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**EQUITABLE GAS COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
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**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<u>Public Utility Commission Bureau of Audit's Prior Recommendations</u>	<u>Originally Targeted Completion Date</u>	<u>MEI Finding Number</u>	<u>Staff's Follow-up Findings And Conclusions as of October 26, 2005</u>	<u>Staff's Follow-up Recommendations</u>
		23	Equitable Gas has not developed and maintained appropriate written cyber security and business continuity plans as required by the Commission.	Develop, document, and maintain on-site cyber security and business continuity plans in accordance with Commission regulations.
<b>VII. PURCHASING/MATERIALS MANAGEMENT</b>				
11 Reduce inventory balances to achieve an inventory turnover of 4.0 or higher.	December 2003/ Ongoing	24	The Company's inventory turnover remains low.	Continue to increase inventory management efforts and reduce inventory levels to achieve an inventory turnover of at least 4.0.
<b>VIII. HUMAN RESOURCE MANAGEMENT</b>				
Complete efforts to develop, document, and implement an effective, on-going succession plan.	December 2002	25	The Company has developed and implemented a succession planning process covering Management Team members and their direct reports.	None.
<b>IX. CORPORATE GOVERNANCE</b>				
		26	The Company has responded appropriately to meet the reporting requirements and standards set forth by the Securities and Exchange Commission and the Public Company Accounting Oversight Board, in conjunction with SOX.	None.

### III. AFFILIATED RELATIONSHIPS

**Prior Recommendation** – Develop a cost allocation manual and distribute it to appropriate employees in order to ensure consistent application of the Company’s cost allocation policies and procedures.

**Prior Situation** – The Company did not have a cost allocation manual (CAM) detailing its related policies and procedures. A CAM clarifies the proper methods to allocate costs, both for current and future employees performing such tasks. This manual is recommended by the National Association of Regulatory Utility Commissioners (NARUC) in the NARUC Guidelines for Cost Allocations and Affiliate Transactions for each entity that provides both regulated and non-regulated services and products.

**Follow-up Finding and Conclusion No. 1** – The Company has developed a cost allocation manual which details the policies and procedures to be followed when allocating costs.

The CAM developed by the Company, the Affiliated Allocation Manual, adequately details the types of affiliated transactions along with the methods used to allocate costs for each type of transaction. The types of affiliated transactions included in the manual are:

- Corporate overheads,
- Labor costs,
- Services,
- Rent and utilities,
- Interest,
- Payroll costs, and
- Insurance.

For example, labor costs are to be either directly charged to an affiliate(s) based on an approved time card or allocated to an affiliate(s) based on a pre-determined labor allocation. Such labor allocations must be reviewed by both the employee and direct manager at least semi-annually to ensure that the allocation is still appropriate. The other types of transactions use relevant cost allocators that reasonably distribute the costs.

**Staff’s Follow-up Recommendation** – None.

**Prior Recommendation** – Conduct periodic detailed internal audits of the cost allocation process.

**Prior Situation** – The Company’s cost allocation process was not regularly audited by the Company’s internal auditor. According to NARUC Guidelines, each regulated entity’s internal auditors should periodically review the cost allocation policy and process. This review should assess both the appropriateness of the current policies and procedures, and the degree of proper application. Such a review helps to assure the integrity of the cost allocation process, which in turn helps to provide accurate cost/profit center reports and prevent subsidization of non-regulated services or products by the regulated entity. Internal audits of cost allocations and affiliated transactions should be conducted at least once every three years.

**Follow-up Finding and Conclusion No. 2** – Internal audits of the cost allocation process have not been performed.

The Company indicated it performs a semi-annual review of its labor distribution percentages. In addition, both senior management and the business unit presidents review the corporate headquarters allocation budget. However, these informal reviews were not performed by the Company’s internal auditors, and do not adequately assess the accuracy of, or the consistency in application of, the cost allocation process. As such, internal audits of the cost allocation process are not regularly performed as recommended by NARUC.

**Staff’s Follow-up Recommendation** – Conduct periodic internal audits of the entire cost allocation process.

**Prior Recommendation** – Conduct competitive bids or market comparisons, where feasible, to assure that affiliated charges are not applied above their prevailing market value.

**Prior Situation** – Competitive bids were not obtained nor were market comparisons performed to provide assurance that affiliate charges were not in excess of a reasonable price for furnishing such goods and services. Utilities should strive to acquire goods and services at the least overall cost.

**Follow-up Finding and Conclusion No. 3** – Equitable Gas has solicited competitive bids to assure that costs for certain functions are reasonable and service is provided on a least cost basis.

Equitable Gas has begun to look at areas for which competitive bids can be obtained in order to assess its current costs. Detailed analyses are prepared to assess the costs/benefits of such affiliate goods and services. For example, in 2004 the Company outsourced its Tax Accounting and Internal Audit functions as a result of obtaining competitive bids and comparing the bids to its internal cost structure.

Performing such analyses assures the Company and the Commission that such costs are reasonable and service is provided on a least cost basis. The recently developed cost allocation manual should help the Company to monitor internal labor cost allocations from affiliates more efficiently.

**Staff's Follow-up Recommendation – None.**

**Prior Recommendation** – Ensure that all affiliated interest agreements have been updated and submitted to the Commission for approval.

**Prior Situation** – Public Utility Code Title 66, Chapter 21, Section 2102 requires that contracts or arrangements providing for transactions between affiliates be filed with and approved by the Commission. The Company had revised its service agreements to allow provisions for disputing unreasonable affiliate charges, and had planned to file the revised service agreements with the Commission. However, these updated contracts covering affiliate transactions were not filed with, reviewed by, or approved by the Commission.

**Follow-up Finding and Conclusion No. 4 – The Agreement Between Affiliates (Agreement) submitted to the Commission in May 2005 does not include all affiliates with whom Equitable Gas Company transacts business.**

The subject Agreement, filed by Equitable Gas in May 2005, covers transactions that occur between the following affiliates: Equitable Resources, Inc., Equitable Gas Company (a division of Equitable Resources, Inc.), Kentucky West Virginia Gas Company, LLC, Equitable Gathering, LLC, Equitable Gathering Equity, LLC, Equitable Production Company, ET Blue Grass Company, Equitable Energy, LLC, Equitrans, LP, and Equitable Homeworks, LLC. However, it does not cover several transactions that occurred between Equitable Gas and affiliates in 2004. For example, transactions with Equitable Field Services (approximately \$2.1 million), Carnegie Pipeline (approximately \$2.0 million), EQT Capital (approximately \$174,000), and Noresco (approximately \$403,000) are not included in the agreement.

Public Utility Code Title 66, Chapter 21, Section 2102 requires Commission approval for all transactions between Equitable Gas and affiliates. Thus, the Agreement

should be revised to reference all affiliates with whom the Company transacts business. Alternatively, additional affiliate interest agreements should be submitted to the Commission for approval.

**Staff's Follow-up Recommendation – Update the current affiliated interest agreement to reflect all affiliates with whom Equitable Gas Company transacts business, and submit it to the Commission for review and approval.**

## IV. CUSTOMER SERVICE

**Prior Recommendation** – Initiate efforts to improve customer service telephone performance.

**Prior Situation** – The Company’s customer service telephone performance declined from 2000 to the second quarter of 2002. In particular, the percentage of calls answered within 30 seconds declined from 62% in 2000 to 54% in 2001 and 55% during the first half of 2002. Likewise, the percentage of calls answered within 60 seconds declined from 72% in 2000 to 62% in 2001 and 63% during the first half of 2002. Based on this decline in performance, it did not appear as though the Company could achieve its 2002 telephone performance goals to answer 75% of calls within 30 seconds, and 85% of calls in 60 seconds or less.

Additionally, the rate of calls lost increased from 3% in 2000 to 5% and 7% in 2001 and the second quarter of 2002, respectively. The average time it took for a customer service representative to answer a call also increased from 57 seconds in 2000 to 101 seconds in 2001 and 88 seconds during the first half of 2002.

The Company attributed this declining customer service telephone performance to a 14% increase in the volume of calls to Customer Service. This rise in call volume was due to the following events that took place during the last quarter of 2001 through the second quarter of 2002:

- An increase or enhancement in collection efforts, which included temporarily pulling five of the Customer Service Representatives (CSR’s) from their normal assignments to handle collections on specific accounts greater than \$2,000 in arrears.
- An increase in service disconnects, which occurred upon the expiration of winter restrictions on disconnects. The number of terminations from April through June more than doubled from 2,233 in 2001 to 5,724 in 2002.

In addition to tracking the CSR’s ability to efficiently answer calls in a timely fashion, the Company also tracked the CSR’s ability to address the needs of customers on the first call or “One Call Resolution”. The Company’s second quarter 2002 customer satisfaction survey indicated that One Call Resolution was at 57% as opposed to the 2001 level of 68%. The goal for 2002 was to improve One Call Resolution to 80%. Again, the Company attributed the poor second quarter 2002 performance to more aggressive collection initiatives.

In January 2002, the Company also began tracking Average Handle Time (AHT) with the intent to improve efficiencies and control expenses. The AHT measures how long a CSR takes to receive a call and complete post call work. From January 2002 to June 2002, the AHT improved from 6 minutes, 57 seconds to 5 minutes, 27 seconds.

Although the AHT measure improved, answer speed and One Call Resolution performance was declining. Declining performance of these measures is often related to a need for more personnel to handle the volume of calls. The Company acknowledged the declines in telephone performance, but was reluctant to make an immediate increase in staffing levels since it was implementing a new customer information system and was expecting productivity improvements from this new system. In addition, the Company was not sure if it was going to continue the enhanced collection efforts. The Company was deferring any changes in staffing levels until it could make a more comprehensive assessment of performance and staffing needs.

**Follow-Up Finding and Conclusion No. 5 – Equitable Gas’ customer service telephone performance has continued to decline.**

Exhibit IV-1 shows the performance of Equitable Gas’ and other Pennsylvania gas companies with regard to three separate performance measures of telephone access that are monitored by the PUC’s Bureau of Consumer Services. Although the Busy Out Rate of Equitable Gas improved from 18% to 3% from 2001 to 2004, its performance on the other two customer service telephone measures deteriorated during these years; the Call Abandonment Rate increased from 7% to 18% and the Percentage of Calls Answered within 30 Seconds declined from 58% to 35%. These two performance measures for Equitable Gas ranked as the worst amongst the panel of Pennsylvania gas distribution companies in 2004.

**Exhibit IV-1**  
**Equitable Gas Company**  
**Telephone Access Performance Measures**  
**For The Period 2001 – 2004**

<b><u>Busy Out Rate</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Columbia	1.0%	0.0%	0.6%	0.0%
Dominion Peoples	NA	0.0%	0.0%	1.0%
NFG	9.0%	1.0%	2.0%	4.0%
PG Energy	17.0%	5.0%	4.0%	0.0%
UGI-Gas	NA	NA	NA	6.0%
<i>Panel Average</i>	<i>9.0%</i>	<i>1.5%</i>	<i>1.7%</i>	<i>2.2%</i>
<b>Equitable Gas</b>	<b>18.0%</b>	<b>3.0%</b>	<b>7.0%</b>	<b>3.0%</b>
<b><u>Call Abandonment Rate</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Columbia	20.0%	11.0%	15.0%	7.0%
Dominion Peoples	7.0%	3.0%	11.0%	6.0%
NFG	8.0%	1.0%	2.0%	3.0%
PG Energy	4.0%	3.0%	6.0%	3.0%
UGI-Gas	14.0%	5.0%	7.0%	9.0%
<i>Panel Average</i>	<i>10.6%</i>	<i>4.6%</i>	<i>8.2%</i>	<i>5.6%</i>
<b>Equitable Gas</b>	<b>7.0%</b>	<b>7.0%</b>	<b>10.0%</b>	<b>18.0%</b>
<b><u>Percent of Calls Answered in 30 Seconds</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Columbia	48%	54%	56%	66%
Dominion Peoples	73%	56%	50%	71%
NFG	72%	92%	86%	84%
PG Energy	68%	73%	70%	77%
UGI-Gas	64%	80%	72%	75%
<i>Panel Average</i>	<i>65%</i>	<i>71%</i>	<i>67%</i>	<i>75%</i>
<b>Equitable Gas</b>	<b>58%</b>	<b>61%</b>	<b>45%</b>	<b>35%</b>

NA – Not Available

Source: PUC Customer Service Performance Reports

Exhibit IV-2 illustrates Customer Transaction Survey Results for Equitable Gas and other Pennsylvania gas companies for the years 2002-2004. The purpose of the Customer Transaction Survey is to assess the customer's perception regarding recent interaction with the companies. The companies are required to report to the Commission on the results of telephone transaction surveys of customers who have had interactions

with the companies pursuant to the Commission's Reporting Requirements for Quality of Service Benchmarks and Standards. Equitable Gas' relative performance in the Survey was quite poor. In all four performance measures, the Company had the lowest percentage of callers who were either very satisfied or somewhat satisfied in 2004. In addition, Equitable Gas was below the panel average on all combined (i.e., very satisfied and somewhat satisfied) percentages in 2002, 2003, and 2004.

In 2004, Equitable Gas took a number of steps to improve its telephone performance. The Company implemented a new customer information system (CIS) in February 2004. Customer service levels declined during the initial implementation phase. To increase these levels and reduce handling time, Equitable Gas contracted with an outside call center to handle inbound collection calls, hired temporary employees to increase internal staff levels, developed further reference/training material for the new

**Exhibit IV-2**  
**Equitable Gas Company**  
**Customer Transaction Survey Results 2002-2004**

**Satisfaction with the Ease of Reaching the Company**

	<u>2002 VS</u>	<u>2002 SS</u>	<u>2002 Combined</u>	<u>2003 VS</u>	<u>2003 SS</u>	<u>2003 Combined</u>	<u>2004 VS</u>	<u>2004 SS</u>	<u>2004 Combined</u>
Columbia	66%	20%	86%	74%	18%	92%	68%	20%	88%
Dominion Peoples	75%	16%	91%	74%	15%	89%	65%	22%	87%
NFG	91%	7%	98%	92%	7%	99%	81%	12%	93%
PG Energy	81%	14%	95%	85%	10%	95%	73%	18%	91%
UGI-Gas	76%	17%	93%	76%	15%	91%	64%	22%	86%
<i>Panel Average</i>	<i>78%</i>	<i>15%</i>	<i>93%</i>	<i>80%</i>	<i>13%</i>	<i>93%</i>	<i>70%</i>	<i>19%</i>	<i>89%</i>
<b>Equitable Gas</b>	<b>66%</b>	<b>20%</b>	<b>86%</b>	<b>63%</b>	<b>22%</b>	<b>85%</b>	<b>41%</b>	<b>22%</b>	<b>63%</b>

**Satisfaction with Using the Company's Automated Phone System**

	<u>2002 VS</u>	<u>2002 SS</u>	<u>2002 Combined</u>	<u>2003 VS</u>	<u>2003 SS</u>	<u>2003 Combined</u>	<u>2004 VS</u>	<u>2004 SS</u>	<u>2004 Combined</u>
Columbia	68%	16%	84%	73%	13%	86%	55%	25%	80%
Dominion Peoples	68%	17%	85%	70%	15%	85%	56%	21%	77%
NFG	NA	NA	NA	NA	NA	NA	NA	NA	NA
PG Energy	74%	15%	89%	78%	12%	90%	60%	22%	82%
UGI-Gas	64%	19%	83%	71%	17%	88%	51%	24%	75%
<i>Panel Average</i>	<i>69%</i>	<i>17%</i>	<i>86%</i>	<i>73%</i>	<i>14%</i>	<i>87%</i>	<i>56%</i>	<i>23%</i>	<i>79%</i>
<b>Equitable Gas</b>	<b>55%</b>	<b>20%</b>	<b>75%</b>	<b>59%</b>	<b>14%</b>	<b>73%</b>	<b>34%</b>	<b>26%</b>	<b>60%</b>

**Satisfaction with Company Representative's Handling of the Contact**

	<u>2002 VS</u>	<u>2002 SS</u>	<u>2002 Combined</u>	<u>2003 VS</u>	<u>2003 SS</u>	<u>2003 Combined</u>	<u>2004 VS</u>	<u>2004 SS</u>	<u>2004 Combined</u>
Columbia	90%	5%	95%	90%	5%	95%	82%	8%	90%
Dominion Peoples	87%	7%	94%	88%	4%	92%	80%	10%	90%
NFG	88%	6%	94%	90%	5%	95%	83%	8%	91%
PG Energy	90%	5%	95%	89%	4%	93%	82%	9%	91%
UGI-Gas	88%	6%	94%	85%	5%	90%	77%	13%	90%
<i>Panel Average</i>	<i>89%</i>	<i>6%</i>	<i>95%</i>	<i>88%</i>	<i>5%</i>	<i>93%</i>	<i>81%</i>	<i>10%</i>	<i>91%</i>
<b>Equitable Gas</b>	<b>87%</b>	<b>6%</b>	<b>93%</b>	<b>85%</b>	<b>6%</b>	<b>91%</b>	<b>69%</b>	<b>14%</b>	<b>83%</b>

**Overall Satisfaction with Company's Quality of Service During Recent Contact**

	<u>2002 VS</u>	<u>2002 SS</u>	<u>2002 Combined</u>	<u>2003 VS</u>	<u>2003 SS</u>	<u>2003 Combined</u>	<u>2004 VS</u>	<u>2004 SS</u>	<u>2004 Combined</u>
Columbia	78%	14%	92%	82%	11%	93%	73%	15%	88%
Dominion Peoples	76%	14%	90%	74%	12%	86%	70%	17%	87%
NFG	81%	12%	93%	83%	10%	93%	77%	13%	90%
PG Energy	79%	14%	93%	86%	7%	93%	80%	11%	91%
UGI-Gas	81%	12%	93%	79%	11%	90%	70%	18%	88%
<i>Panel Average</i>	<i>79%</i>	<i>13%</i>	<i>92%</i>	<i>81%</i>	<i>10%</i>	<i>91%</i>	<i>74%</i>	<i>15%</i>	<i>89%</i>
<b>Equitable Gas</b>	<b>73%</b>	<b>14%</b>	<b>87%</b>	<b>73%</b>	<b>14%</b>	<b>87%</b>	<b>53%</b>	<b>22%</b>	<b>75%</b>

Note: VS-Very Satisfied, SS-Somewhat Satisfied, NA-Not Available  
Source: PUC Customer Service Performance Reports and Auditor Analysis

CIS, and held additional training sessions. Also, new T-1 phone lines were added to help handle higher peak period call volumes.

Exhibit IV-3 illustrates staffing levels for the Customer Call Center of Equitable Gas. As a result of taking the steps described above, actual staffing levels increased from 41 full-time equivalent workers (FTE) in 2002 to 50 FTE in 2004 and 54 FTE as of May 2005. Although the staffing levels have increased, it is important to note the increase in FTE's includes temporary and contracted employees. In order to improve customer service telephone performance, the Company will have to ensure that they maintain effective training programs for these temporary and contracted employees, since it is likely that a fairly high turnover will be experienced with these employees. The Company will also have to initiate efforts to prolong retention of these trained employees to avoid the costs of turnover, such as being in a state of perpetual training, without seeing any improvement in performance.

**Exhibit IV-3  
Equitable Gas Company  
Customer Call Center Staffing Levels  
For The Period 2002 - May 2005**

<u>Year</u>	<u>FTE</u>
2002	41
2003	39
2004	50
May-05	54

FTE = Full-time equivalent workers

FTE for 2004 includes 12 contracted employees to handle credit-related calls off site.

FTE for May-05 includes 3 temporary employees on site and 15 contracted employees off site to handle credit intent related calls.

Source: Data Request No. 19

**Staff's Follow-Up Recommendation** – Implement procedures to improve customer service telephone performance to levels that are at least comparable with other Pennsylvania gas distribution companies.

**Prior Recommendation** – Implement measures to ensure that payment arrangements are consistently handled in compliance with PUC regulations and guidelines.

**Prior Situation** – The Justified Payment Arrangement Request (JPAR) rate, which is tracked by the Commission's Bureau of Consumer Services (BCS), measures the number

of justified payment arrangement requests for each 1,000 residential customers. The JPAR rate provides an indication of a utility's performance in properly handling payment arrangement requests from customers prior to BCS intervention, with a lower JPAR rate indicating better payment arrangement negotiation performance by a utility.

Once a customer contacts the BCS with a payment arrangement request, the BCS notifies the utility. The company sends a report to the BCS that details the customer's payment, usage and payment negotiation history. A BCS investigator considers the customer's record and makes a decision regarding the amortization of the amount owed and notifies the company and the customer of the decision. The BCS policy unit reviews the record to determine if the utility negotiated properly with the customer and uses this record to determine the outcome of the case. There are three possible case outcome classifications: "justified", "inconclusive", and "unjustified". This approach evaluates utilities negatively only where, in the judgment of the BCS, appropriate payment negotiation procedures were not followed or where the regulations were violated. Specifically, a case is considered "justified" in the appeal to the BCS if it is found that, prior to BCS intervention, the utility did not comply with PUC regulations, reports, Secretarial letters, tariffs, or guidelines.

Equitable Gas' JPAR had increased substantially from 1.90 in 1997 to 13.73 in 2001. In addition, when compared to a panel of Pennsylvania gas distribution companies, Equitable Gas' 2001 JPAR of 13.73 was much higher than the panel average of 4.82, which typically indicates that there is a need to improve payment arrangement practices to ensure compliance with PUC regulations and guidelines.

**Follow-Up Finding and Conclusion No. 6 – Equitable Gas' JPAR rate has improved, but it is still much higher than the panel average.**

Equitable Gas rejected the Audit Staff's prior recommendation stating that the Company consistently exercises good faith and fair judgment in its payment plan negotiations with residential ratepayers. Equitable Gas believed then and still believes that its representatives regularly consider the following four factors in payment plan negotiations:

- The size of the unpaid balance.
- The ability of the ratepayer to pay.
- The payment history of the ratepayer.
- The length of time over which the debt has accrued.

Exhibit IV-4 shows JPAR rates for Equitable Gas and a panel of Pennsylvania gas distribution companies for the 2002 – 2004 period. Although the Company's performance has improved since the management audit, its JPAR rate is still substantially

higher than the panel average. This indicates that Equitable Gas still has the potential to significantly improve its handling of payment arrangement requests.

**Exhibit IV-4  
Equitable Gas Company  
Justified Payment Arrangement Request Rates  
For The Period 2002 - 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	1.92	3.30	2.00
NFG	3.60	2.71	4.24
PG Energy	0.73	0.45	1.20
Dominion Peoples	6.01	9.06	4.10
UGI-Gas	9.40	9.57	5.44
<i>Panel Average</i>	<i>4.33</i>	<i>5.02</i>	<i>3.40</i>
<b>Equitable Gas</b>	<b>11.25</b>	<b>10.55</b>	<b>9.21</b>

Source: PUC Utility Consumer Activities Report & Evaluation

**Staff's Follow-Up Recommendation – Initiate additional efforts to further reduce the JPAR rate by more consistently processing payment arrangement requests in compliance with PUC regulations and guidelines.**

**Follow-Up Finding and Conclusion No. 7 – Equitable Gas has a high Justified Consumer Complaint Rate.**

The BCS uses case evaluation to identify whether or not correct procedures were followed by the utility in responding to customer complaints prior to the intervention of the BCS. A customer's case is considered "justified" if it is found that, prior to BCS intervention, the utility did not comply with Commission orders, policies, regulations, reports, Secretarial letters or tariffs in reaching its final position. In the judgment of the BCS, a case that is "justified" is a clear indication the utility did not handle a dispute properly or effectively, or in handling the dispute, the utility violated a rule, regulation or law.

The performance measure called "justified consumer complaint rate" reflects both volume of complaints and percentage of consumer complaints found justified. The justified consumer complaint rate is the number of justified consumer complaints for each 1,000 residential customers. By using this ratio, one can use the "justified" rate to compare utilities' performance within an industry and across a period of time.

Exhibit IV-5 illustrates Justified Consumer Complaint Rates for Equitable Gas and a panel of Pennsylvania gas distribution companies for 2001 through 2004. As indicated in this exhibit, Equitable Gas's Justified Consumer Complaint Rate exceeded the panel average in 2002, 2003, and 2004. In 2004, the Company's Justified Consumer Complaint Rate of 2.51 was significantly above the panel average of 0.32. Again, this high Justified Consumer Complaint Rate indicates that Equitable Gas is not consistently handling customer complaints in an effective manner.

**Exhibit IV-5  
Equitable Gas Company  
Justified Consumer Complaint Rate  
For The Period 2001 - 2004**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
PG Energy	0.14	0.05	0.12	0.09
NFG	0.26	0.08	0.22	0.18
UGI-Gas	0.48	0.16	0.36	0.26
Columbia	0.68	0.32	0.63	0.41
Dominion Peoples	1.00	0.52	0.81	0.65
<i>Panel Average</i>	<i>0.51</i>	<i>0.23</i>	<i>0.43</i>	<i>0.32</i>
<b>Equitable Gas</b>	<b>0.48</b>	<b>0.51</b>	<b>0.81</b>	<b>2.51</b>

Source: PUC Utility Consumer Activities Report & Evaluation

**Staff's Follow-Up Recommendation – Investigate the causes of the high Justified Consumer Complaint Rate and strive to lower this rate.**

**Follow-Up Finding and Conclusion No. 8 – Equitable Gas has a high infraction rate.**

The BCS uses its informal compliance notification process to improve utility compliance with applicable statutes and regulations relating to the treatment of residential accounts. In order to compare utilities of various sizes within an industry, the BCS has calculated a measure called the "infraction rate". An infraction is a misapplication or infringement of a Commission regulation, particularly the standards and billing practices for residential utility service. The infraction rate is the number of informally verified infractions per 1,000 residential customers.

Exhibit IV-6 illustrates PUC infraction rates for Equitable Gas and a panel of Pennsylvania gas distribution companies for 2001 through 2004. As can be seen, Equitable's infraction rate considerably exceeded the panel average in 2002, 2003, and

2004. The Company should determine why it has a relatively high infraction rate as well as why the rate is increasing, and their implement programs to lower it.

**Exhibit IV-6  
Equitable Gas Company  
PUC Infraction Rates  
For The Period 2001 - 2004**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
PG Energy	0.09	0.03	0.09	0.07
NFG	0.18	0.04	0.11	0.07
Columbia	0.28	0.13	0.28	0.11
UGI-Gas	0.41	0.08	0.24	0.17
Dominion Peoples	1.29	0.43	0.68	0.56
<i>Panel Average</i>	<i>0.45</i>	<i>0.14</i>	<i>0.28</i>	<i>0.20</i>
<b>Equitable Gas</b>	<b>0.43</b>	<b>0.33</b>	<b>0.47</b>	<b>1.67</b>

Source: PUC Utility Consumer Activities Report & Evaluation

**Staff's Follow-Up Recommendation** – Investigate the causes of the high PUC infraction rate and strive to lower this rate.

**Prior Recommendation** – Implement methods to reduce response times to customer complaints and payment arrangement requests.

**Prior Situation** – The Company had relatively high and increasing response times to consumer complaints and payment arrangement requests. In 2001, Equitable Gas had an average response time to consumer complaints of 27.1 days while the panel average for other Pennsylvania gas distribution companies was 20.7 days. Also, in 2001, the Company had an average response time to payment arrangement requests of 23.1 days while the panel average was 9.6 days. The Company's 2002 goals for average response times were 18 days for consumer complaints and eight days for payment arrangement requests.

It was felt that rapid resolution of customer complaints would help to restore customer satisfaction levels. Additionally, in the case of payment arrangements, faster resolution should enhance the Company's cash flow.

**Follow-Up Finding and Conclusion No. 9** – Equitable Gas' response times to consumer complaints and payment arrangement requests has deteriorated further.

Exhibit IV-7 illustrates the Company's response times to consumer complaints and payment arrangement requests, compared to a panel of Pennsylvania gas distribution companies. The Company had the highest average response time to consumer complaints in 2002 and 2004, and the highest average response time to payment arrangement requests over the entire three-year period 2002-2004.

**Exhibit IV-7**  
**Equitable Gas Company**  
**Response Time to Consumer Complaints and Payment Arrangement Requests**  
**For The Period 2002 - 2004**

**Response Time to Consumer Complaints (Days)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	9.9	12.3	7.9
NFG	14.8	52.6	69.9
PG Energy	19.4	17.4	24.3
Dominion Peoples	26.4	24.4	23.1
UGI-Gas	13.5	23.6	38.2
<i>Panel Average</i>	<i>16.8</i>	<i>26.1</i>	<i>32.7</i>
<b>Equitable Gas</b>	<b>28.6</b>	<b>26.0</b>	<b>82.1</b>

**Response Time to Payment Arrangement Requests (Days)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	8.3	8.3	6.5
NFG	11.3	24.1	28.3
PG Energy	6.8	3.8	8.6
Dominion Peoples	15.9	17.3	20.0
UGI-Gas	11.4	19.5	38.2
<i>Panel Average</i>	<i>10.7</i>	<i>14.6</i>	<i>20.3</i>
<b>Equitable Gas</b>	<b>27.1</b>	<b>25.5</b>	<b>38.5</b>

Source: PUC Utility Consumer Activities Report & Evaluation

The Company needs to respond more quickly to customers with respect to complaints and payment arrangement requests. Additional staffing may be needed to respond promptly to the PUC regarding these matters.

**Staff's Follow-Up Recommendation** – Analyze the causes of the high response times to customer complaints and payment arrangement requests in order to reduce future response times.

**Prior Recommendation** – Examine the cost/benefits of expanding the various collection options available prior to the issuance of termination notices.

**Prior Situation** – The Company had phased in an expanded termination policy in 2001 due to historic troubles with delinquent accounts. It was recommended that the Company investigate non-termination collection tactics (i.e., telephone contact, letters, door notices) due to the negative consequences associated with customer terminations such as an aggressive termination policy could have a positive impact on arrearages to the extent that customers become aware that termination is a direct possibility and thus are more diligent in paying their bills, termination of service was not considered to be the best method of improving collections because of the costs involved, the low rate of debt recovery, health and safety concerns, etc. While the Company's termination procedures adhered to guidelines outlined in Pa. Code Title 52, Chapter 56, Standards and Billing Practices, §56.81 – Termination of Service, consumer complaints regarding service termination had increased considerably. Specifically, the Company's residential service terminations per 1,000 customers had increased from 14.70 in 1997 to 26.02 in 2001

At the time of the audit fieldwork, the Company's first contact with a delinquent customer occurred when the bill was 60 days delinquent and greater than \$100, at which time a termination notice was issued. "Early treatment" efforts, which were efforts to make customer contact prior to the 60-day/\$100 criteria being met, did not exist. The Company was investigating the costs, benefits, and legal ramifications of various methods to attempt contact prior to this 60-day/\$100 window. Potential "early treatment" efforts included telephone contact, letters, and door notices. Furthermore, once delinquencies greater than \$100 was adequately addressed, the Company planned to lower the cut-off amount and address lower delinquency balances. These measures were not expected to eliminate termination complaints, but would provide for some reduction in this area.

**Follow-Up Finding and Conclusion No. 10** – Equitable Gas' number of residential service terminations has declined and its termination rate is comparable to a panel of other Pennsylvania gas distribution companies.

Exhibit IV-8 illustrates the number of residential service terminations and the Residential Service Termination Rates for Equitable Gas and a panel of other Pennsylvania gas distribution companies. Residential service terminations at Equitable Gas declined from 11,106 in 2003 to 7,023 in 2004. Equitable Gas' Residential Service

Termination Rate per 1,000 customers declined from 47.11 in 2003 to 29.31 in 2004, which is very close to the 2004 panel average of 29.56.

