

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2019-3007613
Office of Consumer Advocate	:	C-2019-3008563
Office of Small Business Advocate	:	C-2019-3008750
	:	
v.	:	
	:	
Peoples Gas Company LLC	:	

**RECOMMENDED DECISION**

Before  
Katrina L. Dunderdale  
Administrative Law Judge

**INTRODUCTION**

This Recommended Decision recommends the Joint Petition for Settlement be adopted without modification. Peoples Gas Company LLC proposes a decrease of \$0.9632, or 8.2%, per Mcf of its purchased gas costs rate, as of October 1, 2019, for the residential class.<sup>1</sup> In addition, the public utility proposes to increase the retainage rate charged to producers from a retainage rate of 2.9% to 3.4% for gas from conventional wells gathered into the system. These rates are to be effective on October 1, 2019.

**HISTORY OF THE PROCEEDINGS**

Pursuant to Section 1307(f) of the Public Utility Code, on April 1, 2019, Peoples Gas Company LLC (Peoples Gas or the Company) filed with the Pennsylvania Public Utility

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<sup>1</sup> The as-filed and settlement gas costs, including the impacts on the customer classes and the percentage of change by customer class, are explained in Paragraph 32 of the Joint Petition for Settlement filed on June 28, 2019 and provided in full on page 6 of the Recommended Decision

Commission (Commission) its definitive Purchase Gas Cost (Purchased Gas Costs) filing, including supporting information required by the Commission's regulations, Peoples Gas' direct testimony, exhibits and Pro Forma Tariff Supplement to Tariff Gas Pa. P.U.C. No. 8, reflecting actual and projected changes in natural gas costs and other tariff changes. This filing is docketed at R-2019-3007613. Peoples Gas' 2019 Purchased Gas Cost filing for the period ending September 30, 2019 proposed a decrease of \$0.9632 per Mcf in its rates for recovery of purchased gas costs applicable to residential sales service customers with other rate changes proposed for other customer classes. In addition, the filing proposed to increase the retainage rate charged to producers for gas from conventional wells gathered into the system from 2.9% to 3.4%.

This proceeding was consolidated for purposes of litigation only with a filing by Peoples Natural Gas Company LLC and its affiliate Peoples Natural Gas Company LLC – Equitable Division (collectively, Peoples NGC) on April 1, 2019.<sup>2</sup> Peoples NGC filed a Pro Forma Supplement to Tariff Gas Pa. P.U.C. No. 45 and 46, which was docketed at R-2019-3007612 and R-2019-3007617, respectively. Peoples NGC had proposed its Supplements should become effective for service rendered on and after October 1, 2019, in connection with Peoples NGC's 2019 Purchased Gas Cost filing for the period ending September 30, 2019. Peoples NGC's filing proposed a decrease of \$0.8056 per Mcf for the gas cost recovery rate from residential sales service customers, in comparison to the rates in effect as of January 1, 2019. Rate changes were also proposed for other customer classes. In addition, the filing proposed to continue charging producers a retainage rate of 2.0% for gas from conventional wells gathered into the system.

Various parties entered appearances in addition to the utility, including the Commission's Bureau of Investigation and Enforcement (BIE), the Office of Small Business Advocate (OSBA) and the Office of Consumer Advocate (OCA). In addition, complaints were filed by OCA at Docket No. C-2019-3008563 and by OSBA at Docket No. C-2019-3008750,

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<sup>2</sup> A separate Recommended Decision appears in Docket Nos. R-2019-3007612 and R-2019-3007617.

respectively. Peoples Gas indicated in its prehearing memorandum that it did not oppose consolidating those two complaints into these rate proceedings.

On April 4, 2019, the presiding officer conducted the prehearing conference with the following parties present and represented by counsel: Peoples Natural Gas Company LLC and Peoples Gas Company LLC (collectively, Peoples), OCA, OSBA, BIE, and Pennsylvania Independent Oil & Gas Association (PIOGA). At the prehearing conference, the parties considered issues raised by the filing, discussed prehearing matters and established a litigation schedule. Thereafter, on April 8, 2019, the presiding officer issued a prehearing order which memorialized the matters discussed, established a litigation schedule and granted the Petition to Intervene of PIOGA.

Peoples Gas filed direct testimonies with its initial filings dated April 1, 2019. On May 3, 2019, OCA served direct testimonies on the parties and on May 22, 2019, Peoples Gas served rebuttal testimony, in addition to filing a Motion for Protective Order. On May 30, 2019, OCA served surrebuttal testimony and the presiding officer issued a Protective Order.

The presiding officer scheduled the initial hearing to be held in Harrisburg on June 6, 2019 and June 7, 2019; however, prior to the start of the proceedings, the parties informed the presiding officer a settlement was reached. Accordingly, the presiding officer conducted a hearing by telephone from Pittsburgh in order to identify and admit into the record all previously served testimony and exhibits, with the parties present in the Commission's hearing room in Harrisburg. No party appeared at the hearing to oppose the Settlement or the admission of evidence. The parties were given until June 28, 2019 in which to submit a fully executed Joint Settlement Agreement and Statements in Support. All testimony and exhibits admitted into evidence on June 6, 2019 are listed in the transcript at pages 38 to 45, and in Attachment A.

On June 28, 2019, the Joint Petition for Settlement, including Statements in Support by Peoples Gas, BIE, OSBA and OCA (Settlement or Joint Petition), was filed with the Secretary's Bureau. Intervenor PIOGA filed a Letter of Non-Opposition on June 28, 2019.

On July 10, 2019, the presiding officer issued an Interim Order closing the hearing record. This Recommended Decision recommends the Settlement be adopted.

### DESCRIPTION AND TERMS OF SETTLEMENT

In accordance with Rule 5.231 of the Commission's Rules of Practice and Procedure, 52 Pa.Code § 5.231, the parties explored the possibility of settlement. As a result of settlement discussions, the parties achieved a settlement in principle under which all issues are resolved. The Settlement, which is fully executed by Peoples Gas, BIE, OCA and OSBA, consists of 20 pages and 6 appendices. Appendix A sets forth the tariff supplement describing the agreed upon rates to become effective on October 1, 2019. Appendix B sets forth the retainage calculations. Appendix C is the Statement in Support of Peoples Gas. Appendix D is the Statement in Support of OCA. Appendix E is the Statement in Support of BIE. Appendix F is the Statement in Support of OSBA.

The parties also express their agreement with respect to four separate issues: (1) Retainage and Lost and Unaccounted-For Gas; (2) Design Day Methodology; (3) Separation of Retainage Rates; and (4) Miscellaneous. The parties specifically agreed to the following settlement terms, as provided in Section II, paragraphs 24 through 30, and as quoted below.

#### A. RETAINAGE AND LOST AND UNACCOUNTED FOR GAS

24. Peoples Gas agrees to revise its calculation of the tariffed retainage rate for all classes, as explained in Peoples Gas Statement No. 1-R. For purposes of calculating its retainage rate, Peoples Gas agrees to use 30% as the percentage share of compressor fuel used to support the on-system storage that provides balancing service to its transportation customers. Further, Peoples Gas agrees to perform a detailed analysis of the extent to which compressor fuel is used for on-system storage and for other purposes, and to present the