**Exhibit IV-8**  
**Equitable Gas Company**  
**Residential Service Terminations and Residential Service Termination Rates**  
**For The Period 2002 - 2004**

**Residential Service Terminations**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	5,832	6,153	7,545
NFG	5,880	6,051	7,422
PG Energy	4,041	4,547	5,169
Dominion Peoples	5,169	6,183	6,054
UGI-Gas	7,824	10,409	8,911
<i>Panel Average</i>	<i>5,749</i>	<i>6,669</i>	<i>7,020</i>
<b>Equitable Gas</b>	<b>11,012</b>	<b>11,106</b>	<b>7,023</b>

**Residential Service Termination Rates**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	16.72	17.41	21.13
NFG	30.12	30.98	38.06
PG Energy	29.11	32.62	36.93
Dominion Peoples	16.05	19.15	18.71
UGI-Gas	30.59	39.61	32.96
<i>Panel Average</i>	<i>24.52</i>	<i>27.95</i>	<i>29.56</i>
<b>Equitable Gas</b>	<b>46.05</b>	<b>47.11</b>	<b>29.31</b>

Source: PUC Utility Consumer Activities Report & Evaluation

Terminations and termination rates have declined in 2004 as a result of the Company initiating the following collection tactics prior to the issuance of termination notices.

- An outside collection agency is used to make collection calls to delinquent residential accounts; an outbound calling campaign is used to contact all delinquent customers who owe the Company at least \$75 within 10 days after the due date.
- A letter campaign is used in late February to early March to remind customers that payment or payment arrangements are required to prevent service

termination; and a credit scoring methodology is used to focus collection efforts.

**Staff's Follow-Up Recommendation – None.**

**Prior Recommendation** – Strive to implement cost effective methods to reduce uncollectible account write-offs.

**Prior Situation** – Due largely to its high number of payment-troubled customers, the Company historically wrote off a relatively large amounts of customer accounts receivable as uncollectible. Equitable Gas had gross residential write-offs of \$16.9 million in 2001 compared to an average of \$8.4 million for a panel of other Pennsylvania gas distribution companies. From 1997 through 2001, the Company's annual write-off expense per customer averaged \$61.46 or more than 2.6 times higher than the gas utility panel average of \$23.53 per customer. It was estimated that if Equitable Gas had reduced its average annual write-off expense per customer to 150% of the panel average, it would have saved approximately \$4.4 million annually.

One measure taken by Equitable Gas in an attempt to reduce write-offs was to implement a more aggressive security deposit pilot program. This two-year pilot program, which began in February 2002, used a credit scoring model to determine security deposit requirements for new service applicants. As write-offs continued to be substantial, the Company anticipated that enhanced security deposit efforts would lessen the severity of the situation. Since the initiation of the pilot program, credit scoring deposits had doubled and the number of customers required to provide a security deposit had increased by 120%. Based on studies performed by other utilities outside of Pennsylvania, security deposits tended to reduce write-offs by 20% - 25%. However, with the regulatory restrictions on requiring a deposit from lower income and subsequently more payment troubled households, the Company believed that a 3% - 5% offset was more realistic.

Additionally, the Company became more aggressive in its bankruptcy management, in that the Company would send a representative to the customers' bankruptcy hearings to ensure the utility bills were included in the debt restructuring. In the past, Company representation at Chapters 11 and 13 bankruptcy hearings was outsourced, with inconsistent results and limited follow-up on non-payment issues. As of April 2002, the Company had a paralegal attend bankruptcy hearings and execute the appropriate follow-up with the designated trustee in non-payment situations.

Lastly, the Company obtained PUC approval on July 18, 2002, to implement an arrearage forgiveness program as a component of its Energy Assistance Program (EAP).

This program (known as the DROP program) was in response to requirements set forth in the Company's restructuring settlement entered on April 14, 2000, in which Equitable Gas agreed to submit an arrearage forgiveness program to the Commission to become effective in 2001. The Company believed that implementation of some \$22 million in arrearage forgiveness through the DROP program would have a measurable impact on its uncollectible accounts performance. Specifically, the Company felt that this program would encourage eligible low-income customers to accelerate the retirement of their arrearages through debt forgiveness in conjunction with partial payments, thereby reducing the risk of termination and/or accounts receivable write-offs. Arrearage forgiveness, partnered successfully with the Company's existing customer assistance programs such as EAP and Low Income Usage Reduction Program (LIURP), could provide the foundation for Equitable Gas to experience uncollectible write-off improvements.

**Follow-Up Finding and Conclusion No. 11 – Equitable Gas has significantly reduced its write-offs of uncollectible accounts, however, its rate of write-offs per residential customer is still higher than average.**

Exhibit IV-9 shows gross residential write-offs and write-off expense per residential customer for Equitable Gas and other Pennsylvania gas distribution companies. As indicated, the Company reduced its gross residential write-offs by over 50% from approximately \$16.2 million in 2002 to approximately \$7.9 million in 2004. Likewise, the Company's write-off expense per residential customer decreased from \$67.54 in 2002 to \$33.06 in 2004. However, in spite of this decrease in write-off expense, Equitable Gas' write-off expense per residential customer is still higher than the panel average.

**Exhibit IV-9**  
**Equitable Gas Company**  
**Gross Residential Write-offs and Write-off Expense per Residential Customer**  
**For The Period 2002 - 2004**

**Gross Residential Write-offs**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	\$7,285,213	\$10,532,382	\$11,524,044
NFG	\$6,644,662	\$4,409,616	\$6,001,579
PG Energy	\$3,235,694	\$3,788,934	\$5,157,851
Dominion Peoples	\$13,941,290	\$13,217,708	\$8,691,632
UGI-Gas	\$5,949,289	\$6,729,271	\$6,790,705
PECO-Gas	\$4,583,553	\$4,530,133	\$6,127,609
<i>Panel Average</i>	<i>\$6,939,950</i>	<i>\$7,201,341</i>	<i>\$7,382,237</i>
<b>Equitable Gas</b>	<b>\$16,153,080</b>	<b>\$10,107,445</b>	<b>\$7,922,823</b>

**Write-off Expense per Residential Customer**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Columbia	\$20.89	\$29.81	\$32.28
NFG	\$34.04	\$22.58	\$30.77
PG Energy	\$23.31	\$27.18	\$36.85
Dominion Peoples	\$43.29	\$40.95	\$26.87
UGI-Gas	\$23.30	\$25.60	\$25.12
PECO-Gas	\$11.12	\$10.83	\$14.54
<i>Panel Average</i>	<i>\$25.99</i>	<i>\$26.16</i>	<i>\$27.74</i>
<b>Equitable Gas</b>	<b>\$67.54</b>	<b>\$42.88</b>	<b>\$33.06</b>

Source: PUC Report on Universal Service Programs & Collections Performance

To reduce its uncollectible account write-offs, Equitable has used the following programs or procedures:

- DROP program – Equitable Gas continues to use this arrearage forgiveness program as a component of its EAP.
- Aggressive management of collections from bankruptcies – Equitable Gas continues to send a representative to the customers' bankruptcy hearings to ensure utility bills are included in the debt restructuring.
- Termination process – In order to reduce delinquent accounts receivable, Equitable Gas commenced service termination in May 2004 on a portion of the delinquent customer base and gradually included the entire delinquent customer population in the termination process.

- Early intervention outbound calling campaign – In July 2004, Equitable Gas implemented this campaign to contact all delinquent customers who owed the Company at least \$75 within 10 days after the due date; \$9 million was collected in 2004. Equitable Gas intends to continue this campaign (Refer to Follow-up Finding and Conclusion No. 6 for more details on this program.)
- Letter campaign – Used annually in late February to early March to remind customers that payment or payment arrangements are required in order to prevent service termination.
- Credit scoring methodology – Determines security deposits; used to focus future collection efforts.

As shown in Exhibit IV-10, the implemented programs and procedures have helped the Company to achieve a savings of approximately \$17.5 million over the period 2002-2004. These savings are based on comparing the Company's write-off expense per residential customer in 2001 (\$72.37) to the amounts per residential customer in each of the years 2002–2004. The majority of the realized savings in 2004 was due to the \$9 million collected through the early intervention outbound calling program. Based on this information, it appears the Company will realize an average annual savings of approximately that same amount in 2005 and thereafter by implementing these programs. Had Equitable Gas achieved the level of write-off expense per residential customer shown for the panel average in 2004 (\$27.74), it would have further reduced its annual write-offs by approximately an additional \$1.3 million during that year.

**Exhibit IV-10**  
**Equitable Gas Company**  
**Realized Savings from Reduced Residential Customer Write-offs**  
**For The Period 2002 - 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
2001 Write-off Expense	\$72.37	\$72.37	\$72.37
Write-off Expense per Residential Customer	<u>\$67.54</u>	<u>\$42.88</u>	<u>\$33.06</u>
Decrease in Write-off Expense per Residential Customer	\$4.83	\$29.49	\$39.31
Number of Residential Customers	<u>230,348</u>	<u>235,736</u>	<u>239,621</u>
<b>Realized Savings</b>	<b><u>\$1,112,581</u></b>	<b><u>\$6,951,855</u></b>	<b><u>\$9,419,502</u></b>

Source: PUC Report on Universal Service Programs & Collections Performance and auditor analysis.

**Staff's Follow-Up Recommendation** – Strive to achieve further reductions in uncollectible account write-offs by continuing efforts such as the outbound calling campaign and other non-termination collection tactics.

**Prior Recommendation** – Initiate efforts to improve meter accessibility.

**Prior Situation** – Approximately 25% of residential gas meters were located inside the customer's residence, requiring the customer to be present or necessitating some other arrangement to gain access. This created the potential for the following problems:

- Inaccessibility due to unavailability of the customer.
- Increased time requirement to read meter.
- Extended periods of estimation.
- Safety concerns connected with entering a personal residence which may have violent pets or residents.
- Safety concerns related to poor home maintenance, such as dangerous stairways.
- Inability to terminate service without the customer permitting access to the meter.
- Customer dissatisfaction due to being disturbed by the meter reader attempting to gain access.
- Customers with a good payment record could receive termination notices because of meter inaccessibility.
- Multiple meters may be in the same location, compounding the potential problems, if inaccessible.

**Follow-Up Finding and Conclusion No. 12** – Equitable Gas has reduced the number of indoor residential gas meters and is currently implementing an automated meter reading (AMR) system utilizing radio frequency.

The Company has decreased the percentage of its indoor residential meters from 25% in 2002 to 20% in 2005 (as of the end of June 2005, there were 50,319 indoor meters out of a total of 248,519 meters). The Company is currently replacing its Metscan system with an AMR system. The Company's goal is to update its entire Pennsylvania service area to an AMR system by November 2006. The new system will utilize radio frequencies instead of the telephone lines currently used in the Metscan system. The old AMR method (Metscan) utilized a customer's telephone line. Due to their customers choosing various forms of telecommunication (cell phones, DSL lines, etc.) this method is now obsolete. The new AMR method will utilize radio frequency and doesn't require the use of phone lines. The AMR system being deployed allows a meter to be read despite its inaccessibility and eliminates the likelihood of meter reading errors.

**Staff's Follow-Up Recommendation** – Complete the implementation of the AMR system.

## V. DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITY

**Prior Recommendation** – Continue efforts towards attainment of full utilization of women and minorities.

**Prior Situation** – The Company was unable to achieve its goal to employ women and minorities at a level consistent with the availability of qualified women and minorities in the general workforce. Specifically, analysis of the Company's 2002 Affirmative Action Plan, which was based on 2001 data, revealed that women and minorities were under-represented in several job categories. Women were under-represented by 40 individuals in 7 job groups, while minorities were under-represented by 4 individuals in 2 job groups. Compared with the 2001 Affirmative Action Plan, which was based on 2000 data, the total under-representation of women had decreased from 43 to 40 individuals, while the total under-representation of minorities had increased from 2 to 4 individuals.

**Follow-up Finding and Conclusion No. 13** – **The under-representation of women has decreased while the under-representation of minorities has increased within Equitable Gas' workforce.**

During 2004, women and minorities continued to be under-represented in certain job groups at Equitable Gas. Exhibit V-1 shows the results of a utilization analysis by location for the Company in 2004. The utilization analysis determines the amount of under-representation of women and minorities in each job group. Under-representation is determined by multiplying the total number of employees within a given job group by the availability percentage for women or minorities in that job group, and then subtracting the actual number of women or minority employees within that job group. The availability percentages represent the availability of qualified women and minorities in the general workforce. The availability percentages are obtained from the Company's hiring area for a particular job group (e.g., the hiring area for executives and high level managers might be the entire country while the hiring area for entry level office and clerical positions might be Western Pennsylvania).

**Equitable Gas Company  
Utilization Analysis for 2004  
Location: 225 North Shore Drive**

Job Group	Total Number of Employees	Women				Minorities			
		Utilization		Final Availability	Number Under-	Utilization		Final Availability	Number Under-
		Number	Percent	Percentage	Represented	Number	Percent	Percentage	Represented
Executives	4	1	25.0%	20.0%	0	0	0.0%	8.4%	0
Department Directors/Managers	26	12	46.2%	35.4%	0	1	3.8%	13.4%	2
Supervisory	29	4	13.8%	36.1%	6	2	6.9%	17.7%	3
Professional - Accounting/Finance	9	4	44.4%	58.6%	1	4	44.4%	18.5%	0
Professional - Attorneys	1	0	0.0%	13.8%	0	0	0.0%	2.5%	0
Professional - Senior Engineers	1	0	0.0%	0.0%	0	0	0.0%	0.0%	0
Professional - Non-technical	19	8	42.1%	47.5%	1	0	0.0%	6.9%	1
Professional - Information Technology	15	8	53.3%	35.2%	0	2	13.3%	8.4%	0
Professional - Junior Engineers	5	0	0.0%	0.0%	0	0	0.0%	4.3%	0
Technicians - Senior	4	1	25.0%	11.2%	0	0	0.0%	3.8%	0
Technicians - Specialists	15	0	0.0%	8.8%	1	1	6.7%	2.1%	0
Technicians - Entry level	2	0	0.0%	9.7%	0	0	0.0%	7.3%	0
Business Management	5	1	20.0%	29.6%	0	1	20.0%	8.1%	0
Sales Representatives	3	1	33.3%	21.0%	0	0	0.0%	8.0%	0
Office & Clerical - Executive	3	3	100.0%	62.1%	0	0	0.0%	13.6%	0
Office & Clerical - Mid Level	7	6	85.7%	52.2%	0	1	14.3%	22.8%	0
Office & Clerical - Cr. & Coll., Dispatch, Meter Reading	10	2	20.0%	50.3%	3	2	20.0%	14.1%	0
Office & Clerical - Entry Level Typing & Related	63	45	71.4%	68.0%	0	18	28.6%	19.1%	0
Office & Clerical - Entry Level Data Processing & Related	15	13	86.7%	75.0%	0	5	33.3%	17.5%	0
Skilled	68	1	1.5%	6.3%	3	5	7.4%	7.3%	0
Operatives - Meter Reading	38	0	0.0%	3.9%	1	8	21.1%	3.4%	0
Operatives - Other Physical Departments	1	0	0.0%	20.0%	0	0	0.0%	6.6%	0
Laborers	33	1	3.0%	7.2%	1	0	0.0%	0.0%	0
<b>Total</b>	<b>376</b>	<b>111</b>	<b>29.5%</b>		<b>17</b>	<b>50</b>	<b>13.3%</b>		<b>6</b>

Source: Data Request No. 8, Auditor Analysis

**Equitable Gas Company  
Utilization Analysis for 2004  
Location: Region A; 4 South Ninth Street**

Job Group	Total Number of Employees	Women				Minorities			
		Utilization		Final Availability	Number Under-	Utilization		Final Availability	Number Under-
		Number	Percent	Percentage	Represented	Number	Percent	Percentage	Represented
Department Directors/Managers	2	0	0.0%	4.4%	0	0	0.0%	5.0%	0
Supervisory	12	0	0.0%	31.8%	3	0	0.0%	13.0%	1
Professional - Accounting/Finance	1	1	100.0%	60.6%	0	0	0.0%	3.6%	0
Professional - Non-technical	3	2	66.7%	51.0%	0	0	0.0%	6.6%	0
Professional - Information Technology	3	0	0.0%	23.3%	0	0	0.0%	8.0%	0
Professional - Junior Engineers	1	0	0.0%	2.5%	0	0	0.0%	5.7%	0
Technicians - Specialists	4	0	0.0%	9.0%	0	0	0.0%	1.4%	0
Office & Clerical - Entry Level Typing & Related	12	4	33.3%	54.4%	2	2	16.7%	10.4%	0
Office & Clerical - Entry Level Data Processing & Related	12	9	75.0%	59.6%	0	3	25.0%	8.5%	0
Skilled	48	2	4.2%	5.1%	0	10	20.8%	14.7%	0
Operatives - Meter Reading	22	0	0.0%	8.8%	1	4	18.2%	18.7%	0
Operatives - Other Physical Departments	1	0	0.0%	35.2%	0	0	0.0%	1.5%	0
Laborers	10	0	0.0%	12.4%	1	3	30.0%	0.0%	0
<b>Total</b>	<b>131</b>	<b>18</b>	<b>13.7%</b>		<b>7</b>	<b>22</b>	<b>16.8%</b>		<b>1</b>

Source: Data Request No. 8, Auditor Analysis

A summary of women and minorities under-represented by job group for 2004 is shown in Exhibit V-2. While the total number of women under-represented in job groups has declined significantly from 40 in 2001 to 24 in 2004, the total number of minorities under-represented has actually increased from 4 in 2001 to 7 in 2004. This means that the Company must keep working to improve representation of these employee groups (especially minorities) in the general workforce. The Company should proceed with the efforts it has included in its Affirmative Action Plan that are intended to improve the representation of these employee groups

**Exhibit V-2**  
**Equitable Gas Company**  
**Summary of Women and Minorities Under-Represented by Job Group for 2004**

Job Group	Equitable Gas Company Combined	
	Number of Women Under-Represented	Number of Minorities Under-Represented
Department Directors/Managers	0	2
Supervisory	9	4
Professional - Accounting/Finance	1	0
Professional - Non-technical	1	1
Technicians – Specialists	1	0
Office & Clerical - Cr. & Coll., Dispatch, Meter Reading	3	0
Office & Clerical - Entry Level Typing & Related	2	0
Skilled	3	0
Operatives - Meter Reading	2	0
Laborers	2	0
<b>Total</b>	<b>24</b>	<b>7</b>

Source: Data Request No. 8, Auditor Analysis

**Staff's Follow-up Recommendation** – Proceed with the Company's efforts intended to increase the representation of women and minorities within the workforce.

**Prior Recommendation** – Establish reasonable quantitative objectives for minority-, women-, and persons with disabilities-owned business enterprises (MWDDBE vendors) and implement procedures to achieve these objectives.

**Prior Situation** – Purchases made from MWDDBE vendors, measured as a percentage of total purchases, increased from 1.12% in 1998 to 4.48% in 1999, but then decreased to 3.40% in 2000 and 2.00% in 2001. Purchases made from minority-owned business

enterprises increased from 0.26% in 1998 to 0.52% in 2001; purchases made from women-owned business enterprises increased from 0.86% in 1998 to 1.48% in 2001. No purchases were made from persons with disabilities-owned business enterprises for the period 1998 to 2001. As of July 2002, quantitative objectives with regard to MWDBE vendor utilization did not exist at Equitable Gas. The Audit Staff recommended that Equitable Gas include quantitative MWDBE vendor utilization objectives as an integral part of its purchasing goals to positively affect the identification of such vendors and the degree of their subsequent utilization.

The Company accepted the recommendation in part, agreeing to continue to strive to increase MWDBE vendor participation by seeking to identify additional MWDBE vendors through trade associations and community outreach, and looking for ways to support the qualification and development of these vendors. Equitable Gas stated that it would not court MWDBE vendors if the result was to increase costs for the Company. The Company did not agree to establish quantitative objectives for MWDBE vendor utilization.

**Follow-up Finding and Conclusion No. 14 – While purchases from minority-owned vendors have significantly increased, purchases from women-owned vendors have declined and no purchases have been made from persons with disabilities-owned vendors.**

Purchases made from MWDBE vendors during the years 2001-2004, and the year 2005 through June 8, 2005, are shown in Exhibit V-3. As indicated in these exhibits, purchases made from minority-owned vendors, as a percentage of total purchases, increased from 0.52% in 2001 to 5.80% in 2004, and were 11.12% through June 8<sup>th</sup> of 2005. However, purchases made from women-owned vendors, as a percentage of total purchases, decreased from 1.48% in 2001 to 1.16% in 2004, and were 1.11% through June 8<sup>th</sup> of 2005. No purchases were made from persons with disabilities-owned vendors for the period January 1, 2001 through June 8, 2005. Total purchases from all MWDBE vendors, as a percentage of total purchases, increased from 2.00% in 2001 to 6.96% in 2004, and were 12.23% through June 8<sup>th</sup> of 2005.

The Commission's Policy Statement on Diversity, at 52 Pa. Code §69.801-69.809, encourages major jurisdictional utilities to identify MWDBE vendors and offer them the chance to bid on the utilities' purchases of goods and services. Equitable Gas indicated that its use of specialized goods and services limits the number of MWDBE vendors available to the Company. In addition, the Company has outsourced the materials management function, with certain inventory items now replenished by an external party.

**Staff's Follow-up Recommendation – Continue efforts to identify new MWDBE vendors and attempt to increase, wherever feasible, the amount of purchases made from them by enhancing their opportunities to bid.**

**Exhibit V-3  
Equitable Gas Company  
Purchases from MWDBE Vendors  
For the Period January 1, 2002 – June 8, 2005**

<u>Year</u>	<u>Total Purchases</u>	<u>Women-Owned</u>	<u>% of Total Purchases</u>	<u>Minority-Owned</u>	<u>% of Total Purchases</u>	<u>Persons With Disabilities-Owned</u>	<u>% of Total Purchases</u>	<u>Total MWDBE Purchases</u>	<u>% of Total Purchases</u>
2001	\$74,842,753	\$1,107,238	1.48%	\$387,608	0.52%	\$0	0.00%	\$1,494,846	2.00%
2002	\$60,251,762	\$1,457,036	2.42%	\$202,101	0.34%	\$0	0.00%	\$1,659,137	2.75%
2003	\$54,711,976	\$777,527	1.42%	\$1,223,146	2.24%	\$0	0.00%	\$2,000,673	3.66%
2004	\$59,339,076	\$690,950	1.16%	\$3,440,205	5.80%	\$0	0.00%	\$4,131,155	6.96%
2005 *	\$20,170,805	\$224,756	1.11%	\$2,242,722	11.12%	\$0	0.00%	\$2,467,478	12.23%

\* Through 06/08/05

Source: Data Request No. 49, January 2003 Focused Management and Operations Audit of Equitable Gas Company

**Prior Recommendation** – Prepare and file annual diversity reports to the Commission according to the most recently issued instructions.

**Prior Situation** – The Company had not filed an annual diversity report with the Commission since 1997. Equitable Gas reported that its compliance with filing diversity reports to the Commission had not been emphasized due primarily to staffing changes at the Company. Major jurisdictional utilities (i.e., utilities with plant-in-service of \$10 million or greater) have been encourage to file periodic diversity reports since March 1992. The diversity filings are designed to enable the Commission to monitor the Company’s trends regarding its employment by gender and race, procurement from minority-, women-, and persons with disabilities-owned vendors, and its annual EEO planning.

Since 1992, the Commission has issued various directives and a policy statement on diversity that encourages major jurisdictional utility companies operating in Pennsylvania to incorporate diversity in their business strategy. The latest directive, provided in 1997, included revised guidelines for the Diversity Report. Basically, this directive changed the report filing from semi-annual to annual, and changed the format of the report to include a Human Resource Section and a Procurement Section. The Human Resource Section requests Workforce Composition information, a Workforce Service Territory Comparison, and a description of the utility’s policies on recruitment,

advertising, training, promotion and retention. The Procurement Section requires the utility to provide the amount of goods and services it procures from minority-, women-, and persons with disabilities-owned business enterprises (MWDBE), and a narrative description of its internal, external and subcontracting efforts.

**Follow-up Finding and Conclusion No. 15 – The Company is still not filing an annual diversity report as encouraged by the Commission.**

In lieu of filing an annual diversity report with the Commission, the Company makes Affirmative Action Plan (AAP) and Equal Employment Opportunity (EEO) data available to the Commission during management audits and management efficiency investigations. Equitable Gas stated that it does not currently file the annual diversity report to the Commission because much of the information requested in the report is information provided during the management audits, including AAP and EEO-I data.

The Company also stated that it is only required by law to keep AAP data for two years and EEO-I data for one year. The Commission's diversity report requests historic data for five years which exceeds the Company's record retention guidelines (which is to comply with the law). However, without this data, the Commission's ability to monitor the Company's diversity and EEO trends on an annual basis is adversely affected.

**Staff's Follow-up Recommendation – Prepare and file annual diversity reports to the Commission.**

## VI. SYSTEMS OPERATIONS

**Prior Recommendation** – Improve the capital project management process to increase progress monitoring and reduce the current capital project backlog.

**Prior Situation** – The Company’s project management system was inefficient. The Company’s total number of outstanding projects, by budget year vintage at July 30, 2002, was as shown in Exhibit VI-1.

**Exhibit VI-1  
Equitable Gas Company  
Capital Project Backlog  
1996 – 2001 Budget Years As of July 2002**

<u>Budget Year</u>	<u>Projects Outstanding</u>
1996	2
1997	2
1998	3
1999	7
2000	115
2001	<u>302</u>
Total	<u>431</u>

Source: Focused Management and Operations Audit Of Equitable  
Gas Company Issued January 2003, Exhibit VI-2

It was recommended that the Company improve the capital project management process by actively using its JD Edwards system project status reports along with written explanations of variances, developing a formal project prioritization process and closing projects on a timely basis. The project status reports detailed both the financial (based on budgeted amount) and physical percentage of project completion. Some projects in the report had a high percentage of financial completion while having a low percentage of physical completion. No explanation was given as to how or why this occurred. Also, although a typical project took about nine months to complete, several projects had been outstanding for several years. These projects may have been within budget, but no time constraints were tracked through the JD Edwards system. Some projects reviewed had an authorization date from several years ago and were 100% physically completed but did not have an in-service date. An additional concern was the fact that the Company’s project prioritization process was informal. The Company indicated that the high capital

project backlog existed because of a high rate of employee turnover in the Operations Department and an antiquated capital project closing process.

**Follow-Up Finding and Conclusion No. 16 – Equitable Gas has improved the capital project monitoring process and reduced its Capital Project backlog, but there is opportunity for further improvement.**

Equitable Gas has taken the following steps to improve the capital project monitoring process:

- A procedure and management report have been developed to notify construction order owners (Company employee(s) responsible for the project at the present time) in the same month that expenditures are within 10% of the budgeted amount or at 100% expended.
- A policy has been adopted that all approved construction orders and not started within six months will be canceled. If work is planned, a new construction order will have to be submitted and approved out of the current capital budget.
- The In Service Notification, Retired Property Report and Leak Delete Information paper forms have been eliminated. This information is now electronically submitted through the JD Edwards, AutoCAD, and Leak Information Systems, expediting the close-out process.
- The Operating Region prepares and submits the construction as-built plan (a design plan that was modified & finalized due to field conditions) electronically to Engineering within 15 working days of the construction tie-in. This expedites the process of mapping the as-built and closing the job, as previously there were no time constraints.
- The Operating Region submits Completion Report information necessary to close a construction order electronically via the JD Edwards System within 60 days of receiving the final bill charged to the construction order. Previously, there were no time constraints on this process.
- The regional manager, construction manager, and field crew performance objectives include incentives for construction order closeout and backlog management.

A typical project takes from nine to twelve months from approval to completion. The JD Edwards system is capable of tracking the following functions:

- Time and financial functions;
- Estimated completion date and reasons for delays;
- Backlog report and financial percentage of completion;
- Budget codes and timelines; and
- Project closings.

Equitable Gas performs the following as part of its capital project monitoring process:

- Develops departmental goals and uses a standard method of prioritizing capital projects.
- Evaluates and re-prioritizes projects on a monthly basis.
- Tracks through the use of a proper project management system the progress of capital projects with respect to both time and capital spent.
- Maintains estimated completion dates and a printable backlog report which details the reasons for delays.
- Immediately revises budgets and timelines in the database when change orders have been approved.
- Utilizes the project management system to evaluate and ensure efficient operations, and projects close on a timely basis.
- Ensures that all groups who are involved in these tasks have well-defined responsibilities.

Through improvement of the capital project monitoring process, Equitable Gas was able to reduce its total capital project backlog from 431 in 2001 (see Exhibit VI-1) to 373 in 2004 (see Exhibit VI-2 below). Obviously, there are further opportunities to reduce the outstanding backlog.

The Company's total number of outstanding projects, by vintage, as of June 25, 2005, is shown in Exhibit VI-2.

**Exhibit VI-2**  
**Equitable Gas Company**  
**Capital Project Backlog**  
**2000 – 2004 Budget Years As of June 2005**

<u>Budget</u> <u>Year</u>	<u>Projects</u> <u>Outstanding</u>
2000	1
2001	1
2002	1
2003	61
2004	<u>309</u>
Total	<u>373</u>

**Staff's Follow-Up Recommendation – Continue efforts to reduce the capital project backlog through the improved capital project monitoring process.**

**Prior Recommendation** – Establish a detailed plan, with interim steps, to ensure the elimination of all Class 2 leaks over one-year old by the June 2005 target date. Submit the plan to the PUC’s Gas Safety Division for review and comment.

**Prior Situation** – The Company had a high number of outstanding Class 2 leaks over one-year old and was not adequately addressing the backlog of these 2 leaks. On February 12, 1999, the PUC’s Gas Safety Division issued a violation letter to Equitable Gas that addressed the number of outstanding Class 2 leaks in the Company’s gas distribution system that had not been repaired within 12 months of discovery. (See Exhibit VI-3 which describes each leak class and the corresponding repair and reinvestigation requirements.) The Company responded to this violation letter on April 17, 2000, proposing to repair all outstanding Class 2 leaks within five years to satisfy this concern. This five year catch-up period began on July 1, 2000 and was to end on June 30, 2005. Based on the Company’s rate of eliminating Class 2 leaks at the time of the audit, the audit staff estimated that approximately 29% of the July 2000 backlog (i.e., 829 out of a total of 2900 Class 2 leaks over one-year old) would still remain as of June 30, 2005.

**Exhibit VI-3  
Equitable Gas Company  
Repair and Reinvestigation Requirements**

Class Leak	Remedial Action	Surveillance and Follow-Up
<p><u>Class 1 Leak</u></p> <p>A gas leak which, due to its location and/or relative magnitude, constitutes a potentially hazardous condition to persons or property and requires immediate repair or continuous action until the condition is no longer hazardous.</p>	<p>Immediate repair and/or continuous action until no longer hazardous.</p>	<p>Reinvestigate at intervals not to exceed 30 days.</p> <p>Recheck to validate repairs within 30 days but not sooner than 10 days of repair.</p>
<p><u>Class 2 Leak</u></p> <p>A leak that does not present an immediately hazardous condition, but justifies scheduled repair based upon its potential for future hazard.</p>	<p>Scheduled for repair within 12 months. Except leaks in manholes, vaults, and catch basins shall be repaired within six months.</p>	<p>Reinvestigate at intervals not to exceed 120 days. Except manhole, vault, and catch basin leaks should be reinvestigated at intervals not to exceed 30 days.</p> <p>Recheck to validate repairs within 90 days but not sooner than 10 days of repair.</p>
<p><u>Class 3 Leak</u></p> <p>A leak that is not hazardous at the time of detection and can be reasonably expected to remain that way. Any leak on the Company’s underground facility, which is not classified as Class 1 or Class 2, is designated as Class 3 leak.</p>	<p>Continued surveillance.</p>	<p>These leaks should be reevaluated during the next scheduled survey, or within 15 months of the date reported, whichever occurs first, until the leak is reclassified or no longer results in a reading.</p>

Source: Company Operation and Maintenance Manual

**Follow-Up Finding and Conclusion No. 17 – Equitable Gas has made significant progress in its efforts to reduce the backlog of Class 2 leaks, but has sought a six-month extension to its target date for eliminating the backlog.**

An informal agreement was reached between Equitable Gas and the Commission to extend the target due date for eliminating the backlog of Class 2 leaks over one-year old from June 30, 2005 to December 31, 2005. The Company requested an extension on its due date for eliminating the backlog of Class 2 leaks for the following reasons:

- The cold winter of 2003 caused an increase in gas usage and higher pressures in cast iron pipes, which in turn created a larger probability of leaks and repairs.
- The flood of 2004 caused flooded and exposed lines.
- Acquiring 12 more crews to repair Class 2 leaks took longer than expected.

As of December 23, 2005, the Company had 16 outstanding Class 2 leaks over one year old. These leaks are related to new construction; the Company expects to repair these leaks by December 31, 2005. This will eliminate the backlog of Class 2 leaks.

The Company has been able to substantially reduce its backlog of Class 2 leaks over one-year old by increasing capital expenditures for mainline and service line renewals, focusing on replacing facilities with recurring leak incidents (linked with the increased capital expenditures that began in mid-2001), re-defining Team Leader territories to even the workload and available resources, and increasing the utilization of leak repair crews via remote site reporting.

**Staff's Follow-Up Recommendation – Complete the repair of all outstanding Class 2 leaks over one-year old by the end of 2005 and keep current with future Class 2 leaks.**

**Prior Recommendation** – Expedite the implementation of the Optimain software to assist in system repair and replace decisions.

**Prior Situation** – Equitable Gas was implementing a software program (Optimain) to aid in line repair versus replacement decision-making. Optimain was expected to be operational by the end of 2002, and was to be used by both the engineering department and field operations. This software provides repair versus replace ratings by weighing different factors such as pipe replacement costs, leakage, condition, and location, among others. In addition to these factors, the Optimain software could also anticipate where future leaks might occur to assist in prioritizing pipe replacements. It was also believed

that proper employment of this system would assist in the reduction of the Class 2 leak backlog at the Company.

**Follow-Up Finding and Conclusion No. 18 – Equitable Gas has implemented one phase of the Optimain software, along with a geographic information system (GIS) it developed, to assist in repair and replace decisions.**

The first phase of the Optimain software (Relational Optimain) was implemented in 2002 as planned, while the second phase (Spatial Optimain) was not because it could not identify individual leaks on a section of pipe. Additionally, in 2004, Equitable Gas developed and implemented a GIS-based system that identifies pipe sections with the highest concentration of leaks. The GIS-based system generates color-coded maps showing the number of leaks per mile (i.e., very high, high, medium, and low). The Company, therefore, can identify and replace the pipe sections with the highest concentration of leaks.

The Optimain software and the GIS-based system both assist in repair and replace decisions by identifying pipe sections with a high number of leaks. The Company can then determine, based on the number of leaks in a given section of pipe, whether to repair the source of these leaks or replace the entire section of pipe. This assisted Equitable Gas in reducing its Class 2 leak backlog (Refer to Follow-up Finding and Conclusion No. 17).

**Staff's Follow-Up Recommendation – None.**

**Prior Recommendation** – Develop a method to accurately track Unaccounted for Gas (UFG) levels and provide actual results to both the PUC and the Federal Department of Transportation (DOT).

**Prior Situation** – The Company was reporting the same UFG percentage (3.5%) every year in section E of the DOT annual report. Equitable Gas had claimed that this was the percentage of UFG allowed by its tariff and that the amount was a fairly accurate representation. However, the amount of UFG reported in the PUC and DOT annual reports should be based on actual volumes of lost and unaccounted for gas as opposed to an allowance given under a tariff or merely a representation of the amount.

Also, the Company was reporting UFG levels for its entire system (i.e., Pennsylvania, West Virginia, and Kentucky service areas) rather than the required Pennsylvania-specific UFG levels to the PUC.

**Follow-Up Finding and Conclusion No. 19 – Equitable Gas has implemented a methodology that now accurately tracks UFG and is Pennsylvania-specific.**

Actual UFG levels are now reported to both the DOT and PUC. UFG levels provided to both agencies are determined by calculating the percentage difference between gas purchased and gas sold. However, the UFG data provided to the PUC and DOT differ as they are based on different time periods (i.e., calendar year for PUC, fiscal year ending June 30 for DOT). It should also be noted that the amounts reported to the PUC are now Pennsylvania-specific, and no longer reflect the entire system.

**Staff's Follow-Up Recommendation – None.**

**Follow-Up Finding and Conclusion No. 20 – Equitable Gas' UFG levels are high.**

As can be seen in Exhibit VI-4, the Equitable Gas UFG levels reported to the Commission for 2002, 2003, and 2004 are high. The Company's UFG has increased since 2002 based on the DOT and PUC reports. The DOT reports are based on a fiscal year which includes an entire heating season (June – July). The PUC reports are based on a calendar year which includes parts of two separate heating seasons (January – December). It is important to note that the 2002 data (as noted previously) was not based on actual volumes of lost and unaccounted for gas. It was based on an allowance from a tariff. However, the DOT reports also indicate that Equitable Gas' UFG levels increased from 4.80% in 2003 to 8.98% in 2004 (an increase of approximately 87%).

**Exhibit VI-4  
Equitable Gas Company  
Unaccounted for Gas Levels  
For The Period 2002 - 2004**

<u>YEAR</u>	<u>DOT</u>	<u>PUC</u>
2002	3.50%	7.60%
2003	4.80%	7.90%
2004	8.98%	7.90%

Source: PUC and DOT annual report

UFG levels should be minimized to control costs and promote a safe operating environment. Potential causes of UFG are: loss of gas due to leaks and line hits; accounting adjustments/errors; unmetered sales; theft of service; and non-adjustable pressure and temperature gauges. Non-adjustable gauges do not compensate for differences in ambient and gas pressures and temperatures. Based on the Company's cost of purchased gas, Equitable Gas could have saved approximately \$4.5 million in 2004 for each 1% reduction in UFG. Thus, assuming the data reported to the DOT in 2003 and

2004 were based on actual values, Equitable Gas could have saved approximately \$18.8 million in 2004 by limiting lost and unaccounted for gas levels to those experienced in 2003.

**Staff's Follow-Up Recommendation** – Investigate the causes of high levels of UFG, and initiate cost-effective efforts to address those causes and thereby reduce UFG levels.

**Prior Recommendation** – Effectively track and enforce the Company's line hit damage prevention program.

**Prior Situation** – Equitable Gas was not adequately tracking or enforcing its damage prevention program for third-party line hits on the system. (See Exhibit VI-5 which displays the number of third-party line hits on Equitable Gas lines on Equitable Gas lines for the years 1997 through 2001, and January through May 2002.) Historically, the Company had only tracked the number of line hits on its system.

**Exhibit VI-5  
Equitable Gas Company  
Third-Party Line Hits  
For The Years 1997 – 2001, and January - May 2002**

	<u>Mainlines</u>	<u>Service Lines</u>
1997	4	1
1998	9	1
1999	9	0
2000*	11	12
2001	51	13
2002 YTD (May-02)	27	9

\* Change in PENNSAFE reporting requirements in mid-year 2000

Due to an incident in 1998, the Department of Labor & Industry's Bureau of PENNSAFE and Equitable Gas signed an agreement on March 2, 2001, regarding new reporting requirements for line hits on the gas lines. Under the Equitable Gas' PENNSAFE agreement was required to:

- Audit completed line locations each month to ensure compliance with line location procedures.
- Maintain a database to track contractor hits on pipelines.
- Perform soft excavation or instruct the excavator to do so whenever an electronic locate cannot be made or when the locate is questionable.

- Perform monthly testing of electronic locators to ensure that they are in good working order.
- Take triangular measurements and add them to the service line records whenever an employee completes a service line locate where a map and electronic locate match.
- File an incident report with the Department of Labor and Industry for incidents where the excavator failed to place a One Call.
- Provide quarterly reports on the above to the Commonwealth.

Previously, Equitable Gas had not been recording every contractor line hit. Additionally, the Audit Staff's review of a list of third-party line hit violators revealed a significant number of multiple hits by the same parties. With comprehensive education, hit-tracking methods regarding line hits, and monetary recovery from third-party line hit offenders, the Company would have an effective damage prevention program.

For the period May 11, 2000 to December 31, 2001, the Company had only collected approximately \$21,000 of \$105,000 in damages from third-party line hits. The Audit Staff determined that Equitable Gas could have saved approximately \$50,000 annually if they had pursued full recovery of third-party line hit damages. Financial recovery of damages is an effective way of deterring contractors from hitting the lines.

**Follow-Up Finding and Conclusion No. 21 -- Equitable Gas still lacks effective tracking and enforcement of its line hit damage prevention program.**

The number of third-party line hits to the Company's system, damages caused and amounts recovered for 2002 through May 25, 2005 are shown in Exhibit VI-6. As indicated in this exhibit, the number of line hits being experienced is still high. Moreover, while the Company recovered 81.7% of damages caused by third-party contractors in 2002, it only recovered 16.6% in 2003, 52.4% in 2004, and 52.4% through May 25, 2005.

Currently, the Company's paralegal contacts third-party offenders in writing and will also personally visit them. If required, a Company attorney sends a follow-up letter. Outside counsel and collection agencies may also be used to maximize the recovery from offenders. Although these steps are helpful, the Company has not established goals to monitor the success of damage recovery efforts.

Among the most effective ways of reducing third-party line hits are contractor education, aggressive recovery, (a financial damage review of related Company policies and procedures), reporting multi-hit offenders to the Department of Labor and Industry, and having Company inspectors visit excavation sites. In addition to participation in programs to reduce third-party line hits, the Company can monitor the success of these

programs through measures such as the number of hits per mile of main, hits per 1,000 services, hits per 1,000 line locate requests and percentage of monetary damages recovered. Goals should be established to monitor the success of the Company's efforts to prevent damage from third-party line hits. Also, records need to have greater detail including separate identification of service line and main (distribution) line hits and what caused the hits to occur.

**Exhibit VI-6**  
**Equitable Gas Company**  
**Third-Party Line Hits, Damages, and Recoveries**  
**For The Period 2002 - May 2005**

<u>Year/Period</u>	<u>No. of Strikes</u>	<u>Indemnity</u>	<u>Unrecovered</u>	<u>Recovery</u>	<u>% of Recovery</u>
<b>2002</b>					
Line Strikes	36	\$46,473	\$4,473	\$42,000	90.4%
Property Damage		<u>\$11,243</u>	<u>\$6,079</u>	<u>\$5,164</u>	45.9%
<i>Total</i>		<u>\$57,716</u>	<u>\$10,552</u>	<u>\$47,164</u>	81.7%
<b>2003</b>					
Line Strikes	45	\$86,013	\$54,192	\$31,821	37.0%
Property Damage		<u>\$108,109</u>	<u>\$107,645</u>	<u>\$463</u>	0.0%
<i>Total</i>		<u>\$194,122</u>	<u>\$161,837</u>	<u>\$32,284</u>	16.6%
<b>2004</b>					
Line Strikes	94	\$178,746	\$93,683	\$85,063	47.6%
Property Damage		<u>\$18,824</u>	<u>\$262</u>	<u>\$18,562</u>	98.6%
<i>Total</i>		<u>\$197,570</u>	<u>\$93,945</u>	<u>\$103,625</u>	52.4%
<b>2005 (1/1/05-5/25/05)</b>					
Line Strikes	22	\$24,291	\$11,443	\$12,848	52.9%
Property Damage		<u>\$2,940</u>	<u>\$1,528</u>	<u>\$1,412</u>	48.0%
<i>Total</i>		<u>\$27,231</u>	<u>\$12,971</u>	<u>\$14,260</u>	52.4%

Source: Data Request No. 40

The categories used for tracking the causes of hits should, at a minimum, include the following:

- One Call line locate not requested,
- dig prior to One Call dig date (i.e., 3-day wait),
- no locate performed,
- inaccurate records or maps,
- incorrect line locate,
- failure to maintain markings,

- failure to hand dig within 18 inches,
- careless excavation,
- excavated beyond scope of One Call request,
- multiple mains in same area,
- excavator assumed lines were inactive, and
- insufficient cover when closing the dig.

It should be remembered that third-party line hits contribute not only to financial damages, but to lost and unaccounted for gas as well (see Follow-Up Finding and Conclusion No. 20). Furthermore, these line hits pose a serious safety concern. Equitable Gas should separately track its main line and service line hits and more closely follow the PENNSAFE agreement from 2001.

**Staff's Follow-Up Recommendation** – Effectively track third-party line hits in greater detail, consistently recover damages from the responsible parties, and establish reasonable goals to monitor success.

**Prior Recommendation** – Identify and implement the best practices for reducing distribution expenses while properly maintaining the system, and monitor progress by benchmarking gas distribution expenses with similar gas distribution companies.

**Prior Situation** – The Company's distribution expenses were significantly higher than other Pennsylvania gas distribution companies. This was an ongoing concern that the Audit Staff had addressed in previous audit reports. Since the number of customers and the amount of gas distributed varied from year to year, distribution expense per 1,000 feet of line was selected as the performance ratio to trend and compare over time. Exhibit VI-7 shows a trend of this distribution expense performance in comparison to other Pennsylvania gas distribution companies for the period 1997 – 2001.

Equitable Gas claimed that its distribution costs were high because of the inherent constraints of operating within the City of Pittsburgh (i.e., higher restoration costs, work sometimes limited to evening hours, the need to control traffic, the abundance of underground utilities, and the requirement that select fill be used for backfill). The Audit Staff identified other causes including the lack of a formal repair or replace decision making process, a weak capital project monitoring process, and an excessive number of open Class 2 leaks. Had Equitable Gas contained its distribution expense per thousand feet of line to the panel average for the five-year period 1997 – 2001, the Company could have saved approximately \$41.2 million during this period or roughly \$8.2 million per year.

It was recommended that the Company attempt to bring distribution expenses per 1,000 feet of line to near the panel average by identifying and implementing the best operating practices of other gas distribution companies. As a participant in the American Gas Association best practices benchmarking, the Company had a means to identify the best operating practices of other companies.

**Exhibit VI - 7**  
**Equitable Gas Company**  
**Distribution Expense / M. Ft. Line**  
**1997 - 2001**

<b>Company</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Compound Growth Rate</b>
Columbia	\$842.04	\$846.64	\$772.36	\$804.13	\$659.79	-5.9%
NFG	\$525.01	\$542.78	\$525.14	\$542.78	\$682.15	6.8%
Peoples	\$722.19	\$708.62	\$712.07	\$878.14	\$788.09	2.2%
PG Energy	\$872.65	\$806.60	\$820.47	\$793.55	\$754.77	-3.6%
PPL	\$573.46	\$548.30	\$633.81	\$566.90	\$493.31	-3.7%
T.W. Phillips	\$428.99	\$426.93	\$433.49	\$434.51	\$455.11	1.5%
UGI Gas	\$1,019.24	\$933.20	\$957.21	\$1,055.06	\$807.32	-5.7%
Panel Average	\$711.94	\$687.58	\$693.51	\$725.01	\$662.93	-1.8%
Equitable Gas	\$1,189.58	\$1,183.57	\$1,065.73	\$1,189.07	\$1,051.49	-3.0%

Source: Equitable Gas Management Audit and PUC Annual Reports

**Follow-Up Finding and Conclusion No. 22 – Equitable Gas’ distribution expenses are still considerably higher than other Pennsylvania gas distribution companies.**

In an effort to reduce its distribution expenses, Equitable Gas has taken the following steps since 2002:

- Adopted new technology and new excavation methods to reduce restoration costs.
- Employed a new contractor with new methods (can pinpoint 90% of leaks) to lower leak repairs costs.
- Established more flexible work crews (i.e., crew leader can work on backhoe).

Equitable Gas' 2004 distribution expense per 1,000 feet of line was approximately 72% higher than a panel average of similar Pennsylvania gas distribution companies. The Company's distribution expense per 1,000 feet of line for 2002-2004 is compared to the gas utility panel in Exhibit VI-8. This exhibit indicates that despite these changes, the Company's distribution costs have remained high compared to the costs of similar Pennsylvania gas companies.

**Exhibit VI-8**  
**Equitable Gas Company**  
**Distribution Expense/ 1,000 Feet of Line**  
**For The Period 2002 - 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Compound Growth Rate</u>
NFG	\$486.62	\$488.25	\$510.59	2.43%
PG Energy	\$676.75	\$686.56	\$688.49	0.86%
PPL	\$570.32	\$617.04	\$568.95	-0.12%
Peoples	\$668.91	\$741.44	\$831.93	11.52%
T.W. Phillips	\$442.85	\$470.05	\$510.45	7.36%
UGI Gas	\$861.58	\$995.58	\$914.48	3.02%
Columbia	\$662.55	\$716.13	\$736.81	5.46%
<i>Panel Average</i>	<i>\$624.23</i>	<i>\$673.58</i>	<i>\$680.24</i>	<i>4.39%</i>
<b>Equitable Gas</b>	<b>\$1,107.53</b>	<b>\$1,173.44</b>	<b>\$1,169.08</b>	<b>2.74%</b>

Source: PUC annual reports

Equitable Gas attributes its continued high distribution costs to the large backlog of leaks in need of repair (e.g., the Company was still working to eliminate its backlog of Class 2 leaks during this period), and the previously mentioned constraints of operating within the City of Pittsburgh. As shown on Exhibit VI-9, had the Company reduced its distribution expenses per 1,000 feet of line to the panel average for 2002-2004, it could have saved \$29.3 million during this period, or approximately \$9.8 million annually.

**Staff's Follow-Up Recommendation – Strive to reduce distribution expenses by adopting the best operating practices of other gas distribution companies.**

**Exhibit VI-9**  
**Equitable Gas Company**  
**Potential Distribution Expense Savings**  
**For The Years 2002 – 2004**

<u>Year</u>	<u>Expense/M. Ft. Main</u>		<u>Difference from Panel Average</u>	<u>Distribution Main (M. Ft.)</u>	<u>Potential Savings</u>
	<u>Equitable Gas</u>	<u>Panel Average</u>			
2002	\$1,107.53	\$624.23	\$483.30	19,702	\$9,521,977
2003	\$1,173.44	\$673.58	\$499.86	19,955	\$9,974,706
2004	\$1,169.08	\$680.24	\$488.84	20,118	\$9,834,483
<b>Total Potential Savings</b>					<b><u>\$29,331,166</u></b>

Source: PUC Annual Reports and auditor's analysis

**Follow-Up Finding and Conclusion No. 23 – Equitable Gas has not developed and maintained appropriate written cyber security and business continuity plans as required by the Commission.**

The Company should have developed, documented, and maintained at an appropriate site a physical security plan, cyber security plan, emergency response plan, and business continuity plan in accordance with PUC regulations at 52 Pa. Code §101 Public Utility Preparedness through Self Certification. A cyber security plan delineates a company's information technology disaster plan. At a minimum, the plan should include critical functions requiring automated processing, appropriate backup for application software and data (e.g., separate distinct storage media for data or a different physical location for application software), alternative methods for meeting critical functional responsibilities in the absence of information technology capabilities, and a recognition of the critical time period for each information system before the utility could no longer continue to operate.

A business continuity plan delineates a company's process to ensure the maintenance or recovery of operations, including services to customers, when confronted with adverse events such as natural disasters and terrorism. At a minimum, the plan should include guidance on the system restoration for emergencies, disasters and mobilization, and establishment of a comprehensive process addressing business recovery, business resumption and contingency planning.

Equitable Gas feels that a cyber security plan is not necessary because an outside company performs the backup of computer files for them. However, while an outside contractor could facilitate cyber security and file backup, this step alone does not in of itself create a complete documented and tested plan whereby Company personnel know exactly what to do when required. The Company had no explanation as to why it has not developed a Business Continuity plan. The concern is that in the event of a natural disaster or terrorist event, the absence of these plans could be catastrophic. The lack of a cyber security plan could result in little or no information system access. The lack of a business continuity plan could delay the return to normal operations and services following a disaster.

**Staff's Follow-Up Recommendation – Develop, document, and maintain on-site cyber security and business continuity plans in accordance with Commission regulations.**

## VII. PURCHASING/MATERIALS MANAGEMENT

**Prior Recommendation** – Reduce inventory balances to achieve an inventory turnover of 4.0 or higher.

**Prior Situation** – The Company's inventory balances were excessive. Although Equitable Gas' inventory turnover had risen from 0.54 in 1998 to 1.26 in 2001, similar-sized utilities were typically achieving an inventory turnover of 4.0 or higher. Contributing to the Company's low inventory turnover level was a large number of inventory items for which no issues occurred for 12 months and longer. During 2001, 35% of inventory items had no issues. Cost savings initiatives implemented by the Company, such as a warehouse inventory reduction program, surplus inventory utilization and scrap program, and reduced stock items inventory list, had helped to increase inventory turnover to 1.26 in 2001, but this level was still far below the level of most other utilities.

**Follow-up Finding and Conclusion No. 24** – The Company's inventory turnover remains low.

Equitable Gas' average inventory balance, total issues, and inventory turnover for the years 2001 through 2005 (June 30, 2005) are presented in Exhibit VII-1. As can be seen in this exhibit, turnover levels for the period continued to be well below the desired minimum level of 4.0 turns, excluding safety stock. The Company indicated that 35% of inventory items had no issues in 2001, 25% had no issues in 2002, 30% had no issues in 2003, 28% had no issues in 2004, and 40% had no issues through June 30, 2005. The Company projects that the percentage of inventory items with no issues in 2005 will decrease to 25-30% by year-end.

**Exhibit VII-1**  
**Equitable Gas Company**  
**Inventory Turnover**  
**For the Years 2001 – 2004 and January – June 2005**

<u>Year</u>	<u>Average Inventory Balance</u>	<u>Total Issues</u>	<u>Inventory Turnover<sup>1</sup></u>
2001	\$2,899,698	\$3,653,620	1.26
2002	\$4,703,142	\$4,169,347	0.89
2003	\$3,548,659	\$3,778,600	1.06
2004	\$3,365,403	\$4,508,075	1.34
2005 <sup>2</sup>	\$2,841,621	\$1,993,106	1.40

1 - Inventory Turnover = Total Issues/Average Inventory Balance.  
2 - The Inventory Turnover for 2005 is only for the 6-months ended June 30, 2005.

Source: Data Request No. 52

The Company should minimize inventory balances to achieve an inventory turnover of at least 4.0, excluding emergency stock, or the equivalent of a three-month supply on-hand. In order to further increase its inventory turnover, the Company is currently in the process of eliminating storerooms, decreasing maximum quantities/reorder points, and making sure that material for jobs/projects comes out of inventory first before an order is placed. Had the Company maintained an inventory turnover of 4.0 in 2004, the average required inventory balance would have been \$1,127,019, or approximately \$2,238,000 less than the balance actually maintained. A one-time inventory reduction of \$2,238,000 would have resulted in an annual cost savings of approximately \$448,000, based on the Company's 20% cost of carrying inventory.

**Staff's Follow-up Recommendation – Continue to increase inventory management efforts and reduce inventory levels to achieve an inventory turnover of at least 4.0.**

## VIII. HUMAN RESOURCE MANAGEMENT

**Prior Recommendation** – Complete efforts to develop, document, and implement an effective, on-going succession plan.

**Prior Situation** – The Company had begun implementation of a succession planning program in early 2002. The process initially focused on identifying potential successors to the two executive vice-president positions. An Individual Development Plan (IDP) was prepared for potential successors summarizing the candidates' previous employment history, education and performance rating information. An evaluation was made to determine each potential successor's strengths and weaknesses. Action plans were then prepared to address the potential successors' development needs as well as anticipated needs of the organization. Finally, recommendations were made regarding training and future assignments.

The Company had expressed intentions to expand its succession planning to identify potential successors for all management positions directly reporting to the executive vice-presidents. However, the Company had not documented its succession plan by listing critical positions and the names of potential candidates. The succession planning process should have resulted in a succession plan that could be easily referenced and revised as needed. The plan's documentation could include a list of positions and potential candidates or notations on an organization chart. At a minimum, it should designate key management positions and include the names of potential successors. Also, as the succession planning process had recently started, the Audit Staff felt that it was important for the Company to continue with intentions to expand its succession planning to additional management levels.

**Follow-Up Finding and Conclusion No. 25** – **The Company has developed and implemented a succession planning process covering Management Team members and their direct reports.**

The Equitable Resources succession planning process covers two management levels at the Company, the Management Team level (eight of the ten Management Team members) and a second level with 28 positions. The eight Management Team members covered by the process include the following positions:

- Senior Vice President, General Counsel and Corporate Secretary,
- Vice President and President – NORESKO,
- Vice President and President – Equitable Utilities,
- Vice President and President – Equitable Supply,
- Vice President, Chief Financial Officer and Treasurer,

- Vice President and Corporate Controller,
- Vice President, Human Resources, and
- Chief Information Officer.

The two Management Team positions not included in the succession planning process are the Chairman, President & Chief Executive Officer and the Vice Chairman & Executive Vice President, Finance and Administration. The Board of Directors is responsible for overseeing succession planning for these two positions.

The second level included in the succession planning process includes 28 positions reporting to Management Team members. Examples of Equitable Gas positions included in the second level are: the Senior Vice President, Commercial Operations; Senior Vice President, Customer Operations; Senior Vice President, Distribution Operations; and Vice President and Controller. A total of eight Equitable Utilities positions are covered by the succession planning process.

Each of the eight Management Team member selects potential successors for his or her position. The other seven Management Team members may add potential successors to that position for consideration as well. Successors for the second level are identified by Management Team members. At both levels, an Individual Development Plan (IDP) is prepared for each potential successor. The Human Resources Department meets with the direct supervisor and the candidate to develop the IDP. A two-page IDP form includes the potential successor's personal history, current position, start date of current position, time with the Company, educational and work history, leadership development courses taken, strengths, development needs, plans or actions for the next 12-18 months (e.g., training, future assignments, etc.), and short-term and long-term career goals.

The succession plan is updated annually. Both first and second level employees are involved with succession plan update. Each supervisor submits revised replacement charts to the Vice President, Human Resources prior to May. For each position, the replacement chart lists the incumbent, suggested replacements, and the readiness of each suggested replacement (i.e., now or in 2-5 years.) The Vice President, Human Resources adds other information to the replacement charts, such as development needs, strengths, etc. Succession planning is discussed during the Management Team's May meeting.

Annually in July, the Vice President, Human Resources gives a succession plan update presentation to the Board of Directors. Information presented to the Board includes updated replacement charts for each position, high potential employees, diversity status, and key issues. To assure that the development needs of potential successors are carried out (i.e., training, future assignments, etc.), Human Resources follows up on each IDP by requesting a status report from each individual.

As of October 2005, the Company had an adequate succession planning process in place. The process identifies potential successors to eight of the ten Management Team members and 28 other positions. An Individual Development Plan is prepared for each potential successor, allowing the Company to monitor the skills gaps of each candidate and develop each candidate (through training, assignments, etc.) to assume future openings in key positions.

**Staff's Follow-up Recommendation – None.**

## IX. CORPORATE GOVERNANCE

### **Background**

In August 2002, the Audit Staff released a survey report entitled “A Review of Corporate Governance Controls and Audit-Related Practices Pertaining to the Financial Reporting Process Survey”, which summarized and evaluated the corporate governance practices of 27 regulated Pennsylvania utilities including Equitable Gas Company (Equitable Gas or company). Although neither that report nor our January 2003 report on the previous Focused Management and Operations Audit of the Company addressed corporate governance as a problem area, the Audit Staff has reviewed, in this Management Efficiency Investigation, the current status of corporate governance practices at Equitable Gas in relation to requirements of the Sarbanes-Oxley Act (SOX) and the final corporate governance rules of the New York Stock Exchange (NYSE).

**Follow-up Finding and Conclusion No. 26 – The Company has responded appropriately to meet the reporting requirements and standards set forth by the Securities and Exchange Commission (SEC), and the Public Company Accounting Oversight Board (PCAOB) in conjunction with SOX.**

SOX, which was adopted by Congress in July 2002, and the NYSE rules that were approved by the SEC on November 4, 2003, require publicly traded companies to comply with certain standards regarding corporate governance. Equitable Resources, Inc. (Equitable Resources) is listed on the NYSE and, therefore, is subject to both SOX and NYSE rules. Equitable Gas is the gas distribution subsidiary of Equitable Resources.

Equitable Resources has an eleven-member Board of Directors (Board) comprised of the Chairman, President and Chief Executive Officer; Vice Chairman and Executive Vice President, Finance and Administration; and nine independent members not affiliated with the Company. The Equitable Resources Board oversees the management and operations of the entire organization, including the regulated subsidiaries and other non-regulated affiliates. Equitable Resources’ eleven directors serve on one or more of the Board’s four Committees:

- Audit
- Compensation
- Corporate Governance
- Executive

The Audit Staff’s review of Equitable Gas’ corporate governance practices confirmed that the Equitable Resources Board of Directors is the controlling Board with

regard to Equitable Gas' operations. While Equitable Gas has a separate three-member Board established to meet incorporation requirements, none of the three members are independent as they include the Vice President and President – Equitable Utilities; the Senior Vice President – Equitable Utilities; and the Senior Vice President, General Counsel and Corporate Secretary.

The Equitable Resources Board held six regular meetings and one special meeting during 2004. Attendance at Board meetings in 2004 averaged 99%. As required by the NYSE Rules, the Audit Committee, the Corporate Governance Committee, and the Compensation committee are composed of independent directors and each has a written charter which addresses the committee's purpose and responsibilities. In addition, an annual performance evaluation of each committee is performed.

Equitable Resources maintains a corporate governance page on its website that provides key information about its corporate governance practices, including its Corporate Governance Guidelines, Code of Business Conduct and Ethics, and charters for the Audit, Compensation, and Corporate Governance committees of the Board. The *Corporate Governance Guidelines* contain information on the functions and responsibilities of the Board; Board composition; director compensation; director independence; Board committees; executive sessions of non-management directors; Board access to management and professional advisors; CEO selection, evaluation and succession; Board and committee meetings; and stock ownership guidelines. The Code of Business Conduct and Ethics (Code) applies to all directors, officers, and employees of Equitable Resources and its subsidiaries, and contains the standards and ethical principles necessary to assist these personnel in making proper choices when faced with ethical issues. The Company has also established a compliance hotline which an individual can call to seek assistance and/or discuss concerns regarding particular situations or the Code.

Based on our review, it appears that Equitable Resources has responded appropriately to ensure compliance with SOX. The Board and its Audit Committee have applied professional due diligence in staying current with PCAOB quality control standards and the internal management control requirements of Section 404. Equitable Resources management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2004. This assessment of the effectiveness of internal control over financial reporting was audited by the independent registered public accounting firm that also audited the Company's consolidated financial statements. The public accounting firm concluded that the Company maintained effective internal control over financial reporting based on the COSO criteria.

Equitable Resources' external auditor is prohibited from performing the following non-audit services:

- Bookkeeping;
- Financial information system design and implementation;
- Appraisal or valuation services, fairness opinions, and contribution in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment adviser, or investment banking services; and
- Legal services and expert services unrelated to the audit.

The Equitable Resources Annual Report to Shareholders contained a statement of management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and management's assessment of the Company's internal control structure and procedures for financial reporting. This report also included the independent accounting firm's opinion related to SOX and management's efforts to implement the Internal Control features of Section 404. The Company's independent accounting firm issued an unqualified opinion for fiscal year 2004 and found no material weaknesses or significant deficiencies.

**Staff's Follow-up Recommendation – None.**

## **X. ACKNOWLEDGEMENTS**

We wish to express our appreciation for the cooperation and assistance given to us during the course of this Management Efficiency Investigation by the officers and staff of Equitable Gas Company.

This audit was conducted by Bryan Borres and Christopher DeMarco of the Management Audit Staff of the Bureau of Audits.



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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:lmd

Enclosure

March 29, 2007

Equitable Gas Company's Comments, Responses and Implementation Plan  
with Regard to the Bureau of Audits Management Efficiency Investigation

Attached you will find the responses of Equitable Gas Company (Equitable), a division of Equitable Resources, Inc., to the Management Efficiency Investigation (MEI) and the various follow-up findings, conclusions and recommendations which evaluated Equitable's implementation of selected recommendations from the January, 2003 Focused Management and Operations Audit. We appreciate this opportunity to file responses and to provide comments not only on the MEI, but also to provide some perspective on the overall status of Equitable's operations. Accordingly, these comments should be treated as an integral part of Equitable's response and implementation plan.

Equitable commends the Bureau of Audits for the thorough, comprehensive nature of its most recent audit. In many instances, including in the case of Equitable, a focused audit provides valuable insight into the effectiveness and the efficiency of utility management practices. The January, 2003 Focused Audit provided Equitable's management with a number of worthwhile strategies for changes or improvements, many of which have been timely implemented by the Company. Unfortunately, the MEI, because it is focused on the period of 2000 through 2004, with the use of selected 2005 data, does not fully capture the progress Equitable has made. Part of the problem no doubt stems from Equitable's own failure to provide all of the relevant information to the auditor. Nevertheless, because the MEI is a backward-looking document, it falls short of reflecting the current status of Equitable's operations, which we would hasten to point out, are considerably improved over the "snapshot" portrayed in the MEI.

With that understanding, it should be noted that in every instance where the MEI provides a follow-up recommendation, Equitable either agrees to accept the recommendation or has already completed the task. It is Equitable's intention to fully cooperate with the Bureau of Audits and the Commission. Equitable strives to deliver "Everyday Excellence" in its provision of utility service. We greatly appreciate the Bureau of Audits assistance in helping us reach such a lofty goal.

Attached you will find responses related to each of the follow-up recommendations. These responses, along with the proposed implementation plan, are self-explanatory. As Audit Staff noted, the MEI tracks compliance related to 21 prior management audit recommendations. The MEI concludes that Equitable "effectively or substantially implemented six of 21 prior management audit recommendations reviewed and took some action on 12 other recommendations. Staff also found that the Company failed to take any action on three recommendations". With all due respect, we believe that Equitable "effectively or substantially" implemented far more than six prior management audit recommendations, and if consideration is given to the current status of the Company's operations, Equitable is close to full compliance. In support of that assertion, we provide the following comments grouped in the manner the Audit Staff utilized in the MEI.

1. Affiliated Relationships

The MEI notes that Equitable has complied with two of the four original recommendations. A third, related to periodic internal audits, has been accepted by Equitable and an implementation date established. The final follow-up recommendation provides for updating the affiliated interest agreement to reflect all affiliates with which Equitable Gas does business. Although we have agreed to make such a filing, we believe this recommendation was fully accomplished when Equitable resubmitted its affiliated interest agreement in 2005. As you may be aware, Equitable Gas Company is not a corporate entity. It is Equitable Resources that the Commission regulates. The Affiliated Agreement submitted in May, 2005 was not intended to name all the various entities in the Equitable Resources family, as that list would be exceedingly long and subject to change on a daily basis. Rather, the intent was to obtain Commission approval of Equitable Resources (which we again point out is the regulated entity) doing business with any of its subsidiaries or affiliated companies. It was drafted so as to relieve both the Company and the Commission of the burden of reviewing a new Affiliated Agreement each time an Equitable Resources entity adds or removes a subsidiary company. As our response points out, of the four entities identified in the MEI which are not specifically named in the Affiliated Interest Agreement, one is no longer an affiliate and two others have previously been merged into a named affiliate. The final entity, a third-tier subsidiary of Equitable Resources which had less than \$200,000 in transactions with Equitable, is controlled by a named affiliate. We believe that we already have substantially, if not fully, complied with this recommendation.

Nevertheless, with a pending Corporate reorganization filing and the pending Dominion Peoples acquisition, the Affiliated Interest Agreement will certainly need to be updated, and we will do so by year end.

2. Customer Service

The MEI points to a considerable problem with Equitable's customer service telephone performance, noting that "it has continued to decline." Although that may have been true for the snapshot period underlying the MEI, it provides the Commission with an unfair view of the current status of Equitable's customer service telephone performance. In actuality, Equitable has gone from "the worst amongst the panel of Pennsylvania gas distribution companies in 2004" to 2007 service levels that we believe will rank it amongst the very best. This has been accomplished by dedicating additional assets to this area and to more effectively motivating our employees. For the month of January, 2007 Equitable reported to the BCS a Call Abandonment Percentage of 1.84%, 30 Second Service Level of 82%, and a Busy-Out Rate of 0.16%. Each of these numbers is significantly better than the panel average rates used in the MEI and should place Equitable at or near the top of all NGDC's. Additionally, Equitable has made a further commitment to improvements in customer service as part of its settlement with various parties in Docket No. A-122250F5000. While we recognize the lag in information reported in the MEI, we believe it is also important to point out the current status of customer service.

As for the other six follow-up recommendations, we have accepted them all. With respect to the high Justified Customer Complaint Rate and high PUC infraction rate, Equitable agrees to begin a study to understand and improve performance in these areas. To do so, we will first need to understand why Equitable's numbers vary from those reported to the BCS by other NGDCs. To obtain this data will require assistance from the BCS. We will keep the Audit Staff advised of our progress in this area. We have already implemented changes that have significantly reduced our Justified Payment Arrangement Request Rate in 2005 and 2006 that should make it at or near the panel average. Nevertheless, we have accepted the follow-up recommendations and will take a fresh look at this issue. Similarly, the follow-up recommendation related to improving response times to customer complaints and payment arrangements has been substantially implemented. Equitable no longer has a backlog of complaints and the response to payment arrangement requests has been reduced dramatically. We believe the 2006 BCS Customer Service Performance report will substantiate this

improvement. Like the other areas of progress, Equitable has materially reduced its gross write-offs from the level identified in the MEI. This has been accomplished by implementing Chapter 14 and by increasing customer assistance activities and grant program availability. We believe the numbers reported for 2006 should bring Equitable back in line with the panel averages.

Finally, the MEI provides a follow-up recommendation that the implementation of the automated meter reading (AMR) system be completed. In response, Equitable notes that in the third quarter of 2006 Equitable essentially completed its AMR deployment. Monthly meter reads are now available for over 99% of all Company meters. Accordingly, although the MEI may not reflect it, Equitable has accomplished this goal.

### 3. Diversity and Equal Employment Opportunity

The MEI notes that while the under-representation of women in Equitable's work force has declined, the under-representation of minorities has increased. Accordingly, Equitable is urged to continue its efforts with regard to increasing minority representation in the workforce. Equitable has accepted the follow-up recommendation, and as part of the settlement in Docket No. A-122250F5000 Equitable recognized the need to increase both the racial and ethnic diversity of its workforce and to more fully utilize Minority Business Enterprises (MBEs). To that goal, Equitable's senior management has begun a concerted effort to ensure that diversity is realized. Equitable has retained a diversity consultant who is developing a comprehensive diversity plan. Additionally, a Diversity Initiatives Committee comprised of senior Company executives has been established for the purpose of approving the diversity plan and ensuring its implementation. Equitable is firmly committed to delivering measurable progress in increasing the number of minorities employed and in its participation with MBEs. Equitable has also renewed its previously lapsed membership in the Pittsburgh Regional Minority Purchasing Council in an effort to show its commitment to expanding minority vendor and supplier's opportunities on the Equitable system.

Finally, as the MEI notes, Equitable originally agreed to file annual diversity reports. Subsequently it was determined by our Human Resources group that substantially the same information was being filed in other non-Commission reports and filing the annual diversity reports were deemed to be duplicative. Nevertheless, Equitable will correct this oversight. We

fully support the Commission's Policy Statement on diversity in the workplace and will file annual reports beginning with the next scheduled filing period.

4. Systems Operations

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 enforcement action. Equitable also participates in educational forums to acquaint excavators, municipal representatives and first responders with proper safety techniques in the vicinity of buried pipelines. Accordingly, we accept the MEI follow-up recommendation and believe we are on track to excel in this area.

An area where there seems to be some confusion is in the follow-up recommendation related to cyber security and business continuity. The MEI suggests that no such plan(s) exist. In fact, both information technology (disaster recovery plan) and business continuity plans do exist and are available for review. The IT plan was developed in 2003, enhanced periodically, and tested on a regular basis. It conforms to the substantive provisions of 52 Pa. Code §101.3(2).

A business continuity plan providing Equitable with the ability to physically operate the gas company in the event of a disaster has also been available since 2005. It, too, is constantly being updated, with the next scheduled update to take place in April, 2007. Therefore, Equitable believes it has fully satisfied the follow-up recommendation.

5. Purchasing/Materials Management

Finally, Equitable recognizes that it must improve its inventory management efforts. As is noted in our response, significant progress has been made toward the 4.0 turnover ratio, and Equitable will continue its efforts along those lines. Accordingly, Equitable accepts the MEI follow-up recommendation.

In conclusion, while we regret that the MEI is limited in its focus to a locked-in period of time, and accordingly, does not provide the full picture of Equitable's current operations, we recognize that the MEI does exactly what it was intended to do, in that it provides a follow-up look at implementation performance. We hope these additional comments provide a more accurate overview of Equitable's current operations and have proven to be helpful.

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER:      Affiliated Relationship – 2

FOLLOW-UP RECOMMENDATION:      Conduct periodic internal audits of the cost allocation process.

RECOMMENDATION STATUS:      Accepted

IMPLEMENTATION STATUS:

IMPLEMENTATION DATE:      Fourth Quarter, 2007

ACTION:      *The Company will conduct a formal internal audit of the cost allocation process. The audit will assess the appropriateness of current policies and procedures as well as the proper application of the policies and procedures. This audit will be conducted at least once every three years beginning in 2007.*

OFFICER RESPONSIBLE:      Theresa Z. Bone, Vice President & Controller

RESPONSE DATE:      February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER:       Affiliated Relationship – 4

FOLLOW-UP RECOMMENDATION:   Update the affiliated interest agreement to reflect all affiliates with whom Equitable Gas Company transacts business and submit it to the Commission for review and approval.

RECOMMENDATION STATUS:       Accepted

IMPLEMENTATION STATUS:       Affiliated agreements will be updated to reflect the current reorganization filing at Docket No. A-121100F0006 and the potential acquisition of Peoples Natural Gas Company.

IMPLEMENTATION DATE:         Fourth Quarter, 2007

ACTION:                         Management agrees that the affiliate agreement needs to be updated periodically. We will review the affiliate agreement periodically and update it as necessary to include all necessary affiliate relationships.

For the identified affiliates which were not clearly included in the most recent affiliate agreement, management provides the following additional information: Noresco is no longer an affiliate of Equitable Resources. The Noresco businesses were sold by Equitable Resources in December 2005. Any current transactions between Equitable Gas and Noresco would no longer be affiliated transactions. Equitable Field Services no longer exists. *Its gathering assets were sold to Equitrans in 2005.* Transactions with Equitrans, including the gathering transactions, are covered by the current affiliate agreement. Carnegie Pipeline was merged into Equitrans and no longer exists as a separate company. Transactions identified as Carnegie Pipeline are simply misidentified as those transactions are actually with Equitrans. Transactions with Equitrans, including those on what was the Carnegie gathering system are covered by the existing affiliate agreement. The affiliate agreement will be updated to include EQT Capital and any other affiliates not included in the existing agreement.

OFFICER RESPONSIBLE:         Theresa Z. Bone, Vice President & Controller

RESPONSE DATE:                February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service - 5

FOLLOW-UP RECOMMENDATION: Implement procedures to improve customer service telephone performance to at least levels comparable with other Pennsylvania gas distribution companies.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: On-going, but substantially completed.

ACTION: Although customer service telephone performance in 2004 was less than satisfactory, it has experienced considerable improvement since then. The PUC measures customer service telephone performance based on Service Level, Busy Out Rate and Abandonment Rate. The 2005 and 2006 performance factors in these three specific areas showed significant improvement. The overall Service Level improved from 35% (2004) to 37 % (2005) and continued to improve to 61% (2006). The Company has also recognized a steady decrease in the Busy Out Rate. The Busy Out Rate went from 2.54% (2004) to 0.79 (2005) and continued to improve to a three-year low of 0.019 (2006). The same level of improvement was realized in the percentage of abandoned calls. Abandonment rates declined from the three year high of 17.69% (2004) to 14.1% (2005) and further improved to 8.1% (2006).

Furthermore, in the settlement in Docket No. A-122250F5000, Equitable agreed to adopt a substantial improvement in the Service Quality Index for its residential and small business rate classes, beginning in 2008. Those service standards are set forth in the table on the following page.

OFFICER RESPONSIBLE: Cheryl Hartle, Manager, Customer Service

RESPONSE DATE: February 20, 2007

<b>Performance Indicator</b>	<b>Proposed Annual Performance Standard</b>
1. Call Center: % calls answered w/in 30 seconds	70% for 2008, and 75% for 2009
2. Call Center: Average Busy-out Rate	1% (Dominion performance in 2004)
3. Call Center: Average Call Abandonment Rate	7% for 2008, and 6% for 2009
4. # of Customer disputes not issued a report within 30 days	No more than 3% of the Total Number of disputes filed
5. % of Meters not read as required by 56.12(4)(ii-6mos.) and (iii-12 mos.)	Not read in 6 months: .25% Not read in 12 months: .03% (Dominion performance 2004 and 2005)
6. Gas Safety Response Time	No degradation from the Companies three-year average response times.
7. Percent of bills not rendered once every billing period	.01% for Dominion, .05% for Equitable, effective 1/1/2008

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service - 6

FOLLOW-UP RECOMMENDATION: Initiate additional efforts to further reduce the JPAR rate by more consistently processing payment arrangement requests in compliance with PUC regulations and guidelines.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: Fourth Quarter, 2007

ACTION: Equitable rejected the original finding. The Company's Justified Payment Arrangement Request Rate improved in 2005. The 2005 rate of 4.30 was reduced by 53% from 2004 as reported in the Utility Consumer Activities Report and Evaluation. Equitable expects further improvement in 2006. Although Equitable believes it is making significant progress, it will adopt the audit recommendation and review our practices to ensure compliance.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service - 7

FOLLOW-UP RECOMMENDATION: Investigate the causes of the high Justified Consumer Complaint Rate and strive to lower this rate.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: Fourth Quarter, 2007

ACTION: Equitable rejected the original finding. The Company's Justified Consumer Complaint Rate improved in 2005. The 2005 rate of 2.30 was a reduction of 8% from 2004 as reported in the Utility Consumer Activities Report and Evaluation. The 2006 rate will be provided at a later date and we anticipate further improvement. Nevertheless, Equitable will adopt the audit recommendation and internally investigate the causes for the Justified Consumer Complaint Rate.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service - 8

FOLLOW-UP RECOMMENDATION: Investigate the causes of the high PUC infraction rate and strive to lower this rate.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: Fourth Quarter, 2007

ACTION: Equitable rejected the original finding. The Company's PUC Infraction Rate was 1.67 in 2005, reduced slightly from 1.76 in 2004, or 5%, as reported in the Utility Consumer Activities Report and Evaluation. Equitable believes the 2006 rate will show further improvement. Nevertheless, Equitable will accept the audit recommendation and investigate the causes of the high PUC infraction rate.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service - 9

FOLLOW-UP RECOMMENDATION: Reduce response times to customer complaints and payment arrangement requests.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Implemented

IMPLEMENTATION DATE: September 2006

ACTION: The response time to consumer complaints and payment arrangement requests also improved as reported in the 2005 Utility Consumer Activities Report and Evaluation. The response time to Consumer Complaints was reduced 5.5 days, or 6%, in 2005 compared to 2004. The response time to Payment Arrangement Requests decreased 13.1 days, or 34%, in 2005 compared to 2004. The Company also recently experienced significant reductions in response times which will be reported to the BCS in the 2006 reporting requirements. The Company eliminated the backlog of responses to the BCS in the second half of 2006. Reductions in response times over the past few years resulted from improved business and system processes, as well as reduction in the total number of complaints received by the Company.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service – 11

FOLLOW-UP RECOMMENDATION: Strive to achieve further reductions in uncollectible account write-offs by continuing efforts such as the outbound calling campaign and other non-termination collection tactics.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: On-going, although outbound calling has been implemented.

ACTION: The Company experienced an increase in the gross write-offs in 2005 compared to 2004. This increase is attributable to the implementation of a new Customer Information System (CIS) in 2004 which limited our ability to systematically attempt to collect from delinquent customers. Enhancements were made to the CIS in the first quarter of 2005 which significantly improved the Company's ability to collect from its customers. As a result of these collections efforts and due to the 2004 totals being below historical averages for the aforementioned reason, the gross write-offs increased to \$15.6 million in 2005.

In 2006, the gross write-offs have decreased significantly. While the final 2006 year end results are pending, the Company has experienced a sizable decline in gross write-offs due to the successful implementation of Chapter 14, coupled with increased customer assistance activities and grant programs. The 2006 gross write-off statistics will be provided to the BCS in conjunction with the annual report.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Customer Service – 12

FOLLOW-UP RECOMMENDATION: Complete the implementation of the AMR system.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Implemented

IMPLEMENTATION DATE: December 2006

ACTION: The AMR project was essentially completed in the third quarter of 2006. In the fourth quarter of 2006, the Company was obtaining monthly reads from over 99% of all Company meters in Pennsylvania.

OFFICER RESPONSIBLE: Jeffery C. Mitchell, Director, Credit & Collections

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Diversity and Equal Employment Opportunity - 13

FOLLOW-UP RECOMMENDATION: Continue efforts to reduce the under-representation of women and minorities within the Company's workforce.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Ongoing

IMPLEMENTATION DATE: 2006

ACTION:

- Equitable Gas Company will continue to make every good faith effort to increase the number of qualified women and minorities in its workforce for positions as they become available. The Company has engaged in the following recruitment activities as an example of its good faith efforts.
  - Open personnel requisitions below Director-level are posted with multiple career sites and local newspapers, depending upon position and location, including, but not limited to the following: see attached Table A.
  - Recently, approximately 30 customer care positions were provided to the following organizations for advertising: Urban League, African American Chamber of Commerce, Office of Vocational Rehabilitation and the New Pittsburgh Collaborative, in addition to our regular diversity job posting sites.

Finally, the issue of work place and supplier diversity was an issue in Docket No. A-122250F5000 and was addressed in the settlement in that proceeding. More specifically Equitable recognized that increasing the racial and ethnic diversity of its employees was beneficial and has established a mechanism through its senior management team to accomplish this goal. A number of areas have been explored, including adopting various NARUC guidelines to promote MBE marketplace access.

OFFICER RESPONSIBLE: Anne Naqi, Vice President Human Resources

RESPONSE DATE: February 20, 2007

Table A

America's Job Bank	Dept of Veterans Affairs	usajobs.opm.gov
Caregiver Jobs Clearinghouse	caljobs.ca.gov	MNWorks.org
DOL Employment & Labor Administration	Oklahoma Career Tech	GreenToGray.com Green2Gray.com
BlueToGray.com Blue2Gray.com	JobsForOfficers.com Jobs4Officers.com	Jobs4JMOs.com JobsForJMOs.com
Jobs4NCOs.com JobsForNCOs.com	Jobs4Spouses.com JobsForSpouses.com	Jobs4AcademyGrads.com JobsForAcademyGrads.com
BET.com	Black Perspective	Essence
Gay Financial Network	GayWork.com	HispanicOnline
Hispanic-Today.com	Latina	Resource Partnership
ThirdAge	AwesomeTechs.com	Veteran's Enterprise
Corporate-Gray.com	Craigslist	Drake Beam Morin
Women in Business & Industry	Monster.com + Diversity & Inclusion	Military Officers Association of America
EngCen.com	EngineeringClassifieds.com	EngineerJob.com
Hot Jobs	SearchJobsUSA.com	Jobs4You.com
IFCome.com	LibraryJobPostings.com	LISJobs.com
National Black MBA Association	National Society of Hispanic MBA's	Reforma.org
HireDiversity.com	DiversityInc.com	College/University Postings: Univeristy of Buffalo, Carnegie Mellon University, University of Pittsburgh

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Diversity and Equal Employment Opportunity - 14

FOLLOW-UP RECOMMENDATION: Continue efforts to identify new MWDBE vendors and attempt to increase the amount of purchases made from them by increasing their opportunities to bid.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: On-going

IMPLEMENTATION DATE: On-going

ACTION: Equitable will continue to strive to increase its MWDBE vendor participation. The Company seeks to identify additional MWDBE vendors through trade associations and community outreach, and will look for ways to support the qualification and development of these vendors.

To that end, in October, 2006 Equitable became a member of the Pittsburgh Regional Minority Purchasing Council. This group is widely-recognized for its commitment to providing an equal opportunity for business growth and development of minority entrepreneurs.

OFFICER RESPONSIBLE: Mary Lou Gegick, Director, Procurement

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Diversity and Equal Employment Opportunity - 15

FOLLOW-UP RECOMMENDATION: Prepare and file the annual diversity report with the Commission.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Annual reports will be filed

IMPLEMENTATION DATE: On-going

ACTION: It should be noted that the Company provides much of this data on a routine basis through other non-Commission related annual filings. The Company will file annual diversity reports beginning with the next scheduled annual filing.

OFFICER RESPONSIBLE: Anne Naqi, Vice President Human Resources

RESPONSE DATE: March 23, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 16

FOLLOW-UP RECOMMENDATION: Continue efforts to reduce the capital project backlog through the improved capital project monitoring process.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Reduction in the backlog of Capital Projects remains a high priority. Additional manpower has been added and trained in the Fixed Assets Accounting Department to analyze the Capital Projects.

IMPLEMENTATION DATE: December 2005

ACTION: The Company continues to reduce the project backlog and improve the analysis and reporting of capital spending. Accordingly this backlog has declined from 431 projects in 2001 to 373 projects in 2004. Subsequent improvements in this area have reduced the backlog to 47 projects in 2005.

OFFICER RESPONSIBLE: Edward M. Nolan, Senior Vice President Utility Operations

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 17

FOLLOW-UP RECOMMENDATION: Complete the repair of all outstanding Class 2 leaks over one year old by the end of 2005 and keep current.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Completed

IMPLEMENTATION DATE: First Quarter, 2006

ACTION: The Company completed all the repair of all outstanding Class 2 leaks over one year old and all Class 2 leaks are current (less than 1 year).

OFFICER RESPONSIBLE: Edward M. Nolan, Senior Vice President Utility Operations

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 20

FOLLOW-UP RECOMMENDATION: Investigate the causes of high levels of UFG, and initiate cost-effective efforts to reduce UFG levels.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Ongoing

IMPLEMENTATION DATE: 2007

ACTION: UFG levels are reviewed extensively during Equitable's annual 1307(f) proceedings. Equitable's 2006 1307(f) settlement provides that "...the Company will commence a study of lost and unaccounted for gas ("LUFG") and Company use gas. The compressor station fuel as well as other factors such as tracking billing errors, unauthorized use situations and line hits will be considered."

OFFICER RESPONSIBLE: Stephen C. Rafferty, Vice President Utility Asset Management

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 21

FOLLOW-UP RECOMMENDATION: Effectively track third-party line hits in greater detail, consistently recover damages from the responsible parties, and establish reasonable goals to monitor success.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: In 2005 and 2006 Equitable Gas Company has increased efforts to track third-party line hits in greater detail, consistently recover damages from the responsible parties, and establish reasonable goals to monitor success.

IMPLEMENTATION DATE: On-Going

ACTION: In an effort to track third-party hits in greater detail, Equitable Gas uses 3 employees to investigate third party damages, determine the root cause of the damage and design process improvements in an attempt to reduce those damages. Once the damage has been investigated and it is determined that the cost of repairs and lost gas are recoverable, an invoice is forwarded to the claims department for recovery.

Equitable Gas Company's claims department attempts to recover the damage first by sending a bill. If the first step is not successful, Equitable's outside counsel drafts a letter and sends a second request to the responsible party. If the outside counsel's letter does not bring receipt of the money, then the case is reviewed and taken to arbitration. Through this process, Equitable has been able to collect 71% of the damages in which the excavator was at fault in 2005.

The success of Equitable's damage prevention program is measured in damages per 1,000 locate requests. In 2005 and 2006 Equitable has been below the industry average of 5.41/1,000<sup>1</sup> with .98/1,000 and 1.08/1,000, respectively. Not only has Equitable enforced its damage prevention program by holding the responsible parties accountable for the damages, it also educates contractors, reports damages to the Department of Labor and Industry, and has Company inspectors conduct site visits during and after excavation. Equitable sends a Company representative to the several educational seminars conducted by PA One Call and the Pipeline Safety Group. This provides a venue for excavators, municipalities and first responders to ask questions of Equitable, increasing public knowledge of line markings and the One Call System. In 2005 and 2006, Equitable conducted 10,238 and 18,394 field visits, respectively, in an effort to assist contractors in understanding line marking and to ensure damaged lines did not go unreported. Lastly, all damages in which the excavator violated the law are reported to the Department of Labor and Industry. L&I has held several informal hearings and issued warning letters to the reported excavators.

OFFICER RESPONSIBLE: Edward M. Nolan, Senior Vice President Utility Operations

RESPONSE DATE: February 20, 2007

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<sup>1</sup> 2002 AGA Best Practices Benchmarking study.

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 22

FOLLOW-UP RECOMMENDATION: Strive to reduce distribution expenses by adopting the best operating practices of other gas distribution companies.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: In 2007 the Company is implementing best practices, particularly in relation to cost containment.

IMPLEMENTATION DATE: On-going

ACTION: The Company participates in Best Practices Benchmarking through AGA to constantly identify areas for cost reduction and improving system reliability without sacrificing safety.

OFFICER RESPONSIBLE: Edward M. Nolan, Senior Vice President Utility Operations

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Systems Operations - 23

FOLLOW-UP RECOMMENDATION: Develop, document, and maintain on-site cyber security and business continuity plans in accordance with Commission regulations.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Completed

IMPLEMENTATION DATE: 2006

ACTION: Equitable considers this recommendation to cover two areas. The first is the protection of IT data and its recovery ('cyber security' in PUC parlance). The second deals with the physical operation of the utility (business continuity). Accordingly, different areas of Equitable's operations are responsible for a portion of the "plan".

**Cyber security** - The IT section is part of what Equitable describes as its "IT Disaster Recovery Plan". This plan is designed to minimize the impact of a disruptive event on key business processes by recovering the IT infrastructure that supports Equitable's critical services. This is a written plan and can be reviewed upon request. It was originally developed in 2003, and has been enhanced regularly since then. The IT Disaster Recovery Plan is exercised (tested) on a regular basis. It contains all of the substantive provisions of 52 Pa Code § 101.3(2).

**Business Continuity** - Business Operation continuity provides for the ability to operate the utility in the event of a disaster. Our current plan provides for remote operation of the system for prompt resumption of business operations. This 2005 plan is also written and available for review. Equitable has the ability to shift various activities off-site, including the administration of the receipt and distribution of gas, to handle remotely customer service concerns and to rapidly restore business operations.

OFFICERS RESPONSIBLE: (Cyber Security) Martin Fritz, Vice President & Chief Administrative Officer  
(Business Continuity) Ed Nolan, Senior Vice President, Operations

RESPONSE DATE: February 20, 2007

EQUITABLE GAS COMPANY, A DIVISION OF EQUITABLE RESOURCES  
MANAGEMENT AUDIT  
IMPLEMENTATION RESPONSE

RECOMMENDATION NUMBER: Purchasing/Materials Management – 24

FOLLOW-UP RECOMMENDATION: Continue to increase inventory management efforts and reduce inventory levels to achieve an inventory turnover of at least 4.0.

RECOMMENDATION STATUS: Accepted

IMPLEMENTATION STATUS: Equitable continues the efforts to reduce inventory levels by monitoring and adjusting reorder points and reducing low turnover inventory by monitoring the usage monthly.

IMPLEMENTATION DATE: On-going

ACTION:

<u>Year</u>	<u>Average Inventory Balance</u>	<u>Total Issues</u>	<u>Inventory Turnover<sup>1</sup></u>
2006	\$1,768,020	\$4,736,563	2.68

<sup>1</sup>Inventory Turnover = Total Issues/Average Inventory Balance.

In 2006, Equitable decreased the average inventory balance by \$1,073,601. Although Equitable has not achieved an inventory turnover of 4.0, the turnover has improved significantly in the past year. In addition to reducing the average inventory balance, Equitable has reduced its cost of carrying inventory from 20% to 17%, thereby reducing the total cost of carrying inventory to \$300,563 in 2006 versus \$568,324 in 2005. Equitable will continue to reduce the inventory on hand along with the cost of carrying inventory in 2007 until an inventory turnover of 4.0 or greater is reached.

OFFICER RESPONSIBLE: Edward M. Nolan, Senior Vice President Utility Operations

RESPONSE DATE: February 20, 2007

# Equitable Resources, Inc.

## Utility Customer Bill Printing Review

December 2007

This report is provided pursuant to the terms of our internal audit services engagement. The use of the report is solely for internal purposes by the management and Board of Directors of Equitable Resources, Inc. and, pursuant to terms of the engagement, it should not be used for any other purpose or distributed to third parties.

## Executive Summary

Our objective was to assess Equitable's activities and procedures related to a new utility bill printing vendor named Alliance Data System (ADS). We reviewed and documented the process that Equitable uses to print and mail customer's bills. Additionally, we gained an understanding of the process that Equitable utilizes to ensure that the bills are accurate and that the bills are printed and mailed correctly. Furthermore, we reviewed and evaluated the administrative and technical IT controls that govern the transfer and security of the customer account data shared between Equitable and ADS for the bill printing process.

#	Summary of Findings	Rank	Page
1	We identified minor accuracy issues when reviewing bills printed and mailed by ADS.	Low	3
2	We identified minor presentation issues when reviewing bills printed and mailed by ADS.	Low	3
3	No documented policy was in place to specify the types of events occurring between the vendor IT system and the Equitable IT system which Equitable network monitoring tools (such as firewalls, intrusion detection systems and server logging activities) should identify for review or the Equitable IT personnel to notify to research and resolve said events.	Low	3-4

	<i>Classification</i>		
<i>Ranking</i>	Financial Reporting	Operations	Compliance
High			
Medium			
Low		1, 2, 3	

## **Objectives and Approach**

Our objective was to assess Equitable's activities and procedures related to a new utility bill printing vendor named Alliance Data System (ADS). We reviewed and documented the process that Equitable uses to print and mail customer's bills. Additionally, we gained an understanding of the process that Equitable utilizes to ensure that the bills are accurate and that the bills are printed and mailed correctly. Furthermore, we selected a sample of bills to determine if the statements appear accurate and were printed correctly.

The objective of the IT portion of the review was to evaluate the administrative and technical IT controls that govern the transfer and security of the customer account data shared between Equitable and ADS for the bill printing process.

Specifically, our approach was to perform the following:

- Evaluate the administrative and technical security controls designed to govern the security and integrity of billing information, both at rest and in transit;
- Review the Equitable/ADS service level agreement and ADS' compliance with key performance indicators;
- Review for appropriateness current access to application and bill printing information and the procedure in place for granting it;
- Review access to related IT infrastructure (c.g. database(s) and server(s)) that processes billing details;
- Validate that the bill printing process is governed by Equitable's Change Management Processes;
- Summarize and report findings.

The client personnel with whom we had substantial contact during the audit are as follows:

Paula Frauen  
Dawn Stolarski  
Chris Haught

Senior Billing Specialist  
Senior Financial Analyst  
Senior Manager, IT Customer Operations

**Finding 1:** We identified the following accuracy issues when reviewing 100 bills printed and mailed by ADS:

- Eleven (11) bills had the incorrect average monthly usage (average annual usage was divided by 12 instead of the actual number of months);
- Four (4) bills had customer addresses in the remittance section that did not match the Readi System;
- Two (2) bill's meter reading volumes did not match the Readi System;
- Two (2) bills had an average monthly volume usage that did not match the Readi System.

**Risk(s):**

- Customer complaints or dissatisfaction;
- Inaccurate bills mailed to customers.

**Action Plan:** The Billing Department (with the assistance of the IT Department) will create a report to identify the addresses that changed and then manually / automatically fix the addresses in Readi. The Billing Department (with the assistance of the IT Department) will adjust the file data forwarded to ADS so the average monthly usage and meter readings reflect the correct numbers. This will be completed by June 30, 2008.

**Finding 2:** We identified the following presentation issues when reviewing 100 bills printed and mailed by ADS:

- Eights (8) of the bills had a presentation issue in which the usage charge calculation of rate times volume is on two lines rather than one;
- Four (4) bills had formatting issues in which the address overlaps into the "For Service at:" section or the payment was on two lines;
- Two (2) bills were missing the rate times volume calculation for the delivery charge under the "Billing and Other Charges" section;
- Two (2) bills had a message box displayed despite not having a message.

**Risk(s):**

- Customer complaints or dissatisfaction;
- Ambiguous bills mailed to the customer.

**Action Plan:** The Billing Department has communicated to ADS the formatting issues identified above. Updates will be completed by ADS and tested by Equitable to be incorporated into the process by December 31, 2007.

**Finding 3:** No documented policy was in place to specify the types of events occurring between the vendor IT system and the Equitable IT system which Equitable network monitoring tools (such as firewalls, intrusion detection systems and server logging activities) should identify for review or the Equitable IT personnel to notify to research and resolve said events.

**Risk(s):**

- Access by vendor partners to Equitable IT systems, both authorized and unauthorized, is not logged and tracked;
- Potentially inappropriate access by vendor partners to Equitable customer billing data could occur.

**Action Plan:** Relevant policies and procedures will be developed for those network components that support partner data exchanges ('the partner DMZ'), which includes the bill print environment. This will be done by June 30, 2008.

## Appendix

### Finding Classification and Ranking

The following chart summarizes the above numbered findings according to classification and rank as follows:

**Classification rationale:**

- Reliability of financial reporting (Financial Reporting)
- Effectiveness and efficiency of operations (Operations)
- Compliance with applicable laws and regulations (Compliance)

**Ranking rationale:**

- **High** - An internal control deficiency in design or operation; general non-compliance with laws or regulations; or recommendation for improvements in operational efficiency where loss potential **could** have a material impact on the financial performance of the business unit/company.
- **Medium** - An internal control deficiency in design or operation; general non-compliance with laws or regulations; or recommendation for improvements in operational efficiency where loss potential **does not currently** have a material impact on the financial performance of the business unit/company.
- **Low** - An internal control deficiency in design or operation that is mitigated by compensating controls in another area; a non-recurring exception to policy or procedure; isolated deficiencies in written documentation; or recommendation for improvements in operational efficiency where loss potential is inconsequential.

**Note:** Material is defined as 'more than inconsequential'. A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement would clearly be immaterial to the financial statements.

# Equitable Resources, Inc.

## Equitable Utility Construction Order Review

October 2006

This report is provided pursuant to the terms of our internal audit services engagement. The use of the report is solely for internal purposes by the management and Board of Directors of Equitable Resources, Inc. and, pursuant to terms of the engagement, it should not be used for any other purpose or distributed to third parties.

## Executive Summary

Our objective was to assess Utility's activities surrounding the creation, approval, and monitoring of Construction Orders (COs) for mainline replacement, renewal, and other capital projects and verify compliance with the Equitable Utilities Capital Policy. The audit covered COs opened between May 1, 2005 and April 30, 2006. A summary of our findings is provided below with the detailed findings and related recommendations contained in the attached report. See the Appendix for finding ranking definitions.

#	Summary of Findings	Rank	Page
1	Eleven (11) of 15 (73.3%) open, over budget COs (exceeding the revision threshold) we sampled were closed to charges by Accounting and, to date, no revision has been received. The initial budgeted amount of \$7,792,490 was exceeded by \$1,024,045 (13.1%) for those 11 COs, with no explanation of the overage noted. The lack of overage explanations and existence of over budget COs indicate opportunities to strengthen the process.	Low	2
2	Five (5) of 12 (41.7%) COs sampled with zero spend in excess of 6 months were closed between 2 and 3 months after the 6 month deadline to close.	Low	2

Ranking	Classification		
	Financial Reporting	Operations	Compliance
High			
Medium			
Low		1 and 2	

## Objectives and Approach

Our objective was to assess Utilities' activities in establishing, approving, entering, monitoring, revising, and closing COs accurately, timely, and in accordance with policy. The audit covered original and revised COs and monthly reports used to manage this process during the period of May 1, 2005 to April 30, 2006.

Our approach was to perform the following:

- Assess and document the process and related controls for formulating, receiving, reviewing, and processing of COs;
- Select a sample of COs. Determine and assess compliance with policy, proper approval, and accuracy; and
- Review and analyze monthly and quarterly reporting, such as budget to actual monitoring. Determine and assess effectiveness of reporting to monitor and verify compliance with Policy.

The client personnel with whom we had substantial contact during the audit are as follows:

Carol Gras  
Anna Seifert

Manager, Planning & Analysis  
Property Records Supervisor

**Finding 1:** Eleven (11) of 15 (73.3%) open, over budget COs (exceeding the revision threshold) we sampled were closed by Accounting and, to date, no revision has been received. The initial budgeted amount of \$7,792,490 was exceeded by \$1,024,045 (13.1%) for those 11 COs, with no explanation of the overage noted. The lack of overage explanations and the existence of over budget COs indicate opportunities to strengthen the process.

**Risk(s):**

- Unapproved budget overages.

**Action Plan:** Equitable's Utilities Capital Policy will be revised to clarify the process and ownership for obtaining CO explanations for overspent situations, as required by established thresholds. Also, in order to assist operating personnel in monitoring capital projects and to address the number and dollar amount of CO's that exceed budget without a revision, The Planning and Analysis Manager will notify appropriate project personnel when the accumulated spend reaches an established threshold (i.e. within 10% of budget). This notification will occur monthly on all CO's where the original budget is equal to or greater than \$100,000. These policy revisions will be made by 6/30/07.

**Finding 2:** Five (5) of 12 (41.7%) COs sampled with zero spend in excess of 6 months were closed between 2 and 3 months after the 6 month deadline to close.

**Risk(s):**

- Non-compliance with Equitable Utilities Capital Policy.

**Action Plan:** In order to reduce the risk of noncompliance with the Capital Policy, Equitable will revise the Capital Policy from a monthly review of CO's with zero spend to a biannual review (i.e. every June and December). All CO's that have been open for at least six (6) months should be closed on the biannual review date. In no instance should a CO with zero spend be open longer than twelve (12) months. This policy will be revised by 6/30/07.

## Appendix

### Finding Classification and Ranking

The following chart summarizes the above numbered findings according to classification and rank as follows:

**Classification rational:**

- Reliability of financial reporting (Financial Reporting)
- Effectiveness and efficiency of operations (Operations)
- Compliance with applicable laws and regulations (Compliance)

**Ranking rational:**

- **High** - An internal control deficiency in design or operation; general non-compliance with laws or regulations; or recommendation for improvements in operational efficiency where loss potential **could** have a material impact on the financial performance of the business unit/company.
- **Medium** - An internal control deficiency in design or operation; general non-compliance with laws or regulations; or recommendation for improvements in operational efficiency where loss potential **does not currently** have a material impact on the financial performance of the business unit/company.
- **Low** - An internal control deficiency in design or operation that is mitigated by compensating controls in another area; a non-recurring exception to policy or procedure; isolated deficiencies in written documentation; or recommendation for improvements in operational efficiency where loss potential is inconsequential.

**Note:** Material is defined as 'more than inconsequential'. A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement would clearly be immaterial to the financial statements.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

47. Submit a schedule showing rate of return on facilities allocated to serve wholesale customers.

Response:

Equitable Gas Company has no facilities allocated to serve wholesale customers. It has no wholesale customers. The Company's filing is presented on a fully separated basis with revenue and income requirements being based upon its Pennsylvania jurisdictional service all of which is offered at retail.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Taxes, Other than Income Taxes

48. Provide a copy of the latest capital stock tax report and the latest capital stock tax settlement.

Response:

See attachments for the latest capital stock report (tax year 2006) and latest capital stock settlement notice (tax year 2003).

10100061111

DEPARTMENT USE ONLY

RCT-101 PAGE 1 OF 6

PA CORPORATE TAX REPORT 2006

STEP A

STEP B

Tax Year Beg.	XX	01012006	Regulated Inv. Co.	XX	N	First Report	XX	N
Tax Year End.	XX	12312006	52-53 Week Filer	XX	N	Koz/EIP Credit	XX	Y
			Address Change	XX	N	File Period Change	XX	N

STEP C

Corp Tax Account ID	XX	0043078
Federal EIN	XX	250464690
Corporation Name	XX	EQUITABLE RESOURCES, INC
Address Line 1	XX	225 NORTH SHORE DRIVE,
Address Line 2	XX	5TH FLOOR
City	XX	PITTSBURGH
State	XX	PA
ZIP	XX	152125860

STEP D	A. Tax Liability from Tax Report	B. Estimated Payments & Credits on Deposit	C. Restricted Credits	Calculation: A minus B minus C	STEP E: Payment Make check for this amount payable to "PA Dept of Revenue"
CS/FF	348167	552250	341953	-546036	0
LOANS	36769	0	0	36769	0
CNI	0	0	0	0	0
TOTAL	384936	552250	341953	-509267	0

STEP F: Refund / Transfer Method  
Select one of the following options:

Made Payment Via EFT N

A	Y	Total transfer of credit	
B	N	Combination Transfer/Refund Enter transfer amount to right →	0
C	N	Total refund of credit	TRANS AMT

STEP G: Corporate Officer  
(Sign affirmation below)

NAME		FORM	1019
PHONE		BARCODE	1019
E-MAIL			

4801 / 12-20-05 CGH

I hereby affirm under penalties prescribed by law that this report (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete report. If prepared by a person other than the taxpayer, his declaration is based on all information of which he has any knowledge.

Corporate Officer Signature/Date

USE WHOLE DOLLARS ONLY

10100062112

NAME EQUITABLE RESOURCES, INC  
ACCOUNT ID 0043078 TAX YEAR END 12312006

RCT-101 PAGE 2 OF 6

PA CORPORATE TAX REPORT 2006

SECTION A: CS/FF

OLDEST PERIOD FIRST	TAX PERIOD BEGINNING	TAX PERIOD ENDING	BOOK INCOME			
YEAR 1	01012002	12312002	15411807	Investment in LLC	XX	N
YEAR 2	01012003	12312003	-16929442	Holding Company	XX	N
YEAR 3	01012004	12312004	-38628152	Family Farm	XX	N
YEAR 4	01012005	12312005	-42727039			
YEAR 5						
YEAR 6						
YEAR 7						
CUR YR	01012006	12312006	-38157789	WHOLE DOLLARS ONLY		

2. TOTAL BOOK INCOME (sum of income for all tax periods up to, but not over 5 years total)	2	-121030615
3. DIVISOR (in years and in part years rounded to three decimal places) See Instructions	3	5.000
4. Divide Line (2) by Line (3)	4	-24206123
5. AVERAGE BOOK INCOME - Enter Line (4) or if Line (4) is less than zero enter "0"	5	0
6. Divide Line (5) by 0.095	6	0
7. Shareholders' equity at the END of the current period	7	946280588
8. Shareholders' equity at the BEGINNING of the current period	8	354468345
9. If Line (7) is more than twice as great or less than half as much as Line (8), add Lines (7) and (8) and divide by 2. Otherwise enter Line (7).	9	650374467
10. NET WORTH - Enter Line (9) or if Line (9) is less than zero enter "0"	10	650374467
11. Multiply Line (10) by 0.75	11	487780850
12. Add Lines (6) and (11)	12	487780850
13. Divide Line (12) by 2	13	243890425
14. \$125,000 valuation deduction	14	-125000
15. CAPITAL STOCK VALUE - Line (13) less Line (14) but not less than "0". If 100% Taxable, enter Line (15) on Line (17).	15	243765425
16. Proportion of taxable assets or apportionment proportion (From Schedule A-1, Line 5)	16	.292083
17. TAXABLE VALUE - Multiply Line (15) by Line (16). If less than zero, enter "0"	17	71199737
18. CAPITAL STOCK/FOREIGN FRANCHISE TAX - Multiply Line (17) by .00489.	18	348167

10100064114

NAME EQUITABLE RESOURCES, INC  
ACCOUNT ID 0043078 TAX YEAR END 12312006

RCT-101 PAGE 4 OF 6

PA CORPORATE TAX REPORT 2006

SECTION D: LOANS TAX

- 1. Did this corporation have a fiscal officer resident in PA and paying interest on indebtedness of the corporation? XX Y
- 2. Did this corporation have indebtedness outstanding to individual residents and/or partnerships resident in Pennsylvania? XX Y
- 3. Did this corporation have indebtedness outstanding held by a trustee, agent or guardian for a resident individual taxable in its own right or by an executor or administrator of an estate wherein the decedent was a resident of Pennsylvania? XX Y

List outstanding indebtedness. Attach separate schedule if additional space required.

Interest Amount	Interest Rate	Taxable Value			
266427	6.000	4440450	TAX INDEBT	XX	9250933
288629	6.000	4810483			
0	.000	0	LOANS TAX	XX	36769

SEE STATEMENT 3

Schedule A-1: Apportionment Schedule For Capital Stock/Foreign Franchise Tax (Include Form RCT-102, RCT-105, or RCT-106)

Three Factor				Single Factor			
Property - PA	1A	0	1C	.000000	Numerator	4A	1099301695
Property - Total	1B	0			Denominator	4B	3763665177
Payroll - PA	2A	0	2C	.000000			
Payroll - Total	2B	0					
Sales - PA	3A	0	3C	.000000	Apportionment	5	.292083
Sales - Total	3B	0			Proportion		

Schedule C-1: Apportionment Schedule For Corporate Net Income Tax (Include Form RCT-106)

Three Factor				Single Factor			
Property - PA	1A	0	1C	.000000	Numerator	4A	11573891
Property - Total	1B	0			Denominator	4B	21040468
Payroll - PA	2A	0	2C	.000000			
Payroll - Total	2B	0					
Sales - PA	3A	0	3C	.000000	Apportionment	5	.550078
Sales - Total	3B	0			Proportion		

12/31/06 EQUITABLE RESOURCES, INC 0043078  
 TAXABLE PERIOD ENDED (MONTH/DAY/YEAR) NAME OF CORPORATION CORP TAX ACCOUNT ID

Schedules 1 and 2 of this Insert Sheet must be completed by Pennsylvania corporations claiming the exemption for tangible and intangible assets for Capital Stock Tax purposes and foreign corporations electing to use the single factor exempt asset fraction for Foreign Franchise Tax purposes.

Tables 1, 2, 3 and 4 of this Insert Sheet must be completed by all corporations apportioning taxable income and by foreign and Pennsylvania corporations using the three (3) factor formula to compute the taxable value of capital stock.

A. AVERAGE TOTAL ASSETS (Carry to RCT-101, Schedule A-1, Line (4b))		\$ 3,763,665,177.
B. Less: AVERAGE EXEMPT ASSETS -		
Tangibles (From Schedule 1 Below)	\$ 157,110,134.	
Intangibles (From Schedule 2 Below)	\$ 2,504,312,957.	
Pollution Control Devices <b>STMT 4</b>	\$ 2,940,391.	\$ 2,664,363,482.
<small>(Attach description schedule and copy of DEP certification)</small>		
C. AVERAGE ASSETS TAXABLE IN PA (Carry to RCT-101, Schedule A-1, Line (4a))		\$ 1,099,301,695.
D. PROPORTION OF TAXABLE ASSETS (compute to six decimal places)	<b>AVERAGE TAXABLE ASSETS</b>	<b>.292083</b>
	<b>AVERAGE TOTAL ASSETS</b>	(Carry to RCT-101, Schedule A-1, Line (5))

**EXEMPTION CLAIMED FOR TANGIBLE AND INTANGIBLE ASSETS (OMIT CENTS)**

SCHEDULE 1	Net Book Value - Beginning		Net Book Value - Ending		E Amount of Exemption Claimed for Average Value of Tangible Assets Located Outside of PA (COL. B + D) - 2
	A Inside PA	B Outside PA	C Inside PA	D Outside PA	
EXEMPT TANGIBLE ASSETS (Attach rider, if necessary)					
1. Buildings					
2. Equipment and Fixtures	588502668.	160296409.	627172984.	145605067.	152950738.
3. Land	102,364.	85,725.	124,730.	195,466.	140,596.
4. Leasehold Improvements					
5. Motor Vehicles					
6. Rolling Stock and all other Movable Property					
7. Other Tangible Property (Attach Schedule)					
8. Inventories	94,094,970.	3,408,645.	122583588.	4,628,955.	4,018,800.
<b>TOTALS</b>	<b>682700002.</b>	<b>163790779.</b>	<b>749881302.</b>	<b>150429488.</b>	<b>157110134.</b>

NOTE: If there was a substantial change during the year, attach a separate schedule explaining same in detail.

SCHEDULE 2	A Number of Shares or %	B Date Acquired	C Date Sold	D Held (Full Year or No. of Days)	E Book Value	F Exemption Claimed
EXEMPT INTANGIBLE ASSETS (Attach rider, if necessary)						
1. Stocks of PA Corporations		SEE STATEMENT 5			75,091,476.	37,545,738.
2. Stocks of Foreign Corporations (More than 50% owned)		SEE STATEMENT 6			2083849371.	2466767219.
3. Student Loan Assets						
4. United States Securities Exempt State and Local Securities						
6. National Bank Shares						
7. TOTALS (For Exemption Purposes)					2158940847.	2504312957.

au of Corporation Taxes  
T. 280705  
ARRISBURG, PA 17128-0705

COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF REVENUE

REPORT  
RECEIVED 10/13/04



OFFICIAL NOTICE OF SETTLEMENT

PRICEWATERHOUSECOOPERS LL  
600 GRANT STREET  
PITTSBURGH PA 15219

PA ACCOUNT ID: 0043-078  
TAXABLE YEAR: 01/01/03 TO 12/31/03  
DLN: 45-2-83634

EQUITABLE RESOURCES INC  
ONE OXFORD CENTRE  
SUITE 3300  
PITTSBURGH PA 15219

OFFICIAL SETTLEMENT HAS BEEN MADE BY THE PA DEPARTMENT OF REVENUE AND  
THE DEPARTMENT OF THE AUDITOR GENERAL FOR THE TAXES LISTED BELOW:

----- SECTION A - CAPITAL STOCK/FRANCHISE TAX -----  
TAX AS REPORTED AS SETTLED  
1,110,176 1,124,000

----- SECTION B - LOANS TAX -----  
TAX AS REPORTED AS SETTLED  
9,377 9,377

----- SECTION C - CORPORATE NET INCOME TAX -----  
TAX AS REPORTED AS SETTLED  
0 0

DEPARTMENT OF REVENUE  
(717)703-6031  
WILLIAM DENNIS

MAILING DATE  
03/28/05

AUDITED AND APPROVED BY  
DEPARTMENT OF AUDITOR GENERAL  
JOHN BARWIN

03/25/05

TO FORMALLY CONTEST THIS SETTLEMENT, A PETITION FOR RESETTLEMENT, ALONG WITH A  
COPY OF THIS SETTLEMENT NOTICE MUST BE FILED WITHIN 90 DAYS OF THIS NOTICE  
MAILING DATE. APPEALS, SIGNED BY A CORPORATE OFFICER, MAY BE FILED VIA THE  
INTERNET @ WWW.BOARDOFAPPEALS.STATE.PA.US, OR MAILED TO: BOARD OF APPEALS,  
DEPT 281021, HARRISBURG, PA. 17128-1021.

LOANS SETTLED AS REPORTED

ADJUSTMENTS NOTED ON THE NEXT PAGE ARE EXPLAINED BELOW:

- \* DEPARTMENT OF REVENUE COMPUTATION DIFFERS FROM SUBMITTED FIGURE
- F1 USE CONSOLIDATED NET WORTH.
- G6 AS REFLECTED ON RESETTLEMENT ISSUED BY BOARD OF APPEALS.

----- SECTION A - CAPITAL STOCK/FRANCHISE TAX -----

HISTORY OF EARNINGS - BOOK INCOME	AS REPORTED	AS ADJUSTED	NOTES
01/01/99 TO 12/31/99	23,377,481	29,463,596	06
01/01/00 TO 12/31/00	10,983,409	9,477,700	06
01/01/01 TO 12/31/01	8,790,048-		
01/01/02 TO 12/31/02	15,411,807		
01/01/03 TO 12/31/03	16,929,442-	28,633,613	
TOTAL BOOK INCOME	4,810,641	5,726,723	*
AVERAGE NET INCOME			
EQUITY YEAR ENDING	173,965,339,987-	965,340,008	F1
EQUITY YEAR BEGINNING	778,639,042		
NET WORTH	965,339,987	965,340,008	
CAPITAL STOCK VALUE	387,196,658	392,818,147	* A
APPORTIONMENT PROPORTION	396024	396024	* B
CAPITAL STOCK/FRANCHISE TAX	1,110,176	1,124,008	*

SCHEDULE A-1: APPORTIONMENT SCHEDULE FOR CAPITAL STOCK/FRANCHISE TAX

PROPERTY FACTOR - PA	
PROPERTY FACTOR - TOTAL	
PAYROLL FACTOR - PA	
PAYROLL FACTOR - TOTAL	
SALES FACTOR - PA	
SALES FACTOR - TOTAL	
SINGLE FACTOR - NUMERATOR	1,118,391,471
SINGLE FACTOR - DENOMINATOR	2,824,047,050

----- SECTION B - LOANS TAX -----

INDEBTEDNESS	2,368,546	
LOANS TAX	9,377	9,377

----- SECTION C - CORPORATE NET INCOME TAX -----

DEPRECIATION CARRY IN AND OUT	23,145,895	32,288,139
NET INCOME	149,466,966-	
DIVIDENDS		
US INTEREST		
DEPRECIATION DEDUCTION	6,181,420	6,181,420
OTHER		
TOTAL DEDUCTIONS	6,181,420	6,181,420
INCOME TAXES	4,439,135-	
TAX PREFERENCE ITEMS		
EIP ADJUSTMENTS		
DEPRECIATION ADDITION	15,323,664	
OTHER		
TOTAL ADDITIONS	10,884,529	10,884,529
ADJUSTED INCOME	144,763,857-	144,763,857-
TOTAL NONBUSINESS INCOME		
INCOME TO BE APPORTIONED		144,763,857-
APPORTIONMENT PROPORTION	.706868	706868
PA APPORTIONED INCOME		102,328,938-
PA NONBUSINESS INCOME		
INCOME PRIOR TO NL DEDUCTION	134,870,903-	102,328,938-
NET LOSS DEDUCTION		
PA TAXABLE INCOME		102,328,938-
CORPORATE NET INCOME TAX	0	0

SCHEDULE C-1: APPORTIONMENT SCHEDULE FOR CORPORATE NET INCOME TAX

PROPERTY FACTOR - PA	
PROPERTY FACTOR - TOTAL	
PAYROLL FACTOR - PA	
PAYROLL FACTOR - TOTAL	
SALES FACTOR - PA	
SALES FACTOR - TOTAL	
SINGLE FACTOR - PA	9,132,932
SINGLE FACTOR - TOTAL	12,920,287

SCHEDULE C-2: NET LOSS DEDUCTION AND CARRYFORWARD

NL CARRYFWD TO CURRENT TAXABLE YEAR	NL CARRYFWD TO NEXT TAXABLE YEAR
	12-31-03 102,328,938

CT AFP (05-97)

DEPARTMENT OF REVENUE  
 BUREAU OF CORPORATION TAXES  
 DEPT. 280791  
 HARRISBURG, PA 17128-0701



ACCOUNT REVIEW

DATE OF INCORPORATION OR CERTIFICATE OF AUTHORITY 03-31-26	FISCAL YEAR 12	CORPORATION TAX FILE (BOX) NUMBER 0043-078
--	-------------------	--

OFFICIAL USE ONLY

POSTMARK DATE

MAILED:

03-28-05

OFFICIAL SETTLEMENT HAS BEEN MADE BY THE DEPARTMENT OF REVENUE AND THE DEPARTMENT OF THE AUDITOR GENERAL FOR THE TAX ITEMS LISTED BELOW.

\*\* PLEASE FORWARD THIS DOCUMENT TO YOUR PRACTITIONER \*\*

DLN 45-2-83634

EQUITABLE RESOURCES INC  
 ONE OXFORD CENTRE  
 SUITE 3300  
 PITTSBURGH PA 15219

QUESTIONS REGARDING:  
 ACCOUNT COMPOSITION; INCLUDING PAYMENTS,  
 INTEREST, AND PENALTY, PHONE (717)705-6225  
 CALCULATION OF TAX, PHONE (717)783-6031

25-0464690

4923

P

AA

DATE	T/C	TAX YEAR ENDING	TYPE OF TAX	REVENUE CODE	TAX	PAYMENT/CREDITS	BALANCE
03 25 05	04	1203	01	CAPITAL STOCK	SELF-ASSESSED	TAX INCREASED	13824.00
03 25 05	04	1203	03	LOANS	NO CHANGE		
03 25 05	04	1203	04	CORP. NET INCOME	NO CHANGE		
-----							
THIS COMPREHENSIVE ACCOUNT REVIEW IS SUBMITTED FOR YOUR VERIFICATION PLEASE KEEP YOUR ACCOUNT CURRENT - TRANSFER OLD TAX CREDITS FORWARD							
SETTLED ITEMS							
02 10 05	04	1202	01	122101	835053.00	815613.00	19440.00
03 25 05	04	1203	01		1124000.00	1274094.00	150094.00CR
TOTAL SETTLED ITEMS					1959053.00	2089707.00	130654.00CR
NOT SETTLED ITEMS							
09 10 04	01	0804	60		53986.83	53986.83	.00
TOTAL NOT SETTLED ITEMS					53986.83	53986.83	.00
----- CAP STOCK/FRANCHISE -----							
09 23 04	113	1204	01			711156.00	
01 18 05	112	1205	01			.00	
----- CORP NET INCOME - ESTIMATED -----							
12 15 04	112	1204	04			204000.00	
01 18 05	112	1205	04			.00	

NOTE: Employment Incentive or Job Creation Tax Credits, when applicable, may not be reflected on this statement.

NET TAX BALANCE

130654.00CR

NOTE: INTEREST CHARGES WILL BE IMPOSED ON UNPAID TAX(ES) FROM ANNUAL DUE DATE THROUGH DATE PAID.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Taxes, Other than Income Taxes

49. Submit details of calculation for Taxes, Other than Income where a company is assessed taxes for doing business in another state, or on its property located in another state.

Response:

The company pays various taxes, other than income taxes, in West Virginia and Kentucky. None of these taxes except for the WV Board of Public Works tax, are allocated to Pennsylvania service. See III-A-17.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Taxes, Other than Income Taxes

50. Provide a schedule of federal and Pennsylvania taxes, other than income taxes, calculated on the basis of test year per books, pro forma at present rates, and pro forma at proposed rates, to include the following categories:
- a. social security
  - b. unemployment
  - c. capital stock
  - d. public utility realty
  - e. PUC assessment
  - f. Other property
  - g. Any other appropriate categories

Response:

See Item III-A-17 for details.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

51. Submit a schedule showing for the last five years the income tax refunds, plus interest (net of taxes), received from the federal government due to prior years' claims.

Response:

Equitable received immaterial amounts of refunds during the last five tax years. None of these refunds was were related to audit adjustments. Tax years 1998 through present are still open under audit.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

52. Provide detailed computations showing the deferred income taxes derived by using accelerated tax depreciation applicable to post-1969 utility property increases productive capacity, and ADR rates on property. (Separate between state and federal; also, rate used)
- a. State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year.
  - b. Reconcile any difference between the deferred tax balance, as shown as a reduction to measures of value (rate base), and the deferred tax balance as shown on the balance sheet.

Response:

- a. Yes and yes
- b. There is no difference between the deferred tax balance on the balance sheet and the reduction to measures of value at the end of the test year related to accumulated deferred federal income tax.

Item III-A-52 Sheet 2 of 3  
Future Test Year

	Total Company	Total PA	PA PUC
Accelerated Tax Depreciation- Basis for Deferred Tax Provisions			
Current Deductions	24,899,834	24,416,419	24,416,419
Provision for Deferred Income State Income Taxes			
Federal Income Tax at 35%	8,714,942	8,545,747	8,545,747

Item III-A-52 Sheet 3 of 3

Future Test Year

Depr Meth	Depreciable Basis	Current Depreciation-TAX	
77	208,617,580	604.04	
ACRS	131,124,724	0.00	
ADS	100,586,089	3,522,324.64	
MA150	67,083,605	4,250,187.34	
MA200	8,960,931	893,812.47	
MF100	4,656,492	119,397.23	
MF150	142,747,795	12,847,853.33	
MF200	40,683,824	6,523,536.34	
MT100	2,050,131	65,082.82	
MT150	125,672,050	2,851,934.52	
MT200	10,009,164	0.00	
NoDep	(566,933)	0.00	
SLMM	20,570,502	1,399,637.29	
Bonus	24,204,052	12,102,023.00	
<b>Total TAX</b>	<b>886,400,005</b>	<b>44,576,393</b>	
<b>Total Book</b>	<b>884,167,867</b>	<b>19,676,559</b>	
<b>Difference</b>	<u><u>2,232,138</u></u>	<u><u>24,899,834</u></u>	<i>Tax over Book</i>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

52. Provide detailed computations showing the deferred income taxes derived by using accelerated tax depreciation applicable to post-1969 utility property increases productive capacity, and ADR rates on property. (Separate between state and federal; also, rate used)
- a. State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year.
  - b. Reconcile any difference between the deferred tax balance, as shown as a reduction to measures of value (rate base), and the deferred tax balance as shown on the balance sheet.

Response:

- a. Yes and yes
- b. There is no difference between the deferred tax balance on the balance sheet and the reduction to measures of value at the end of the test year related to accumulated deferred federal income tax.

Item III-A-52 Sheet 2 of 3  
Historic Test Year

	Total Company	Total PA	PA PUC
Accelerated Tax Depreciation- Basis for Deferred Tax Provisions			
Current Deductions	12,751,237	12,150,133	12,150,133
Provision for Deferred Income State Income Taxes			
Federal Income Tax at 35%	4,462,933	4,252,547	4,252,547

Historic Test Year

<b>Depr Meth</b>	<b>Depreciable Basis</b>	<b>Current Depreciation-TAX</b>	
Pre-ADR	208,617,580	604	
ACRS	131,124,724	-	
ADS	100,586,089	3,565,466	
MA150	67,083,605	4,062,577	
MA200	8,960,931	749,683	
MF100	4,656,492	119,397	
MF150	160,003,547	11,596,226	
MF200	40,683,824	4,735,467	
MT100	2,050,131	65,080	
MT150	125,672,050	4,090,596	
MT200	10,009,164	-	
NoDep	(566,933)	-	
SLMM	20,570,502	1,378,981	
<b>Total-TAX</b>	<b>879,451,705</b>	<b>30,364,077</b>	
<b>Total Book</b>	<b>862,954,211</b>	<b>17,612,839</b>	
<b><i>Difference</i></b>	<b><u>16,497,494</u></b>	<b><u>12,751,237</u></b>	<b><i>Tax over Book</i></b>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

53. Submit a schedule showing a breakdown of the deferred income taxes by state and federal per books, pro-forma existing rates, and under proposed rates.

Response:

See Item III-A-53, Sheet 2 of 2

Item III-A-53 Sheet 2 of 2

Deferred Income Tax	Per Books 12/31/2007		Total Company (B) 12/31/07	Future Test Year Adjustment ( B)	Total Company at Proposed Rates 12/31/2008 (B)
		Adjustments (A)			
<b>Federal:</b>					
Other	2,469,738	(2,469,738)			
Deferred Investment Tax Credit	(432,054)	432,054			
Depreciation - Tax Impairments	(4,983,736)	9,236,283	4,252,547	4,293,200	8,545,747
Incentive Compensation	2,410,825	(2,410,825)			
Purchased Gas Costs	4,618,515	(4,618,515)			
Regulatory Asset	1,584,095	(1,584,095)			
Transaction Cost Adjustment	2,868,697	(2,868,697)			
Bad Debt Reserve	(2,129,395)	2,129,395			
<b>Total Federal</b>	<b>6,406,685</b>	<b>(2,154,138)</b>	<b>4,252,547</b>	<b>4,293,200</b>	<b>8,545,747</b>
<b>State:</b>					
Other	941,161	(941,161)			
Deferred Investment Tax Credit	(132,360)	132,360			
Depreciation - Tax	1,358,588	(1,358,588)			
Incentive Compensation	425,813	(425,813)			
Purchased Gas Costs	1,311,741	(1,311,741)			
Regulatory Asset	176,676	(176,676)			
Transaction Cost Adjustment	546,090	(546,090)			
Bad Debt Reserve	(569,685)	569,685			
<b>Total State</b>	<b>4,058,024</b>	<b>(4,058,024)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Federal and State</b>	<b>10,464,709</b>	<b>(6,212,162)</b>	<b>4,252,547</b>	<b>4,293,200</b>	<b>8,545,747</b>

(A) Elimination of nonjurisdictional deferred income taxes

(B) Represents deferred income taxes on liberalized depreciation for test year under present and proposed rates. See III-A-52 for both historic and future test years for computation

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

54. Submit a schedule showing a breakdown of accumulated investment tax credits (3 percent, 4 percent, 7 percent, 10 percent, and 11 percent), together with details of methods used to write-off the unamortized balances.

Response:

See the attached for breakdown of accumulated investment tax credits.

The accumulated investment tax credits are being amortized over the estimated lives of the related properties. Amortization of credits applicable to qualified additions prior to 1971 is credited to Account 411.4- Investment Tax Credit Adjustments. Amortization applicable to qualified additions after 1970 is credited to Account 420.00- Investment Tax Credit (Other Income) in accordance with the Company's election to apply unamortized credits as a reduction in rate base which is restored ratably over the estimated service life of the related property.

The investment tax credit was repealed for property placed in service after December 31, 1985, although investment tax credit is available with certain requirements for certain "transition" property. "Transition" property is certain property under construction or under contract at December 31, 1985, provided the property is placed in service within certain time periods depending on the tax life of the property.

As indicated in the following sheets, the Company did generate some investment tax credit in 1986 and 1987 on transition property.

	Credit Generated	Accumulated Amortization thru 12/31/07	Balance at 12/31/07 2007	Amortization for 2008	Balance at 12/31/2008
1962	281,256	281,256	-		
1963	276,600	276,600	-		
1964	223,000	223,000	-		
1965	208,360	208,360	-		
1966	250,000	250,000	-		
1967	242,000	239,209	2,791	2,791	-
1968	271,000	262,236	8,764	5,613	3,151
1969	152,400	144,583	7,817	3,157	4,660
1970	29,858	28,777	1,081	618	463
	93	(4,744)	4,837	(478)	5,315
	(125,592)	(112,700)	(12,892)	(2,601)	(10,291)
<b>Total</b>	<b>1,808,975</b>	<b>1,796,577</b>	<b>12,398</b>	<b>9,100</b>	<b>3,298</b>
1971	240,649	223,423	17,226	5,008	12,218
1972	780,031	731,947	48,084	16,196	31,888
1973	1,083,593	995,649	87,944	22,449	65,495
1974	708,692	644,626	64,066	14,967	49,099
1975	1,566,592	1,396,595	169,997	32,558	137,439
1976	2,077,553	1,835,603	241,950	43,067	198,883
1977	1,569,883	1,364,619	205,264	32,555	172,709
1978	2,234,314	1,907,597	326,717	46,279	280,438
1979	3,120,842	2,614,021	506,821	65,213	441,608
1980	2,370,787	1,955,357	415,430	49,302	366,128
1981	3,285,894	2,668,935	616,959	68,199	548,760
1982	2,646,457	2,115,994	530,463	54,845	475,618
1983	2,501,773	1,963,719	538,054	51,855	486,199
1984	4,103,327	3,166,692	936,635	85,095	851,540
1985	3,524,861	2,670,673	854,188	73,048	781,140
1986	655,119	763,730	(108,611)	(3,208)	(105,403)
1987	91,074	(25,946)	117,020	7,543	109,477
		(702)	702	1,029	(327)
<b>Total</b>	<b>32,561,442</b>	<b>26,992,532</b>	<b>5,568,910</b>	<b>666,000</b>	<b>4,902,910</b>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

55. Submit a schedule showing the adjustments for taxable net income per books (including below-the-line items) and pro forma under existing rates, together with an explanation of any difference between the adjustments. Indicate charitable donations and contributions in the tax calculation for ratemaking purposes.

Response:

See Item III-A-17.

Charitable donations and contributions are not included in the tax calculations for ratemaking purposes. These expenses are not claimed for ratemaking purposes and the tax benefit is also not credited to taxes for ratemaking purposes.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

56. Submit detailed calculations supporting taxable income before state and federal income taxes where the income tax is subject to allocation due to operations in another state, or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.

Response:

See Item III-A-17.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
*All Utilities*  
Income Taxes

57. Submit detailed calculations showing the derivation of deferred income taxes for amortization of repair allowance if such policy is followed.

Response:

Not Applicable.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

58. Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits and reserves by accounting areas.

Response:

The attached is a summary of the provision for deferred income taxes per books for the test year and the accumulated reserve balances at 12/31/2007 and 12/31/2008:

Item III-A-58  
 Sheet 2 of 2

Description	State Provision	Fed Provision	Accumulated Reserves at 12/31/07	Adjustments	Accumulated Reserves in Rate Base 12/31/07	Future Test Year Adjustments	Accumulated Reserves in Rate Base 12/31/08
Other	-	-	(904,252)	904,252	-		
Deferred Income Tax	6,406,685	Per Books 12/31	1,910,589	(1,910,589)	-	(261,337)	(261,337)
Depreciation - Tax	-	-	(129,256,180)	33,354,003	(95,902,177)	(8,545,747)	(104,447,924)
Incentive Compensation	-	2,469,738	4,487,423	(4,487,423)	-		
Purchased Gas Costs	941,161	(432,054)	(15,427,924)	15,427,924	-		
Regulatory Asset	(132,360)	(4,983,736)	(19,503,179)	19,503,179	-		
Transaction Cost Adjustment	1,358,588	-	3,414,789	(3,414,789)	-		
Bad Debt Reserve	425,813	2,410,825	5,412,904	(5,412,904)	-		
<b>Total</b>	<b>8,999,887</b>	<b>(535,227)</b>	<b>(149,865,830)</b>	<b>53,963,653</b>	<b>(95,902,177)</b>	<b>(8,807,084)</b>	<b>(104,709,261)</b>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

59. Provide details of the Federal Surtax Credit allocated to the Pennsylvania jurisdictional area, if applicable.

Response:

Not applicable

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

60. Explain the reason for the use of cost of removal of any retired plant figures in the income tax calculation.

Response:

The Company has elected the ADR system, ACRS, and MACRS for calculating depreciation for tax purposes. Regulations thereunder provide that cost of removal is deductible as a current expense and not to be subtracted from the depreciation reserve.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

61. Submit the corresponding data applicable to Pennsylvania Corporate Income Tax deferment.
- a. Show the amounts of straight line tax depreciation and accelerated tax depreciation, the difference between which gave rise to the normalizing tax charged back to the test year operating statement.
  - b. Show normalization for both Federal and State Income Taxes.
  - c. Show tax rates used to calculate tax deferment amount.

Response:

No provision is made for deferred Pennsylvania Corporate Income Tax applicable to liberalized deprecation. See Item III-A-52.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

62. Provide the accelerated tax depreciation and the book depreciation used to calculate test year deferrals in amounts segregated as follows:
- a. Property installed prior to 1970.
  - b. Property installed subsequent to 1969 ( indicate increasing capacity additions and non-increasing capacity additions)

Response:

- a. No tax deferrals have been booked, or included in the filing, for property installed prior to 1970.
- b. See Item work paper III-A-52.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

63. State whether all tax savings due to accelerated depreciation on property installed prior to 1970 have been passed through to income. (In not, explain).

Response:

Yes, all tax savings due to accelerated depreciation on property installed prior to 1970 have been passed through to income.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

64. Show any income tax loss/gain carryovers from previous years that may effect test year income taxes or future year income taxes. Show loss/gain carryovers by years of origin and amounts remaining by years at the end of the test year.

Response:

There is a Pennsylvania net operating loss carry-forward of \$545,168,016. The net operating loss carry-forward originated in taxable year ended December 31, 1996. The net operating loss tax deduction allowed each year is equal to the greater of \$3,000,000 or 12.5% of Pennsylvania taxable income but not exceeding taxable income. Net operating loss carry-forwards from 1996 and 1997 can be carried forward ten (10) years. Net operating loss carry-forwards originating in 1998 and after can be carried forward twenty (20) years.

Tax Period Beginning	Tax Period End	Net Loss to Carryforward to Current Period	Amount Utilized	Net Loss Carryforward to Next Period
01/01/1996	12/31/1996	45,604,156	(45,604,156)	-
01/01/1997	12/31/1997	8,123,209		8,123,209
01/01/1998	12/31/1998	19,254,719		19,254,719
01/01/1999	12/31/1999	2,000,368		2,000,368
01/01/2000	12/31/2000	5,012,255		5,012,255
01/01/2002	12/31/2002	39,292,895		39,292,895
01/01/2003	12/31/2003	134,870,903		134,870,903
01/01/2004	12/31/2004	25,142,235		25,142,235
01/01/2005	12/31/2005	168,966,665		168,966,665
01/01/2006	12/31/2006	142,504,767		142,504,767
		590,772,172	(45,604,156)	545,168,016

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

65. State whether the company eliminates any tax savings by the payment of actual interest on construction work in progress not in rate base claim. If the answer in affirmative:
- a. Set forth amount of construction claimed in this tax savings reduction. Explain the basis for this amount.
  - b. Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations.
  - c. State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived.
  - d. Provide details of calculation to determine tax saving reduction. State whether state taxes are increased to reflect the construction interest elimination.

Response:

The company does not eliminate tax savings related to this item. The Company does capitalize interest on construction work in progress as required by Internal Revenue Code section 263A.

**Equitable Gas Company**  
 § 53.53 III. Balance Sheet and Operating Statement  
 All Utilities  
 Income Taxes

66. Provide a detailed analysis of Taxes Accrued per books as of the test year date. Also supply the basis for the accrual and the amount of taxes accrued monthly.

Response:

<u>Taxes Accrued at 12/31/2008</u>	<u>Amount/Acc't Balance</u>	<u>Basis for Accrual</u>
Federal Income Tax	63,141,059	Tax is based on the taxable net income as defined by the Internal Revenue Code. Current tax rate is 35% of taxable income. Monthly accrual is based on taxable income for the month.
Social Security		Social Security Tax for 2007 is based on the first \$97,500 of taxable wages paid to an employee at a rate of 6.20%. The wage base for the 1.45% Medicare tax was applied to taxable wages.
Federal Unemployment		Tax is based on the first \$7,000 of wages paid to an employee at a rate of 6.2%. A credit is allowed for state unemployment taxes paid for the first 5.4% thus making the effective federal rate 0.8%. Taxes are accrued monthly based on taxable wages paid.
Pennsylvania Corporate Net Income	(14,429,542)	Tax is based on the taxable net income as defined by the Internal Revenue Code before the deduction for Pennsylvania Corporate Net Income Tax itself. Taxable net so determined is allocated to Pennsylvania based on the percentage of cubic foot capacity of pipelines located within Pennsylvania to total cubic foot capacity. Current tax rate is 9.99%. Monthly accrual is based on Pennsylvania taxable income for the month.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Pennsylvania Unemployment		Tax is based on the first \$8,000 of wages paid to an employee in a calendar year at a rate of 7.368%. The monthly accrual is based on payroll data for the period.
Pennsylvania Capital Stock	(1,548,242)	Tax is based on the value of Equitable's Capital Stock as determined by a statutory formula. Current tax rate 0.289% of the value of stock. The monthly accrual is 1/12 of the estimated annual tax liability.
Pennsylvania Gross Receipts		repealed in 1999
Pennsylvania Public Utility	501,761	Determined by Pennsylvania Public Utility Commission based on gross operating revenue and assessed on fiscal year July 1 to June 30. Paid in May or June and charged ratably over the next 12 months. The 2008 estimate is based upon the assessment for 2006.
Pennsylvania Public Utility Realty Tax	(28,099)	PURTA is based on the market value of public land, buildings and other structures.
Miscellaneous-Property, License, Other	(527,522)	The company pays miscellaneous local taxes.

Item III-A-66 Sheet 3 of 3

Accrual Per Month	Federal Income Tax	Social Security and Medicare accrued and paid as incurred	Federal Unemployment accrued and paid as incurred	Pennsylvania Corporate Net Income	Pennsylvania Unemployment	Pennsylvania Capital Stock	Pennsylvania Gross Receipts REPEALED IN 1999	Pennsylvania Public Utility	Pennsylvania Public Utility Really Tax	Miscellaneous-Property, License, Other
January	(2,296,500)	431,501	16,108	(457,600)	166,910	(95,338)		(81,700)		(3,000)
February	(4,871,800)	146,784	1,361	(970,600)	17,065	(95,329)		(81,700)		(3,000)
March	4,429,247	159,345	243	992,900	2,751	(95,338)		(81,600)		(3,000)
April	848,338	145,261	133	(111,212)	1,029	245,023		(81,700)	(8,180)	(3,000)
May	1,372,615	135,536	78	396,612	552	(24,420)		(81,600)	(8,180)	(3,000)
June	1,197,700	136,714	210	379,700	1,856	(24,420)		(81,700)	(8,180)	(3,000)
July	1,284,200	199,733	300	434,500	2,772	(19,980)		(81,600)	(8,180)	(3,000)
August	1,956,600	135,603	37	662,000	492	(19,980)		(81,700)	(8,180)	(3,100)
September	2,932,500	126,449	187	328,400	1,764	(19,980)		(81,600)	(8,180)	(3,000)
October	2,100,500	125,090	453	507,200	4,405	-		(85,679)	(8,180)	3,363
November	97,100	125,589	295	23,400	3,186	-		(85,579)	(8,180)	3,463
December	(12,482,440)	126,668	270	(1,428,845)	2,687	(148,630)		(85,549)	(5,773)	3,063

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

67. For the test year as recorded on test year operating statement:
- a. Supply the amount of federal income taxes actually paid.
  - b. Supply the amount of the federal income tax normalizing charge to tax expense due to excess of accelerated tax depreciation over book depreciation.
  - c. Supply the normalizing tax charge to federal income taxes for the 10% Job Development Credit during test year.
  - d. Provide the amount of the credit of federal income taxes due to the amortization or normalizing yearly debit to the reserve for the 10% Job Development Credit.
  - e. Provide the amount of the credit to federal income taxes for the normalizing of any 3% Investment Tax Credit Reserve that may remain in the utility books.

Response:

- a. The amount of taxes paid for 2007 is \$83,888,916 for the consolidated group.
- b. The provision amount is (\$4,252,547) per III-A-52
- c. None
- d. Amortization of the 10 percent Investment Tax Credit reserve amounts \$666,000. (credit to Account 420-Other Income).
- e. Credit to income taxes for normalizing 3 percent Investment Tax Credit Reserve amounts to \$15,000.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

67. For the test year as recorded on test year operating statement:
- a. Supply the amount of federal income taxes actually paid.
  - b. Supply the amount of the federal income tax normalizing charge to tax expense due to excess of accelerated tax depreciation over book depreciation.
  - c. Supply the normalizing tax charge to federal income taxes for the 10% Job Development Credit during test year.
  - d. Provide the amount of the credit of federal income taxes due to the amortization or normalizing yearly debit to the reserve for the 10% Job Development Credit.
  - e. Provide the amount of the credit to federal income taxes for the normalizing of any 3% Investment Tax Credit Reserve that may remain in the utility books.

Response:

- a. Based on 2008 taxable income projection, if the Company filed as a stand alone entity it would pay \$8,417,507 in taxes. However, it is anticipated for the consolidated filing group that it will not pay federal regular tax in 2008 due to a taxable loss position. For the federal consolidated return for 2008 it is anticipated that the group will pay based on the alternative minimum tax.
- b. The provision amount is anticipated to be (\$8,545,747).
- c. The provision for normalizing 10% Job Development Credit is \$0
- d. Amortization of the 10 percent Investment Tax Credit reserve amounts \$666,000.  
(credit to Account 420-Other Income)
- e. Credit to income taxes for normalizing 3 percent investment Tax Credit Reserve amounts to \$9,100.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

68. Provide the debit and credit in the test year to the Deferred Taxes due to Accelerated Depreciation for federal income tax, and provide the debit and credit for the Job Development Credits (whatever account) for test year.

Response:

**Historic Test Year**

**Deferred Federal Income Taxes-Accelerated Depreciation**

Debit Account 410-1

Provision for Deferred Income Taxes  
Federal Income Taxes 4,252,547

Credit Account 282-

Accumulated Deferred Income Taxes-Liberalized Depreciation (Net):  
Federal 4,252,547

**Job Development Credits-Deferred**

NONE

**Job Development (Investment Tax) Credits- Amortized**

Debit Account 225-

Accumulated Deferred Investment Tax Credits 681,000

Credit Account 411.4-

Investment Tax Credit Adjustments 15,000

Credit Account 420-

Investment Tax Credits 666,000

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

68. Provide the debit and credit in the test year to the Deferred Taxes due to Accelerated Depreciation for federal income tax, and provide the debit and credit for the Job Development Credits (whatever account) for test year.

Response:

**Future Test Year**

**Deferred Federal Income Taxes-Accelerated Depreciation**

Debit Account 410-1

Provision for Deferred Income Taxes  
Federal Income Taxes 8,545,747

Credit Account 282-

Accumulated Deferred Income Taxes-Liberalized Depreciation (Net):  
Federal 8,545,747

**Job Development Credits-Deferred**

NONE

**Job Development (Investment Tax) Credits- Amortized**

Debit Account 225-

Accumulated Deferred Investment Tax Credits 675,1000

Credit Account 411.4-

Investment Tax Credit Adjustments 9,100

Credit Account 420-

Investment Tax Credits 666,000

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

69. Reconcile all data given in answers to questions on income taxes charged on the test year operating statement with regard to income taxes paid, income taxes charged because of normalization and credits due to yearly write-offs of past years' income tax deferrals, and from normalization of investment tax and development credits. (Both state and federal income taxes.)

Response:

**Current Provision for Income Taxes**

Reconciliation of taxable income and provisions charged to operating expense for the test year per books and as annualized and adjusted under present base rates is presented in Item III-A-17; computation of additional income taxes under proposed rates is presented in Item III-A-17.

**Provision for Deferred Income Taxes**

Reconciliation of tax deferrals and credits is presented at Items III-A-52, 53, 58, 62, and 68.

**Investment Tax Credits**

There is no current provision for investment tax credits which was repealed by the Tax Reform Act of 1986. Amortization entries presented at Item III-A-68 agree to amounts presented in the statement of income for the test year per books and as adjusted under present base rates at Item III-A-17, except for amortization of deferred credits to other income of \$681,000 (Item III-A-68).

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

70. With respect to determination of income taxes, federal and state:
- a. Show income tax result of the annualizing and normalizing adjustments to the test year record before any rate increase.
  - b. Show income taxes for the annualized and normalized test year.
  - c. Show income tax effect of the rate increase requested.
  - d. Show income taxes for the normalized and annualized test year after application of the full rate increase.

Response:

See Item III-A-17.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Income Taxes

71. In adjusting the test year to an annualized year under present rates, explain any changes that may be due to book or tax depreciation change and to debits and credits to income tax expense due to accelerated depreciation, deferred taxes, job development credits, tax refunds or other items.

Response:

See Item III-A-17 and Item III-A-52.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities  
Balance Sheet

1. If Unrecovered Fuel Cost policy is implemented, provide the following:
  - a. State manner in which amount of Unrecovered Fuel Cost on balance sheet at end of the test year was determined, and the month in test year in which such fuel expense was actually incurred. Provide amount of adjustment made on the rate case operating account for test year-end unrecovered fuel cost. (If different than balance sheet amount, explain.)
  - b. Provide amount of Unrecovered Fuel Cost that appeared on the balance sheet at the opening date of the test year, and the manner in which it was determined. State whether this amount is in the test year operating account.

Response: See attached.

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
E. Gas Utilities

Period	C-Factor Activity	E-Factor Activity	Total
<b>a) Beginning Balance 1/1/2007</b>			53,518,991
1/31/2007	587,069	(8,403,005)	(7,815,936)
2/28/2007	1,701,671	(10,863,182)	(9,161,511)
3/31/2007	11,199,140	(5,734,197)	5,464,943
4/30/2007	7,455,696	(4,604,234)	2,851,462
5/31/2007	5,460,960	(1,360,130)	4,100,830
6/30/2007	6,906,610	(831,638)	6,074,972
7/31/2007	5,396,689	(642,447)	4,754,242
8/31/2007	824,780	(534,208)	290,572
9/30/2007	(764,989)	(619,080)	(1,384,069)
10/31/2007	612,784	(1,439,485)	(826,701)
11/30/2007	(4,792,347)	(3,880,770)	(8,673,117)
12/31/2007	(3,116,471)	(5,806,454)	(8,922,925)
<b>Total 2007 Activity</b>	31,471,591	(44,718,830)	<u>(13,247,239)</u>
<b>Total Cumulative Balance at 12/31/2007</b>			<u><u>40,271,752</u></u>
<b>b) Beginning Balance 1/1/2006</b>			45,258,169
1/31/2006	6,211,101	(3,792,264)	2,418,837
2/28/2006	(4,594,844)	(4,288,879)	(8,883,723)
3/31/2006	(6,081,933)	(3,105,670)	(9,187,603)
4/30/2006	9,982,345	(2,441,890)	7,540,455
5/31/2006	5,800,018	(1,198,950)	4,601,068
6/30/2006	2,838,526	(787,935)	2,050,591
7/31/2006	4,612,100	(734,288)	3,877,812
8/31/2006	6,908,606	(634,633)	6,273,973
9/30/2006	5,398,156	(838,222)	4,559,934
10/31/2006	(3,340,642)	(2,091,718)	(5,432,360)
11/30/2006	1,540,306	(3,679,302)	(2,138,996)
12/31/2006	7,870,839	(5,290,006)	2,580,833
<b>Total 2006 Activity</b>	37,144,579	(28,883,757)	<u>8,260,822</u>
<b>Total Cumulative Balance at 12/31/2006</b>			<u><u>53,518,991</u></u>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

Balance Sheet

2. Provide details of items and amounts comprising the accounting entries for Deferred Fuel Cost at the beginning and end of the test year.

Response:

Refer to Item 53.53 III E-1.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

Revenues

3. Submit a schedule showing a reconciliation of test year Mcf sales and line losses. List all amount of gas purchased, manufactured and transported.

Response:

Refer to Item IV-B-14 for all gas purchased and transported, and a reconciliation of test year Mcf sales and line losses.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

4. Provide detailed calculations substantiating the adjustment to revenues for annualization of changes in number of customers and annualization of change in volume sold for all customers for the test year.
  - a. Break down changes in number of customers by rate schedules.
  - b. If an annualization adjustment for changes in customers and changes in volume sold is not submitted, please explain.

Response:

See Exhibit III, Item III-E-10, and III-E-20.

**Equitable Gas Company**  
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Revenues

5. Submit a schedule showing the sources of gas supply associated with annualized Mcf sales.

Response:

See Item IV-B-14, and I-C-1.

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§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

6. Supply, by classification, Operating Revenues – Miscellaneous for test year.

Response:

Refer to Item III-A-17 for the historic and future test years for Operating Revenue-Miscellaneous by classification.

The balance in account 488, Operating Revenue-Miscellaneous, is comprised mostly of reconnect charges/fees.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

7. Provide details of respondent's attempts to recover uncollectible and delinquent accounts.

Response:

The Company's Customer Assistance Program (CAP) is an account management program for low-income, payment troubled customers at or below 150 percent of the federal poverty level. Eligible customers are placed on an affordable budget based on a percentage of the customer's gross annual household income. When customers make regular payments, they receive credits to offset the difference between their usage and their CAP budget payments, and also receive arrearage forgiveness credits to eliminate pre-CAP balances over an average of four years.

Equitable believes that CAP impacts its billing and collection process in the following ways:

- A. Removes low-income, payment troubled customers from the traditional collection cycle.
- B. Encourages consistent bill-payment efforts.
- C. Increases customer participation in seeking available energy assistance funds.

**1. Uncollectible Non-Active Accounts**

Upon termination of service, three final bills are prepared and mailed to each final billed customer. Collection procedures for final bill accounts commence 25 days after the original final bill date. These procedures include an initial soft reminder call regarding the final due balance, followed by a second reminder telephone call 10 days later. The account is charged off as bad debt and placed with a collection company on or after day 46.

Uncollectible Non-Active Accounts and Delinquent Active Accounts are examined for large delinquent amounts. Where the property ownership is known, the charged-off account may be turned over to outside counsel for appropriate legal action.

The remainder of the charge-off delinquent accounts are referred to collection agencies for collection in accordance with the Fair Debt Collection Practices Act. Not included in

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

this group are decedents and accounts totaling less than \$25 where no further collection activity is pursued. The Collection Agency may report the delinquent balance to the Credit Bureaus. In addition, final accounts in bankruptcy cases are referred to outside counsel for the possible collection from the bankruptcy estate.

**2. Delinquent Active Accounts**

Each month, five days after the due date and at the cycle billing day of each billing unit, every active account is reviewed for delinquency. At these times, delinquent accounts are selected for collection activity based on the type of account and amount of arrears.

The types of accounts selected for collection action are:

- a. Delinquent special budget agreements – Type 1 – flat payment amount
- b. Delinquent special arrears agreements – Type 2 – current usage plus payment amount
- c. Delinquent regular accounts
- d. Delinquent Even Money (Budget) accounts
- e. Delinquent CAP (EAP) accounts

These delinquent accounts then receive the following kinds of delinquent reminders and/or collection activity:

**A. Telephone Calls and Bill Messages**

Telephone calls and bill messages are used to collect delinquent accounts. These capabilities permit the solicitation of the customer to effect resolution of the delinquency; however, should these methods fail, Equitable then considers use of the termination process or seek relief through the judicial process.

**B. Termination Notice**

A Service Termination notice is prepared under the following circumstances when the account is 30 days over due from the bill issue date:

1. Special Budget Agreements - the account is \$100 or more in arrears and the "Plus" is \$25 or more in arrears

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2. Special Arrears Agreements – the account is \$100 or more in arrears and the “Plus” is \$25 or more in arrears.
3. Regular Accounts – the account is \$100 or more in arrears.
4. Even Money (Budget) accounts – the even money amount is \$100 or more in arrears
5. CAP (EAP) accounts – the account is more than one CAP payment in arrears

A Service Termination notice is a Commission “uniform notice” form printed by the billing system. Preparation and processing of this notice is scheduled to allow for personal contact at least three business days prior to termination of service. A copy of the termination notice is also mailed to a third-party if it is designated by the customer. A report listing all accounts where personal contact could not be made is also prepared and mailed to the Commission. At this point, the termination will occur if the customer does not resolve the termination issue prior to the physical disconnection of service.

However, as required by the Commission, the termination notice informs the customer that the interruption of service can be avoided by paying the overdue amount, making payment arrangements and/or notifying the Company of a medical condition. The termination notice also provides the customer with a toll-free telephone number and address of the Harrisburg Office of the Commission that may be used by the customer in seeking Commission assistance in resolving utility billing or payment problems. The Commission’s Bureau of Consumer Services (BCS) will attempt to mediate any difference that may exist between the Company and the customer.

Once the PUC complaint/ billing dispute is registered on the account, no further termination notices regarding the disputed amount will be issued until the dispute is resolved. During this mediation period, no collection activity is permitted on the disputed amount. Service is maintained until the customer withdraws his/her complaint or until an interim order is rendered by the mediation unit permitting termination, unless the customer fails to pay undisputed charges and a post-complaint termination notice is generated.

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Should the mediation efforts of the BCS fail to obtain an agreement between the parties the BCS will issue a decision. This decision may be appealed by either party to the Commission for formal disposition by it in accordance with its applicable rules and regulations.

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Revenues

8. Describe how the net billing and gross billing is determined. For example, if the net billing is based on the rate blocks plus FCA and STA, and the gross billing is determined by a percentage increase (1, 3, or 5 percent), then state whether the percentage increase is being applied to all three items of revenue – rate blocks plus FCA and STA.

Response:

Equitable Gas Company does not have a provision for gross and net billing in its tariff.

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Revenues

9. Describe the procedures involved in determining whether forfeited discounts or penalties are applied to customer billing.

Response:

All customers' bills show a net amount which is payable on or before a due date that appears on the statement. If payment is not received by the due date, a Late Payment Charge is assessed as set forth in the tariff.

- For residential customers the due date is 20 days after the date of the mailing of the bill.
- For commercial and industrial customers the due date is 15 days after the date of mailing the bill.
- For government accounts the due date is 30 days after the date of mailing the bill.

There are no changes in the procedure for the proposed rates.

**Equitable Gas Company**  
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Revenues

10. Provide annualization of revenues as a result of rate changes occurring during the test year, at the level of operations as of end of the test year.

Response:

A summary of the annualization of revenues reflecting rates in effect at December 31, 2007 (historic test year) is attached in Section I, Sheet 1 of 1.

A summary of the annualization of revenues at present rates at December 31, 2008 (future test year) is attached in Section II, Sheet 1 of 1.

Also, please refer to Exhibit III Item III-E-20.

**Equitable Gas Company - Pennsylvania Division**  
Summary of Annualizing and Normalizing Adjustments  
Historic Test Year

Line No.	Description	Annualized Throughput (a)	Annualized Delivery Service Revenue (b)	Annualized Rider C Transition Cost Recovery (c)	Annualized Purchased Gas Cost Revenue (d)	Annualized Rider D Universal Service (e)	Annualized STAS (f)	Annualized Revenue (g)
<u>Rate Schedule</u>								
1	<u>Tariff Sales Service Rate Schedules</u>							
2	Rate RS - Residential Service	18,790,982	\$ 80,377,773	\$ 4,265,553	\$ 221,921,496	\$ 10,898,769	\$ (190,478)	\$ 317,273,113
3	Rate GSS - General Service Small	2,786,472	10,568,457	473,700	32,908,230	-	(26,370)	43,924,017
4	Rate GSL - General Service Large	1,435,508	4,320,291	244,036	16,953,354	-	(12,911)	21,504,771
5	Rate CSF - Contract Service Firm	-	-	-	-	-	-	-
6	Rate CSI - Contract Service Interruptible	-	-	-	-	-	-	-
7	Rate GL - Gas Lights	<u>2,818</u>	<u>6,717</u>	<u>483</u>	<u>33,276</u>	<u>38</u>	<u>-</u>	<u>40,513</u>
8	Total Tariff Sales Service	23,015,779	95,273,237	4,983,772	271,816,355	10,898,807	(229,758)	382,742,414
9	<u>Delivery Service Rate Schedules</u>							
10	Rate FDS - Firm Delivery Service	3,402,758	13,246,857	771,474	24,240,827	773,421	(23,420)	39,009,160
11	Rate GDS - General Delivery Service	13,380,765	23,240,299	794,103	840,815	-	(16,766)	24,858,451
12	Rate DDS - Daily Delivery Service	<u>6,995,567</u>	<u>4,176,413</u>	-	-	-	(2,506)	<u>4,173,907</u>
13	Rate FPS - Firm Pooling Service	1,273,765	66,122	-	-	-	-	66,122
14	Rate GPS - General Pooling Service	<u>12,623,363</u>	<u>661,823</u>	-	-	-	-	<u>661,823</u>
15	Total Delivery Service Rate Schedules (1)	23,779,090	41,391,513	1,565,577	25,081,642	773,421	(42,691)	68,769,462
<u>Other Services &amp; Riders</u>								
	Standby Service				3,067,883			3,067,883
18	<u>Other Revenue</u>							
19	Forfeited Discounts		1,557,851					1,557,851
20	Miscellaneous Service Revenue		1,208,555					1,208,555
21	Rent from Gas Property		1,588					1,588
22	Other Gas Revenue		<u>59,903</u>					<u>59,903</u>
23	Total Other Revenue		2,827,897					2,827,897
24	Gathering	17,129,949	5,169,989					5,169,989
25	Total	46,794,869	144,662,637	6,549,349	299,965,881	11,672,228	(272,450)	462,577,645

(1) Delivery Service throughput does not include DDS & FDS volumes.

**Equitable Gas Company - Pennsylvania Division**  
Summary of Annualizing and Normalizing Adjustments  
Future Test Year

Line No	Description	Annualized Throughput (a)	Annualized Delivery Service Revenue (b)	Annualized Rider: C Transition Cost Recovery (c)	Annualized Purchased Gas Cost Revenue (d)	Annualized Rider D Universal Service (e)	Annualized STAS (f)	Annualized Revenue (g)
<u>Rate Schedule</u>								
<u>Tariff Sales Service Rate Schedules</u>								
1	Tariff Sales Service Rate Schedules							
2	Rate RS - Residential Service	18,325,043	\$ 75,296,338	\$ 4,159,785	\$ 259,299,364	\$ 10,628,525	\$ (314,446)	\$ 349,069,566
3	Rate GSS - General Service Small	2,786,472	10,066,892	473,700	39,428,574	-	(44,972)	49,924,194
4	Rate GSL - General Service Large	1,435,508	4,061,900	244,036	20,312,444	-	(22,157)	24,596,223
5	Rate CSF - Contract Service Firm	-	-	-	-	-	-	-
6	Rate CSI - Contract Service Interruptible	-	-	-	-	-	-	-
7	Rate GL - Gas Lights	2,818	7,202	483	39,869	38	-	47,592
8	Total Tariff Sales Service	22,549,841	89,432,332	4,878,004	319,080,251	10,628,563	(381,574)	423,637,575
<u>Delivery Service Rate Schedules</u>								
9	Delivery Service Rate Schedules							
10	Rate FDS - Firm Delivery Service	3,878,242	14,431,293	879,409	35,771,929	773,421	(46,670)	51,809,381
11	Rate GDS - General Delivery Service	13,210,127	24,286,569	794,103	-	-	(25,334)	25,055,339
12	Rate DDS - Daily Delivery Service	6,995,567	4,176,413	-	-	-	(3,759)	4,172,654
13	Rate FPS - Firm Pooling Service	1,273,765	66,122	-	-	-	-	66,122
14	Rate GPS - General Pooling Service	12,462,384	654,225	-	-	-	-	654,225
15	Total Delivery Service Rate Schedules (1)	24,083,936	43,614,622	1,673,512	35,771,929	773,421	(75,763)	81,757,720
<u>Other Services &amp; Riders</u>								
16	Other Services & Riders							
17	Standby Service				3,067,883			3,067,883
<u>Other Revenue</u>								
18	Other Revenue							
19	Forfeited Discounts		1,557,851					1,557,851
20	Miscellaneous Service Revenue		1,208,555					1,208,555
21	Rent from Gas Property		1,588					1,588
22	Other Gas Revenue		59,903					59,903
23	Total Other Revenue		2,827,897					2,827,897
24	Gathering	14,444,153	5,326,454					5,326,454
25	Total	61,077,930	141,201,305	6,551,516	357,920,063	11,401,984	(457,337)	516,617,530

Notes:

(1) Delivery Service throughput does not include FPS & GPS volumes.

**Equitable Gas Company**  
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11. Provide a detailed billing analysis supporting present and proposed rates by customer classification and/or tariff rate schedule.

Response:

Refer to Item III-E-20.

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12. Provide a schedule showing residential and commercial heating sales by unit (Mcf) per month and degree days for the test year and three preceding twelve month periods.

Response:

Residential	2007		2006		2005		2004	
	Sales (Mcf)	Degree Days						
January	3,841,539	1,000	3,263,201	825	4,513,207	1,087	5,420,672	1,319
February	4,896,215	1,229	3,759,337	962	3,624,219	907	4,012,064	959
March	2,619,132	666	2,650,581	824	3,633,945	916	2,963,750	684
April	2,131,723	521	1,317,941	326	1,559,223	376	2,094,180	417
May	617,341	104	710,523	228	1,022,945	272	710,305	94
June	369,378	21	447,373	43	373,593	15	705,986	30
July	386,663	3	424,051	3	428,026	-	459,205	4
August	384,229	7	356,726	-	411,071	2	462,508	24
September	455,621	61	463,632	127	390,169	27	512,918	44
October	839,843	222	1,207,469	432	1,275,843	368	1,337,266	359
November	2,354,729	689	2,204,383	586	2,278,333	623	2,248,285	565
December	3,481,618	938	3,129,896	805	3,944,581	1,153	3,524,145	975
<b>Total</b>	<b>22,378,032</b>	<b>5,461</b>	<b>19,935,113</b>	<b>5,161</b>	<b>23,455,155</b>	<b>5,746</b>	<b>24,451,285</b>	<b>5,474</b>
<b>C&amp;I</b>								
January	561,350	1,000	712,259	825	770,521	1,087	912,635	1,319
February	950,096	1,229	672,498	962	815,134	907	932,945	959
March	728,858	666	847,683	824	819,092	916	737,720	684
April	416,889	521	358,068	326	432,838	376	456,653	417
May	205,034	104	190,312	228	288,787	272	237,071	94
June	109,310	21	130,042	43	99,232	15	143,665	30
July	93,073	3	94,485	3	112,425	-	121,114	4
August	86,299	7	84,107	-	88,862	2	143,796	24
September	91,692	61	90,436	127	92,334	27	102,052	44
October	101,190	222	153,282	432	131,956	368	150,626	359
November	254,414	689	332,565	586	317,182	623	336,601	565
December	623,909	938	518,569	805	694,482	1,153	582,268	975
<b>Total</b>	<b>4,222,114</b>	<b>5,461</b>	<b>4,184,305</b>	<b>5,161</b>	<b>4,662,844</b>	<b>5,746</b>	<b>4,857,147</b>	<b>5,474</b>

**Equitable Gas Company**  
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13. Provide a schedule of present and proposed tariff rates showing dollar change and percent of change by block. Also, provide an explanation of any change in block structure and the reasons therefore.

Response:

Please see attached schedules. The Company is proposing no changes in block structure.

**Equitable Gas Company**  
**Comparison of Present and Proposed Rates**  
**For Gas Sales Service**

Line No.	Description	Notes	Present Rates (1)	Proposed Rates (2)	Change (3)	% Change (4=3 / 1)
<b>1 <u>Rate RS - Residential Service</u></b>						
2	Monthly Service Charge		\$ 11.65	\$ 20.00	\$ 8.350	72%
3	Commodity Charge:					
4	Delivery Charge all Mcf	1)	\$ 3.494	\$ 4.136	\$ 0.642	18%
5	Natural Gas Supply Charge	2)	\$ 13.970	\$ 14.150	\$ 0.180	1%
<b>6 <u>Rate GSS - General Service Small</u></b>						
7	Monthly Service Charge					
8	< 500 Mcf		\$ 17.00	\$ 23.00	\$ 6.00	35%
9	500 - 1,000 Mcf		\$ 28.00	\$ 34.00	\$ 6.00	21%
10	Commodity Charge:					
11	Delivery Charge all Mcf	1)	\$ 2.892	\$ 2.796	\$ (0.096)	-3%
12	Natural Gas Supply Charge	2)	\$ 13.970	\$ 14.15	\$ 0.180	1%
<b>13 <u>Rate GSL - General Service Large</u></b>						
14	Monthly Service Charge					
15	1,001 - 4,999 Mcf		\$ 75.00	\$ 150.00	\$ 75.00	100%
16	5,000 - 25,000 Mcf		\$ 150.00	\$ 300.00	\$ 150.00	100%
17	> 25,000		\$ 800.00	\$ 1,600.00	\$ 800.00	100%
18	Commodity Charge:					
19	Delivery Charge all Mcf	1)	\$ 2.695	\$ 2.623	\$ (0.072)	-3%
20	Natural Gas Supply Charge	2)	\$ 13.970	\$ 14.150	\$ 0.180	1%
<b>21 <u>Rate CSF - Contract Service Firm</u></b>						
22	Monthly Service Charge			Negotiated		
23	Commodity Charge:					
24	Delivery Charge			Negotiated		
25	Natural Gas Supply Charge			-		
<b>26 <u>Rate CSI - Contract Service Interruptible</u></b>						
27	Monthly Service Charge			Negotiated		
28	Commodity Charge:					
29	Delivery Charge			Negotiated		
30	Natural Gas Supply Charge			-		
<b>31 <u>Rate GL - Gas Lights</u></b>						
32	Residential					
33	Delivery Charge on 1.8 Mcf/mo.	1)	\$ 3.494	\$ 4.136	\$ 0.642	18%
34	Commercial & Industrial					
35	Small Delivery Charge on 2.8 Mcf/mo.	1)	\$ 2.892	\$ 2.796	\$ (0.096)	-3%
36	Large Delivery Charge on 2.8 Mcf/mo.	1)	\$ 2.695	\$ 2.623	\$ (0.072)	-3%
37	Natural Gas Supply Charge	2)	\$ 13.970	\$ 14.150	\$ 0.180	1%

Notes:

- 1) Present Delivery Charge rates include a Balancing Charge of \$0.18 per Mcf and Rider C transition cost schg.
- 2) Natural Gas Supply Charges are recovered through Rider A.

**Equitable Gas Company**  
**Comparison of Present and Proposed Rates**  
**For Delivery Service**

Line No.	Description	Notes	Present Rates	Proposed Rates	Change	% Change
			(1)	(2)	(3)	(3)=(2-1)/1)
<b>1</b>	<b><u>Rate FDS - Firm Delivery Service</u></b>					
2	Monthly Service Charge					
3	Residential		\$ 11.65	\$ 20.00	\$ 8.35	72%
4	Commercial & Industrial (C&I):					
5	Annual Throughput < 500 Mcf		\$ 17.00	\$ 23.00	\$ 6.00	35%
6	Annual Throughput 500 - 1,000 Mcf		\$ 28.00	\$ 34.00	\$ 6.00	21%
7	Annual Throughput 1,001 - 4,999 Mcf		\$ 75.00	\$ 150.00	\$ 75.00	100%
8	Commodity Charges:					
9	Delivery Charge					
10	Residential		\$ 3.494	\$ 4.136	\$ 0.642	18%
11	Commercial & Industrial (C&I):					
12	Small C&I		\$ 2.892	\$ 2.796	\$ (0.096)	-3%
13	Large C&I		\$ 2.695	\$ 2.623	\$ (0.072)	-3%
14	Balancing Charge		\$ 0.180	\$ 0.250	\$ 0.070	39%
<b>15</b>	<b><u>Rate GDS - General Delivery Service</u></b>					
16	Monthly Service Charge					
17	Annual Throughput < 500 Mcf		\$ 17.00	\$ 23.00	\$ 6.00	35%
18	Annual Throughput 500 - 1,000 Mcf		\$ 28.00	\$ 34.00	\$ 6.00	21%
19	Annual Throughput 1,001 - 4,999 Mcf		\$ 75.00	\$ 150.00	\$ 75.00	100%
20	Annual Throughput 5,000 - 25,000 Mcf		\$ 150.00	\$ 300.00	\$ 150.00	100%
21	Annual Throughput > 25,000 Mcf		\$ 800.00	\$ 1,600.00	\$ 800.00	100%
22	Commodity Charges:					
23	Delivery Charge					
24	Small C&I		\$ 2.892	\$ 2.796	\$ (0.096)	-3%
25	Large C&I		\$ 2.695	\$ 2.623	\$ (0.072)	-3%
26	Balancing Charge		\$ 0.180	\$ 0.250	\$ 0.070	39%
<b>27</b>	<b><u>Rate DDS - Daily Delivery Service - Industrial</u></b>					
28	Monthly Service Charge					
29	Annual Throughput 5,000 - 25,000 Mcf		\$ 150.00	\$ 300.00	\$ 150.00	100%
30	Annual Throughput > 25,000 Mcf		\$ 800.00	\$ 1,600.00	\$ 800.00	100%
31	Commodity Charges:					
32	Delivery Charge:					
33	Resale Service		\$ 2.892	2.796	\$ (0.096)	-3%
34	Large C&I		\$ 2.695	2.623	\$ (0.072)	-3%
35	Balancing Charge		\$ 0.180	0.25	\$ 0.070	39%

**Equitable Gas Company**  
Comparison of Present and Proposed Rates

Line No.	Description	Source	Other Services			
			Present Rates (1)	Proposed Rates (2)	Change (3)	% Change (3=(2-1)/1)
<b>1 <u>Rate FPS - Firm Pooling Service</u></b>						
2	Monthly Pooling Fee		\$ 500	0 \$	(500.00)	-100%
3	Pool Operating fee/Dth		\$ 0.0472	0 \$	(0.0472)	-100%
4	Interpool Transfer Fee/Dth		\$ 0.0094	0 \$	(0.0094)	-100%
<b>5 <u>Rate GPS - General Pooling Service</u></b>						
6	Monthly Pooling Fee		\$ 500	0 \$	(500)	-100%
7	Pool Operating fee/Dth		\$ 0.0472	0 \$	(0.0472)	-100%
8	Interpool Transfer Fee/Dth		\$ 0.0094	0 \$	(0.0094)	-100%
<b>9 <u>Standby Service</u></b>						
10	Small volume: < 500 Mcf annually					
11	Rate per Mcf of throughput		\$ 1.77	\$ 0.88	\$ (0.89)	-50%
12	Medium Volume: 500 - 20,000 annually					
13	Low Load Factor		\$ 0.99	\$ 0.88	\$ (0.11)	-11%
14	High Load Factor		\$ 0.54	\$ 0.88	\$ 0.34	64%
15	Large Volume > 20,000 Mcf annually					
16	Rate per MDFR		\$ 10.48	\$ 9.21	\$ (1.27)	-12%
<b>17 <u>State Tax Adjustment Surcharge</u></b>						
18	Applicable to: RS, GSS, GSL, FDS,					
19	GDS, DDS, CSF, and CSI		0.01%	0 \$	(0.0001)	-100%
<b>20 <u>Rider A Purchased Gas Cost</u></b>						
21	Applicable to all Gas Sales Services		\$ 13.97	\$ 13.97	\$ -	0%
<b>22 <u>Rider B - Transportation Migration Rider</u></b>						
23	Applicable to Rate Schedules FDS,					
24	GDS, and DDS		\$ 1.98	\$ 1.98	\$ -	0%
<b>25 <u>Rider C - Transition Cost Recovery Surcharge</u></b>						
26	Residential		\$ 0.227	\$ -	\$ (0.227)	-100%
27	Commercial & Industrial		\$ 0.170	\$ -	\$ (0.170)	-100%
<b>28 <u>Rider C - Surcharge</u></b>						
29	Applicable to Rate Schedules RS, GSS, GSL, FDS, and GDS					
			\$ -	\$ 0.010	\$ 0.010	100%
<b>30 <u>Rider D - Universal Service and Energy Conservation</u></b>						
31	Applicable to Rate RS, and residential					
32	customers receiving service under					
33	Rate FDS, except enrolled CAP customers		\$ 0.580	1.4379	\$ 0.858	148%
<b>34 <u>Rate AGS - Appalachian Gathering Service</u></b>						
35	Throughput charge per Mcf		Negotiated			

**Equitable Gas Company**  
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14. Provide the following statements and schedules. The schedules and statements for the test year portion should be reconciled with the summary operating statement.
- a. An operating revenue summary for the test year and the year preceding the test year showing the following (Gas Mcf):
- (i) For each major classification of customers
    - (a) Mcf sales
    - (b) Dollar Revenues
    - (c) Forfeited Discounts (Total if not available by classification)
    - (i) Other and Miscellaneous revenues that are to be taken into the utility operating account along with their related costs and expenses.
  - (ii) A detailed explanation of all annualizing and normalizing adjustments showing method utilized and amounts and rates used in calculation to arrive at adjustment.
  - (iii) Segregate, from recorded revenues from the test year, the amount of revenues that are contained therein, by appropriate revenue categories, from :
    - (a) Fuel Adjustment Surcharge
    - (b) State Tax Surcharge
    - (c) Any other surcharge being used to collect revenues.
    - (d) Provide explanations if any of the surcharges are not applicable to respondent's operations.

[The schedule should also show number of customers and unit of sales (Mcf), and should provide number of customers by service classification at beginning and end of test year.]
- b. Provide details of sales for resale, based on periods five years before and projections for five years after the test year, and for the test year. List customers, Mcf sold, revenues received, source of Mcf sold (storage gas, pipeline gas, manufactured gas, natural or synthetic), contracted or spot sales, whether sales are to affiliated companies, and any other pertinent information.

Response:

- (a)(i) Please see attached detail for year preceding the test year. Refer to III-E-10 for detail of test year.

- (a)(ii) Please refer to testimony of Robert M. Narkevic for explanation of all annualizing and normalizing adjustments. Also, refer to Revenue Requirement Standard Data Request No. 6 which details the normalizing models used.
- (a)(iii) The Company does not have a Fuel Adjustment Surcharge. All other surcharges are included in the attached detail. Refer to III-E-10 for detail of test year. Refer to Revenue Requirement Standard Data Request No. 2 for the actual number of customers by service classification.
- (b) The Company recorded no sales for resale over the last five years. The Company therefore, projects no sales for resale in the future.

2006

<u>Description</u>	Throughput (a)	Delivery Service Revenue (b)	Rider C Transition Cost Recovery (c)	Purchased Gas Cost Revenue (d)	Rider D Universal Service (e)	STAS (f)	Revenue (g)
<u>Rate Schedule</u>							
<u>Tariff Sales Service Rate Schedules</u>							
Rate RS - Residential Service	16,751,901	\$ 73,181,420	\$ 3,802,682	\$ 206,153,994	\$ 5,025,570	(172,795)	\$ 287,990,871
Rate GSS - General Service Small	2,434,094	9,632,827	413,796	30,141,473	-	(24,096)	\$ 40,122,492
Rate GSL - General Service Large	1,547,807	4,174,971	263,127	19,166,409	-	(14,154)	\$ 23,590,353
Rate CSF - Contract Service Firm	-	-	-	-	-	-	-
Rate CSI - Contract Service Interruptible	-	-	-	-	-	-	-
Rate GL - Gas Lights	2,818	7,710	483	33,276	38	-	41,506
Total Tariff Sales Service	20,736,620	86,996,928	4,480,087	255,495,152	5,025,608	(211,047)	351,745,222
<u>Delivery Service Rate Schedules</u>							
Rate FDS - Firm Delivery Service	3,182,650	9,598,687	722,462	18,921,694	437,711	(17,798)	29,662,756
Rate GDS - General Delivery Service	12,450,109	25,468,042	590,601	722,149	-	(16,059)	26,764,733
Rate DDS - Daily Delivery Service	5,325,291	3,425,599	-	-	-	(2,054)	3,423,545
Rate FPS - Firm Pooling Service	1,459,035	74,866	-	-	-	-	74,866
Rate GPS - General Pooling Service	12,450,109	653,645	-	-	-	-	653,645
Total Delivery Service Rate Schedules (1)	20,958,050	39,220,839	1,313,063	19,643,843	437,711	(35,911)	60,579,545
<u>Other Services &amp; Riders</u>							
Standby Service				2,878,013			2,878,013
<u>Other Revenue</u>							
Forfeited Discounts							1,512,240
Miscellaneous Service Revenue							1,164,789
Rent from Gas Property							5,311
Other Gas Revenue							236,194
Total Other Revenue							2,918,534
Total	41,694,670	126,217,767	5,793,150	278,017,008	5,463,318	(246,958)	418,121,314

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15. State manner in which revenues are being presented for ratemaking purposes:
- a. Accrued revenues
  - b. Billed revenues
  - c. Cash revenues
- Provide details of the method followed.

Response:

Billed revenues are presented for ratemaking purposed for both the historic test year actuals and future test year projections.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

Revenues

16. If revenue accruing entries are made on the books at end of each fiscal period, give entries made accordingly at the end of the test year and at the beginning of the year. State whether they are reversed for ratemaking purposes.

Response:

Year end accruing entries are not reversed in the per books amount shown in the column titled "Per Books TME 12/31/07" on Item 53.35 III-A-17 Sheet 2. However, the normalization and actualization entries made for the historic and future test years do eliminate the impact of any book accruals for ratemaking purposes.

The following shows the net adjustments to billed revenue per books resulting from the accrual of unbilled revenue as of December 31, 2007, and the reversal (removal) of the accrual of unbilled revenues as of December 31, 2006.

	<b>Unbilled revenue as of:</b>		<b>Net Adjustment to Billed Revenue</b>
	<b>12/31/2006</b>	<b>12/31/2007</b>	
Residential	22,441,250	30,578,565	8,137,315
Commercial	13,120,338	6,629,883	(6,490,455)
Industrial	234,734	85,552	(149,182)
<b>Total</b>	<b>35,796,322</b>	<b>37,294,000</b>	<b>1,497,678</b>

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

17. State whether any adjustments have been made to expenses in order to present such expenses on a basis comparable to the manner in which revenues are presented in this proceeding (i.e. accrued, billed or cash)

Response:

Adjustments were made to expenses in order to present such expenses on a basis consistent with annualized and normalized test year revenue.

See 53.53 III-A-17.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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18. If the utility has a Fuel Adjustment Clause:
- a. State the base fuel cost per Mcf chargeable against basic customers' rates during the test year. If there was any change in this basic fuel charge during the test year, give details and explanation thereof.
  - b. State the amount in which the fuel adjustment clause cost per Mcf exceeds the fuel cost per Mcf charged in base rates at the end of the test year.
  - c. If fuel cost deferral is used at the end of the test year, give
    - (i) The amount of deferred fuel cost contained in the operating statement that was deferred from the 12-month operating period immediately preceding the test year.
    - (ii) The amount of deferred fuel cost that was removed from the test period and deferred to the period immediately following the test year.
  - d. State the amount of Fuel Adjustment Clause revenues credited to the test year operating account.
  - e. State the amount of fuel cost charged to the operating expense account in the test year which is the basis of Fuel Adjustment Clause billings to customers in that year. Provide summary details of this charge.
  - f. From the recorded test year operating account, remove the Fuel Adjustment Clause Revenues. Also remove from the test year recorded operating account the excess of fuel cost over base rate fuel charges, which is the basis for the Fuel Adjustment charges. Explain any difference between GAC Revenues and excess fuel costs. [The above is intended to limit the operating account to existing customers' base rate revenues and expense deductions relative thereto]

Response:

Equitable does not have a fuel adjustment clause.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

19. Provide growth patterns of usage and customer numbers per rate class using historical and projected data.

Response:

**A. Average Customer Usage - Mcf**

As of 12/31	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
2003	108	996	56,172
2004	101	927	53,230
2005	98	798	53,263
2006	90	757	56,829
2007	93	694	84,307
2008	93	694	84,307

**A. Customer Number**

As of 12/31	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
2003	238,352	17,615	170
2004	239,459	17,731	214
2005	237,944	17,536	190
2006	237,542	17,309	165
2007	238,366	17,312	155
2008	238,366	17,312	155

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
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Revenues

20. Provide, for test year only, a schedule by tariff rates and service classifications showing proposed increase and percent of increase.

Response:

This item consists of two sections. The proof of revenue at rates in effect at the end of the historic test year is presented in Section I. The proof of revenue at present and proposed rates for the annualized future test year is provided in Section II.

Equitable Gas Company

Summary of Revenues at Rates in Effect at Test Year End Rates  
Annualized Normalized Historic Test Year Ended December 31, 2007

<u>Line No.</u>	<u>Rate Schedule</u>	<u>No. of Bills</u>	<u>Annualized &amp; Normalized Throughput (Mcf)</u>	<u>Revenue at Present Rates (\$)</u>
1	<u>Tariff Sales Service Rate Schedules</u>			
2	Rate RS - Residential Service	2,539,464	18,790,982	317,273,113
3	Rate GSS - General Service Small	165,264	2,786,472	43,924,017
4	Rate GSL - General Service Large	8,196	1,435,508	21,504,771
5	Rate CSF - Contract Service Firm	-	-	-
6	Rate CSI - Contract Service Interruptible	-	-	-
7	Rate GL - Gas Lights		<u>2,818</u>	<u>40,513</u>
8	Total Tariff Sales Service	2,712,924	23,015,779	382,742,414
9	<u>Delivery Service Rate Schedules</u>			
10	Rate FDS - Firm Delivery Service	347,028	3,402,758	39,009,160
11	Rate GDS - General Delivery Service	38,460	13,380,765	24,858,451
12	Rate DDS - Daily Delivery Service	24	6,995,567	4,173,907
13	Rate FPS - Firm Pooling Service	12	1,273,765	66,122
14	Rate GPS - General Pooling Service	132	12,623,363	<u>661,823</u>
15	Total Delivery Service Rate Schedules			68,769,462
16	<u>Other Services &amp; Riders</u>			
17	Standby Service			3,067,883
18	<u>Other Revenue</u>			
19	Forfeited Discounts			1,557,851
20	Miscellaneous Service Revenue			1,208,555
21	Rent from Gas Property			1,588
22	Other Gas Revenue			<u>59,903</u>
23	Total Other Revenue			2,827,897
24	Gathering			5,169,989
25	Total			462,577,645

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 1

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Historic Test Year Ended December 31, 2007

Line No.	Description	Source	No. of Bills (1)	Annualized & Normalized Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
<b>1</b>	<b><u>Rate RS - Residential Service</u></b>					
2	Monthly Service Charge		2,539,464		\$ 11.65	\$ 29,584,756
3	Commodity Charge:					
4	Delivery Charge			18,790,982	\$ 2.703	50,792,024
5	Rider C - Transition Cost			18,790,982	\$ 0.227	4,265,553
6	Subtotal				\$ 2.930	55,057,577
7	Rider D - Universal Service			18,790,982	\$ 0.580	10,898,769
8	Subtotal Non-gas					95,541,102
9	Rider A - Natural Gas Supply			18,790,982	\$ 11.810	221,921,496
10				18,790,982	\$ -	-
11	Subtotal Gas Supply					221,921,496
12	STAS					(190,478)
13	<b>Total Rate RS</b>			<b>18,790,982</b>		<b>317,272,120</b>
<b>14</b>	<b><u>Rate GSS - General Service Small</u></b>					
15	Monthly Service Charge					
16	< 500 Mcf		153,228		\$ 17.00	\$ 2,604,876
17	500 - 1,000 Mcf		12,036		\$ 28.00	\$ 337,008
18	Commodity Charge:					
19	Delivery Charge			2,786,472	\$ 2.737	\$ 7,626,573
20	Rider C - Transition Cost			2,786,472	\$ 0.170	473,700
21	Subtotal Non-gas				\$ 2.907	\$ 11,042,157
22	Rider A - Natural Gas Supply			2,786,472	\$ 11.810	32,908,230
23				2,786,472	\$ -	-
24	Subtotal Gas Supply					\$ 32,908,230
25	STAS					(26,370)
26	<b>Total Rate GSS</b>					<b>\$ 43,924,017</b>

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 2

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Historic Test Year Ended December 31, 2007

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
<b>1</b>	<b>Rate GSL - General Service Large</b>					
2	Monthly Service Charge					
3	1,001 - 4,999 Mcf		7,716		\$ 75.00	\$ 578,700
4	5,000 - 25,000 Mcf		444		\$ 150.00	66,600
5	> 25,000		36		\$ 800.00	28,800
6	Commodity Charge:					
7	Delivery Charge			1,435,508	\$ 2.540	3,646,191
8	Rider C - Transition Cost				\$ 0.17	244,036
9	Subtotal Non-gas				\$ 2.71	\$ 4,564,328
10	Natural Gas Supply				\$ 11.81	16,953,354
11					\$ -	\$ -
12	Subtotal Gas Supply					\$ 16,953,354
13	STAS					(12,911)
14	Total Rate GSL					\$ 21,504,771
<b>15</b>	<b>Rate CSF - Contract Service Firm</b>					
16	Monthly Service Charge		0		0 \$	-
17	Commodity Charge:					
18	Delivery Charge			-	-	-
19	Rider C - Transition Cost			-	\$ 0.17	-
20	Subtotal Non-gas			-		\$ -
21	Natural Gas Supply			-	\$ -	-
22	Balancing Charge			-	\$ -	-
23	Subtotal Gas Supply			0		-
24	STAS					-
25	Total Rate CSF					-

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 3

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Historic Test Year Ended December 31, 2007

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
1	<b>Rate CSI - Contract Service Interruptible</b>					
2	Monthly Service Charge		0		0 \$	-
3	Commodity Charge:					
4	Delivery Charge			0	0	0
5	Rider C - Transition Cost			-	\$ 0.17	-
6	Subtotal Non-gas					\$ -
7	Natural Gas Supply				-	-
8	Balancing Charge				\$ -	-
9	Subtotal Gas Supply			0		-
10	STAS					0
11	Total Rate CSI					\$ -
12	<b>Rate GL - Gas Lights</b>					
13	Residential - Delivery Charge			65	\$ 2.703	\$ 175
14	Rider C - Transition Cost			-	\$ 0.227	15
15	Subtotal				\$ 2.930	\$ 190
16	Rider D - Universal Service			-	\$ 0.58	38
17	Subtotal Non-gas Residential					\$ 227
18	C&I - Delivery Charge			2,753	\$ 2.737	7,534
19	Rider C - Transition Cost			-	\$ 0.17	468
20	Subtotal Non-gas C&I				\$ 2.91	\$ 8,002
21	Natural Gas Supply				\$ 11.81	33,276
22	Balancing Charge				\$ -	-
23	Subtotal Gas Supply					\$ 33,276
24	STAS					-
25	Total Rate GL					\$ 41,506

**Equitable Gas Company**

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Historic Test Year Ended December 31, 2007

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
1	<b><u>Rate FDS - Firm Delivery Service</u></b>					
2	Monthly Service Charge					
3	<i>Residential</i>		346,044		\$ 11.65	\$ 4,031,413
4	Commercial & Industrial (C&I):					
5	< 500 Mcf		972		\$ 17.00	16,524
6	500 - 1,000 Mcf		0		\$ 28.00	-
7	1,001 - 4,999 Mcf		12		\$ 75.00	900
8	Delivery Charge					
9	Residential:			3,386,052	\$ 2.523	8,543,010
10	Rider C - Transition Cost				\$ 0.227	768,634
11	Rider D - Universal Service			1,333,484	\$ 0.580	773,421
12	Balancing Charge				\$ 0.180	609,489
13	Natural Gas Supply			2,052,568	\$ 11.810	24,240,827
14	Commercial & Industrial (C&I):					
15	Small C&I			15,675	\$ 2.557	40,080
16	Large C&I			1,032	\$ 2.360	2,434
17	Rider C - Transition Cost				\$ 0.170	2,840
18	Balancing Charge				\$ 0.180	3,007
19	Subtotal Non-gas C&I					\$ 39,032,579
20	STAS					(23,420)
21	Total Rate FDS					\$ 39,009,160

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 5

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Historic Test Year Ended December 31, 2007

Line No.	Description	Source	No. of Bills	Volumes (Mcf)	Present Rates	Present Revenue
			(1)	(2)	(3)	(4)
<b>1 Rate GDS - General Delivery Service</b>						
2	Monthly Service Charge					
3	< 500 Mcf		15,480		\$ 17.00	\$ 263,160
4	500 - 1,000 Mcf		9,168		\$ 28.00	256,704
5	1,001 - 4,999 Mcf		10,308		\$ 75.00	773,100
6	5,000 - 25,000 Mcf		2,880		\$ 150.00	432,000
7	> 25,000 Mcf		624		\$ 800.00	499,200
8	Commodity Charge:					
9	Delivery Charge					
10	Small C&I			727,769	\$ 2.557	1,860,905
11	Large C&I			3,943,426	\$ 2.360	9,306,485
12	Negotiated deliveries			8,709,570		9,848,745
13	Rider C - Transition Cost			4,671,195	\$ 0.170	794,103
14	Balancing Charge			4,671,195	\$ 0.180	840,815
15	Sub Total Rate GDS					24,875,217
16	STAS					(16,766)
17	Total Rate GDS					24,858,451
<b>16 Rate DDS - Daily Delivery Service - Industrial</b>						
17	Monthly Service Charge					
18	5,000 - 25,000 Mcf		0		\$ 150.00	
19	> 25,000 Mcf		24		\$ 800.00	\$ 19,200
20	Negotiated Service Charge					\$ 78,804
21	Commodity Charge:					
22	Delivery Charge					
23	Resale Service				\$ 2.557	
24	Large C&I				\$ 2.360	
25	Negotiated deliveries			6,995,567		\$ 4,078,409
26	Rider C - Transition Cost				0.17	-
27	Total Rate GDS - Industrial					\$ 4,176,413
28	STAS					(2,506)
29	Total Rate DDS					\$ 4,173,907
<b>1 Rate FPS - Firm Pooling Service</b>						
2	Monthly Pooling Fee		12		500	6,000
3	Pool Operating fee/Dth		1,273,765		0.0472	60,122
4	Interpool Transfer Fee/Dth				0.0094	-
5	Total Rate FPS					\$ 66,122
6						
<b>7 Rate GPS - General Pooling Service</b>						
8	Monthly Pooling Fee		132		500	66,000
9	Pool Operating fee/Dth		12,623,363		0.0472	595,823
10	Interpool Transfer Fee/Dth				0.0094	-
11	Total Rate GPS					\$ 661,823

Equitable Gas Company

Summary of Present and Proposed Revenues Increases  
Annualized Normalized Future Test Year Ended December 31, 2008

Line No.	Rate Schedule	No. of Bills	Annualized & Normalized Throughput (Mcf)	Revenue at Present Rates (\$)	Revenue at Proposed Rates (\$)	Increase (\$)	Increase (%)
1	<u>Tariff Sales Service Rate Schedules</u>						
2	Rate RS - Residential Service	2,494,614	18,325,043	349,069,566	384,986,025	35,916,459	10%
3	Rate GSS - General Service Small	165,264	2,786,472	49,924,194	51,151,623	1,227,429	2%
4	Rate GSL - General Servie Large	8,196	1,435,508	24,596,223	25,425,839	829,616	3%
5	Rate CSF - Contract Servcie Firm	-	-	-	-	-	-
6	Rate CSI - Contract Service Interruptible	-	-	-	-	-	-
7	Rate GL - Gas Lights		2,818	47,592	47,805	213	0%
8	Total Tariff Sales Service	2,668,074	22,549,841	423,637,575	461,611,292	37,973,717	
9	<u>Delivery Service Rate Schedules</u>						
	Rate FDS - Firm Delivery Service	377,436	3,878,242	51,809,381	55,951,249	4,141,868	8%
	Rate GDS - General Delivery Service	38,460	13,210,127	25,055,339	27,349,057	2,293,718	9%
12	Rate DDS - Daily Delivery Service	24	6,995,567	4,172,654	4,195,613	22,959	1%
13	Rate FPS - Firm Pooling Service	12	1,273,765	66,122	66,122	0	0%
14	Rate GPS - General Pooling Service	132	12,462,384	654,225	654,225	0	0%
15	Total Delivery Service Rate Schedules			81,757,720	88,216,266	6,458,546	
16	<u>Other Services &amp; Riders</u>						
17	Standby Service			3,067,883	3,067,883	(0)	0%
18	<u>Other Revenue</u>						
19	Forfeited Discounts			1,557,851	1,557,851	-	0%
20	Miscellaneous Service Revenue			1,208,555	1,208,555	-	0%
21	Rent from Gas Property			1,588	1,588	-	0%
22	Other Gas Revenue			59,903	59,903	-	0%
23	Total Other Revenue			2,827,897	2,827,897	-	0%
24	Gathering			5,326,454	12,843,583	7,517,129	141%
25	Total			516,617,530	568,566,921	51,949,391	10%

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 1

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Future Test Year Ended December 31, 2008

Line No.	Description	Source	No. of Bills (1)	Annualized & Normalized Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
1	<b>Rate RS - Residential Service</b>					
2	Monthly Service Charge		2,494,614		\$ 11.65	\$ 29,062,253
3	Commodity Charge:					
4	Delivery Charge			18,325,043	\$ 2.523	46,234,085
5	Rider C - Transition Cost			18,325,043	\$ 0.227	4,159,785
6	Subtotal				\$ 2.750	50,393,869
7	Rider D - Universal Service			18,325,043	\$ 0.580	10,628,525
8	Subtotal Non-gas					90,084,648
9	Rider A - Natural Gas Supply			18,325,043	\$ 14.150	259,299,364
10				18,325,043	\$ -	-
11	Subtotal Gas Supply					259,299,364
12	STAS					(314,446)
13	<b>Total Rate RS</b>			18,325,043		349,069,566
14	<b>Rate GSS - General Service Small</b>					
15	Monthly Service Charge					
16	< 500 Mcf		153,228		\$ 17.00	\$ 2,604,876
17	500 - 1,000 Mcf		12,036		\$ 28.00	\$ 337,008
18	Commodity Charge:					
19	Delivery Charge			2,786,472	\$ 2.557	\$ 7,125,008
20	Rider C - Transition Cost			2,786,472	\$ 0.170	473,700
21	Subtotal Non-gas				\$ 2.727	\$ 10,540,592
22	Rider A - Natural Gas Supply			2,786,472	\$ 14.150	39,428,574
23				2,786,472	\$ -	-
24	Subtotal Gas Supply					\$ 39,428,574
25	STAS					(44,972)
26	<b>Total Rate GSS</b>					\$ 49,924,194

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 2

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Future Test Year Ended December 31, 2008

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
<b>1</b>	<b><u>Rate GSL - General Service Large</u></b>					
2	Monthly Service Charge					
3	1,001 - 4,999 Mcf		7,716		\$ 75.00	\$ 578,700
4	5,000 - 25,000 Mcf		444		\$ 150.00	66,600
5	> 25,000		36		\$ 800.00	28,800
6	Commodity Charge:					
7	Delivery Charge			1,435,508	\$ 2.360	3,387,800
8	Rider C - Transition Cost				\$ 0.17	244,036
9	Subtotal Non-gas				\$ 2.53	\$ 4,305,936
10	Natural Gas Supply				\$ 14.15	20,312,444
11					\$ -	\$ -
12	Subtotal Gas Supply					\$ 20,312,444
13	STAS					(22,157)
14	Total Rate GSL					\$ 24,596,223
<b>15</b>	<b><u>Rate CSF - Contract Service Firm</u></b>					
16	Monthly Service Charge		0		0 \$	-
17	Commodity Charge:					
18	Delivery Charge				-	-
19	Rider C - Transition Cost				\$ 0.17	-
20	Subtotal Non-gas					\$ -
21	Natural Gas Supply				\$ -	-
22	Balancing Charge				\$ -	-
23	Subtotal Gas Supply			0		-
24	STAS					-
25	Total Rate CSF					-

**Equitable Gas Company**

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Future Test Year Ended December 31, 2008

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
1	<b><u>Rate CSI - Contract Service Interruptible</u></b>					
2	Monthly Service Charge		0		0 \$	-
3	Commodity Charge:					
4	Delivery Charge			0	0	0
5	Rider C - Transition Cost			-	\$ 0.17	-
6	Subtotal Non-gas					\$ -
7	Natural Gas Supply				-	-
8	Balancing Charge				\$ -	-
9	Subtotal Gas Supply			0		-
10	STAS					0
11	Total Rate CSI					\$ -
12	<b><u>Rate GL - Gas Lights</u></b>					
13	Residential - Delivery Charge			65	\$ 2.523	\$ 163
14	Rider C - Transition Cost			-	\$ 0.227	15
15	Subtotal				\$ 2.750	\$ 178
16	Rider D - Universal Service			-	\$ 0.58	38
17	Subtotal Non-gas Residential					\$ 216
18	C&I - Delivery Charge			2,753	\$ 2.557	7,039
19	Rider C - Transition Cost			-	\$ 0.17	468
20	Subtotal Non-gas C&I				\$ 2.73	\$ 7,507
21	Natural Gas Supply				\$ 14.15	39,869
22	Balancing Charge				-	-
23	Subtotal Gas Supply					\$ 39,869
24	STAS					-
25	Total Rate GL					\$ 47,592

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 4

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Future Test Year Ended December 31, 2008

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
1	<b><u>Rate FDS - Firm Delivery Service</u></b>					
2	Monthly Service Charge					
3	<i>Residential</i>		376,452		\$ 11.65	\$ 4,385,666
4	Commercial & Industrial (C&I):					
5	< 500 Mcf		972		\$ 17.00	16,524
6	500 - 1,000 Mcf		0		\$ 28.00	-
7	1,001 - 4,999 Mcf		12		\$ 75.00	900
8	Delivery Charge					
9	Residential:			3,861,536	\$ 2.523	9,742,655
10	Rider C - Transition Cost				\$ 0.227	876,569
11	Rider D - Universal Service			1,333,484	\$ 0.580	773,421
12	Natural Gas Supply			2,528,051	\$ 14.150	35,771,929
13	Balancing Charge				\$ 0.180	240,027
14	Commercial & Industrial (C&I):					
15	Small C&I			15,675	\$ 2.557	40,080
16	Large C&I			1,032	\$ 2.360	2,434
17	Rider C - Transition Cost				\$ 0.170	2,840
18	Balancing Charge				\$ 0.180	3,007
19	Subtotal Non-gas C&I					\$ 51,856,052
20	STAS					(46,670)
21	Total Rate FDS					\$ 51,809,381

**Equitable Gas Company**

Exhibit III  
Item: 53.53 III-20  
Sheet 5

Calculation of Revenue at Present and Proposed Rates  
Annualized and Normalized Future Test Year Ended December 31, 2008

Line No.	Description	Source	No. of Bills (1)	Volumes (Mcf) (2)	Present Rates (3)	Present Revenue (4)
<b>1</b>	<b><u>Rate GDS - General Delivery Service</u></b>					
2	Monthly Service Charge					
3	< 500 Mcf		15,480		\$ 17.00	\$ 263,160
4	500 - 1,000 Mcf		9,168		\$ 28.00	256,704
5	1,001 - 4,999 Mcf		10,308		\$ 75.00	773,100
6	5,000 - 25,000 Mcf		2,880		\$ 150.00	432,000
7	> 25,000 Mcf		624		\$ 800.00	499,200
8	Commodity Charge:					
9	Delivery Charge					
10	Small C&I			727,769	\$ 2.557	1,860,905
11	Large C&I			3,943,426	\$ 2.360	9,306,485
12	Negotiated deliveries			8,538,933		10,054,201
13	Rider C - Transition Cost			4,671,195	\$ 0.170	794,103
14	Balancing Charge			4,671,195	\$ 0.180	840,815
15	Sub Total Rate GDS					25,080,673
16	STAS					(25,334)
17	Total Rate GDS					25,055,339

<b>16</b>	<b><u>Rate DDS - Daily Delivery Service - Industrial</u></b>					
17	Monthly Service Charge					
18	5,000 - 25,000 Mcf		0		\$ 150.00	
19	> 25,000 Mcf		24		\$ 800.00	\$ 19,200
20	Negotiated Service Charge					\$ 78,804
21	Commodity Charge:					
22	Delivery Charge					
23	Resale Service				\$ 2.557	
24	Large C&I				\$ 2.360	
25	Negotiated deliveries			6,995,567		\$ 4,078,409
26	Rider C - Transition Cost				0.17	-
27	Total Rate GDS - Industrial					\$ 4,176,413
28	STAS					(3,759)
29	Total Rate DDS					\$ 4,172,654

<b>1</b>	<b><u>Rate FPS - Firm Pooling Service</u></b>					
2	Monthly Pooling Fee		12		500	6,000
3	Pool Operating fee/Dth		1,273,765		0.0472	60,122
4	Interpool Transfer Fee/Dth				0.0094	-
5	Total Rate FPS					\$ 66,122
6						
<b>7</b>	<b><u>Rate GPS - General Pooling Service</u></b>					
8	Monthly Pooling Fee		132		500	66,000
9	Pool Operating fee/Dth		12,462,384		0.0472	588,225
10	Interpool Transfer Fee/Dth				0.0094	-
11	Total Rate GPS					\$ 654,225

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

Revenues

21. If a gas company is affiliated with another utility segment, such as a water or electric segment, explain the effects, if any, upon allocation factors used in the gas rate filing of current or recent rate increases allowed to the other utility segment (or segments) of the company.

Response:

Equitable Gas Company is not affiliated with any other utility segment which has recently been granted a rate increase.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

Revenues

22. Provide supporting schedule data detailing curtailment adjustments, procedures and policies.

Response:

The Company's curtailment procedures and policies appear in Equitable Gas Company's Tariff, Pennsylvania PUC No. 22 on pages 19 through 26. These pages were provided in the Company's response to Item IV-B-6. No curtailment adjustments were made in this filing.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

23. Submit a schedule showing fuel cost in excess of base compared to fuel cost recovery for the period two months prior to test year and the test year.

Response:

Equitable has no fuel costs in excess of base.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

24. Supply a detailed analysis of Purchased Gas for the test year and the twelve-month period prior to the test year.

Response:

	Twelve months ending December			
	2006		2007	
	Dth	\$ Amount	Dth	\$ Amount
Appalachian Purchases	9,773,777	\$ 83,795,186	9,869,200	\$ 72,688,925
Upstream Pipeline Supply	7,819,828	\$ 79,838,452	6,289,883	\$ 58,302,851
Storage Withdrawals	7,325,068	\$ 63,701,060	10,101,693	\$ 78,035,574
Equitrans		\$ 38,734,562		\$ 34,932,599
Texas Eastern		\$ 15,805,298		\$ 15,886,086
VEPCO		\$ -		\$ 2,539,600
Dominion Transmission		\$ 3,634,049		\$ 3,384,392
Cash In		\$ 2,949,165		\$ 776,387
Capacity Release		\$ (4,934,037)		\$ (4,443,635)
Total	24,918,673	\$ 283,523,735	26,260,776	\$ 262,102,779

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

25. Submit calculations supporting energy cost per Mcf and operating ratio used to determine increase in costs other than production to serve additional load.

Response:

See Item III-A-17

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

26. Submit detailed calculations for bulk gas transmission service costs under supply and/or interconnection agreements.

Response:

The Company has no bulk gas supply or interconnection agreements.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

27. Submit a schedule for gas producing units retired or scheduled for retirement subsequent to the test year showing station, units, Mcf capacity, hours of operation during test year, net output produced and cents/Mcf of maintenance and fuel expenses.

Response:

None.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

28. Provide a statement explaining the details of firm gas purchase (long-term) contracts with affiliated and nonaffiliated utilities, including determination of costs, terms of contract, and other pertinent information.

Response:

The Company's gas purchase contracts, their costs, and other pertinent information is reviewed annually as part of its annual 1307(f) proceeding. Please refer to Item I-C-1-c-v for information regarding contracts for gas supply purchases.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

29. Provide intrastate operations percentages by expense categories for two years prior to the test year.

Response:

Intrastate operations percentages for the two years prior to the test year are 100% for the Pennsylvania jurisdiction.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

30. Provide a schedule showing suppliers, Mcf purchased, cost (small purchases from independent suppliers may be grouped); emergency purchases, listing same information; curtailment during the year; gas put into ant taken out of storage; line loss, and any other gas input or output not in the ordinary course of business.

Response:

Refer to Items I-C-1-C-V, III-E-24 and IV-B-14.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

31. Provide a schedule showing the determination of the fuel costs included in the base cost of fuel.

Response:

Refer to the Company's response to Item III-E-18.

**Equitable Gas Company**  
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All Utilities

**Operating Expenses**

32. Provide a schedule showing the calculation of any deferred fuel costs shown in Account 174. Also, explain the accounting, with supporting detail, for any associated income taxes.

Response:

The Company does not reflect deferred purchased gas costs in account 174, but rather in account 191. Please refer to item 53.53 III E-2 and corresponding supporting schedules.

Account 174.9 is utilized to capture hedging activities.

**Equitable Gas Company**  
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**Operating Expenses**

33. Submit a schedule showing maintenance expenses, gross plant and the relation of maintenance expenses thereto as follows:
- (i) Gas Production Maintenance Expenses per Mcf production, per \$1,000 Mcf production and per \$1,000 of Gross Production Plant;
  - (ii) Transmission Maintenance Expenses per MMcf mile and per \$1,000 of Gross Transmission Plant;
  - (iii) Distribution Maintenance Expenses per customer and per \$1,000 of Gross Distribution Plant;
  - (iv) Storage Maintenance Expenses per MMcf of Storage Capacity and \$1,000 of Gross Storage Plant. This schedule shall include three years prior to the test year, the test year and one year's projection beyond the test year.

Response:

- (iii) (i) and (iv) Equitable Gas Company has no production or storage assets.
- (ii) Equitable Gas Company owns transmission assets totaling \$5.2 million as of December 31, 2007. Due to the relative insignificance of this plant value compared to total plant, maintenance expenses related to these assets are classified as distribution expense.
- (iii) See attached.

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	December 31,				
	2004	2005	2006	2007	2008 (e)
Distribution Maintenance Expense	\$ 9,754,463	\$ 10,346,842	\$ 8,765,951	\$ 8,548,964	\$ 8,751,853
Gross Distribution Plant	659,360,374	747,387,107	740,253,330	741,876,583	766,887,646
Average Number of Customers	257,404	255,670	255,016	255,833	255,743
(iii) Distribution Maintenance Expense					
Per Customer	\$ 37.90	\$ 40.47	\$ 34.37	\$ 33.42	\$ 34.22
Per \$1,000 of Gross Plant	\$ 14.79	\$ 13.84	\$ 11.84	\$ 11.52	\$ 11.41

(e) - Estimated

**Equitable Gas Company**  
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**Operating Expenses**

34. Prepare a 3-column schedule of expenses, as described below for the following periods (supply sub-accounts, if significant, to clarify basic accounts):
- a. Column 1 – Test Year
  - b. Column 2 and 3 – The two previous years

Provide the annual recorded expense by accounts. (Identify all accounts used but not specifically listed below.)

Response:

See attached.

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	As of December 31,		
			2007	2006	2005
<b>Production Expenses</b>					
<b>Operation</b>					
1	750	Operation supervision and engineering	124,401	113,481	104,596
2	751	Production maps and records	-	-	-
3	752	Gas wells expense	1,361	859	1,484
4	753	Field lines expense	245,000	196,196	23,189
5	754	Field compressor station expense	46,927	28,202	1,010
6	755	Field compressor station fuel and power	-	-	-
7	756	Field measuring and regulating station expenses	29,471	22,620	(0)
8	757	Purification expenses	-	-	-
9	758	Gas well royalties	-	-	-
10	759	Other expenses	-	-	-
11	760	Rents	-	17,001	-
		Total Operation	447,160	378,359	130,279
<b>Maintenance</b>					
12	761	Maintenance supervision and engineering	76	-	-
13	762	Maintenance of structures and improvements	2,399	574	0
14	763	Maintenance of producing gas wells	3,381	6,076	5,935
15	764	Maintenance of field lines	260,495	175,517	0
16	765	Maintenance of field compressor station equipment	84,287	36,141	(90)
17	766	Maintenance of field compressor station equipment	-	-	-
18	767	Maintenance of purification equipment	-	-	-
19	768	Maintenance of drilling and cleaning equipment	-	-	-
20	769	Maintenance of other equipment	-	-	-
21		Total Maintenance	350,638	218,308	5,845
22		Total Production and Gathering	797,798	596,667	136,124
<b>Other Gas Supply Expenses</b>					
23	800	Natural gas wellhead purchases	-	-	-
24	800.1	Natural gas wellhead purchases intracompany transfers	-	-	-
25	801	Natural gas field line purchases	78,311,651	101,588,429	113,955,469
26	803	Natural gas transmission line purchases	140,425,426	140,759,516	149,543,360
27	804	Natural gas city gate purchases	-	-	-
28	805	Other gas purchases	18,047,867	(1,628,290)	(21,965,494)
29	805.1	Purchased gas cost adjustments	-	-	-
30	806	Exchange gas	-	-	-
31	807.1	Well expenses - purchased gas	167,604	15,252	18,566

**Equitable Gas Company - Pennsylvania Division**  
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A. All Utilities

Line No.	Account No.	Description	As of December 31,		
			2007	2006	2005
32	807.3	Maintenance of purchased gas measuring stations	6,504	7,173	1,729
33	807.4	Purchased gas calculation expenses	-	-	-
34	807.5	Other purchased gas expenses	-	-	-
35	808.1	Gas withdrawn from storage - debit	79,416,051	63,589,443	86,747,305
36	808.2	Gas delivered to storage - credit	(86,777,591)	(79,825,092)	(96,205,868)
37	813	Other gas supply expenses	61,589,721	60,314,110	66,825,452
38		<b>Total Gas Supply Expense</b>	<b>291,187,233</b>	<b>284,820,541</b>	<b>298,920,519</b>
43		<b>Total Other Gas Supply Expenses</b>	<b>291,187,233</b>	<b>284,820,541</b>	<b>298,920,519</b>
<b>Distribution Expenses</b>					
<b>Operation</b>					
44	870	Operation supervision and engineering	1,270,634	1,086,404	1,225,142
45	871	Distribution load dispatching	109,598	372,883	478,266
46	872	Compressor station labor and expenses	-	-	-
47	873	Compressor station fuel and power	(66)	670	113
48	874	Mains and services expenses	5,430,587	4,685,227	4,129,087
49	875	Measuring and regulating station expenses - general	98,543	116,472	149,182
50	876	Measuring and regulating station expenses - industrial	114	1,293	18,213
51	877	M and R station expenses - city gate check station	-	-	126
52	878	Meter and house regulator expenses	5,911,479	5,542,608	6,008,507
53	879	Customer installation expenses	61,892	38,381	126,833
54	880	Other expenses	1,288,739	1,162,843	270,564
55	881	Rents	601,663	676,463	501,000
56		<b>Total Operation</b>	<b>14,773,183</b>	<b>13,683,244</b>	<b>12,907,033</b>
<b>Maintenance</b>					
57	885	Maintenance supervision and engineering	859,352	779,311	881,709
58	886	Maintenance of structures and improvements	500,985	336,665	538,373
59	887	Maintenance of mains	5,389,511	5,739,931	7,368,216
60	888	Maintenance of field compressor station equipment	-	-	-
61	889	Maintenance of M&R station equipment - gen	973,651	1,243,304	835,861
62	890	Maintenance of M&R station equipment - industrial	-	-	670
63	891	Maint. Of M&R station expenses - city gate ck. station	10,085	2,731	4,501
64	892	Maintenance of services	643,444	505,789	564,271
65	893	Maintenance of meters and house regulators	105,975	101,030	82,255
66	894	Maintenance of other equipment	65,961	57,191	70,986
67		<b>Total maintenance</b>	<b>8,548,964</b>	<b>8,765,952</b>	<b>10,346,842</b>
68		<b>Total Distribution Expenses</b>	<b>23,322,147</b>	<b>22,449,196</b>	<b>23,253,875</b>

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	As of December 31.		
			2007	2006	2005
<b>Customer Accounts Expense</b>					
<b>Operation</b>					
69	901	Supervision	225,221	198,678	214,392
70	902	Meter reading expenses	586,933	707,783	1,619,038
71	903	Customer records and collections expenses	9,500,849	9,686,069	10,413,632
72	904	Uncollectible accounts	8,559,290	6,182,394	7,087,805
73	905	Miscellaneous customer accounts expense	405	51	303
74		Total Customer Accounts Expense	18,872,698	16,774,975	19,335,170
<b>Customer Service and Informational Expenses</b>					
<b>Operation</b>					
75	907	Supervision	-	-	-
76	908	Customer assistance exp	446,984	588,310	632,819
77	909	Informational and instructional exp	-	-	-
78	910	Misc customer service and informational exp	635,700	635,700	635,700
79		Total Customer Service and Informational expenses	1,082,684	1,224,010	1,268,519
<b>Sales Expenses</b>					
<b>Operation</b>					
80	911	Supervision	60,028	56,356	81,260
81	912	Demonstrating and selling exp	755,844	808,992	998,294
82	913	Advertising exp	24,121	35,845	21,905
83	916	Misc sales exp	-	-	-
84		Total Sales Expenses	839,993	901,193	1,101,459
<b>Administrative and General Expenses</b>					
<b>Operation</b>					
85	920	Administrative and general salaries	8,162,302	4,996,641	3,176,895
86	921	Office supplies and expenses	849,774	973,226	3,290,504
87	922	Administrative expenses transferred - cr	(112,737)	(12,779)	(7,644)
88	923	Outside services employed	19,497,892	13,006,892	12,693,198
89	924	Property insurance	(2,809,822)	(1,030,360)	(1,296,216)
90	925	Injuries and damages	4,420,599	3,211,819	3,443,648
91	926	Employee pensions and benefits	5,887,574	7,972,462	17,814,393
92	927	Franchise requirements	-	-	-
93	928	Regulatory Commission expenses	13,474	25,699	10,417
94	929	Duplicate charges - cr	-	-	-

**Equitable Gas Company - Pennsylvania Division**  
§ 53.53 III. Balance Sheet and Operating Statement  
A. All Utilities

Line No.	Account No.	Description	As of December 31,		
			2007	2006	2005
95	930.1	General advertising exp	201,106	54,216	35,086
96	930.2	Miscellaneous general expenses	156,308	153,562	138,537
97	931	Rents	3,258,962	2,444,930	1,842,290
98		Total A&G Operation	39,525,432	31,796,308	41,141,108
		<b>Maintenance</b>			
99	935	Maintenance of general plant	1,412,428	1,507,906	1,341,233
100		Total Administrative and General Expenses	40,937,860	33,304,214	42,482,341
101		Total Operation and Maintenance Expense	377,040,413	360,070,796	386,498,007

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
All Utilities

**Operating Expenses**

35. Submit a schedule showing the Gross Receipts Tax Base used in computing Pennsylvania Gross Receipts Tax Adjustment.

Response:

Not applicable.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
Gas Utilities

**Revenue and Expense**  
General Items

36. State the amount of gas, in Mcf, obtained through various suppliers in past years.

Response:

Please refer to Item IV-B-14.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
Gas Utilities

**Revenue and Expense**  
General Items

37. In determining pro forma expense, exclude cost of gas adjustments applicable to fuel adjustment clause and exclude fuel adjustment clause revenues, so that the operating statement is on the basis of base rates only.

Response:

See Item III-A-17 for the adjustments to the cost of gas in the Company's operating statements for the Historic and Future Test years to reflect the cost of gas in base rates.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
Gas Utilities

**Revenue and Expense**  
General Items

38. Identify the Company's policy with respect to replacing customers lost through attrition.

Response:

Equitable actively seeks new customers and opportunities to expand its gas sales or transportation service on a continuing basis. Equitable markets its services under a variety of rate schedules approved by the Commission. Efforts are not limited to replacement of customers lost through attrition. Equitable's rules and regulations regarding the establishment of and maintaining service are found in Rules 1 through 6 of the Company's current tariff.

**Equitable Gas Company**  
§ 53.53 III. Balance Sheet and Operating Statement  
Gas Utilities

**Revenue and Expense**  
General Items

39. Identify procedures developed to govern relationship between respondent and potential customers – i.e. basically expansion, alternate energy requirements, availability of supply, availability of distribution facilities, ownership of metering and related facilities.

Response:

Equitable has a Field Operations Marketing/Sales group consisting of New Business Field Sales Representatives, Inside Sales Representatives and Engineers. The Marketing/Sales group focuses on developing estimates of facility construction costs, evaluating new business opportunities, developing and maintaining relationships with home builders, and commercial developers throughout the Company's service territory. Relationships are also maintained with existing commercial and industrial energy users through Equitable's Commercial Planning and Sales group. This group consists of external and internal Commercial & Industrial Sales representatives who work directly with customers.

Gas supply availability and deliverability are evaluated for customers added to the distribution system. An evaluation of factors such as the maximum daily and annual load requirements may be conducted from both the Company's Field Operations and Gas Supply departments.

Equitable's rules and regulations regarding ownership of metering and related facilities are found in Rule 1 of the Company's current tariff.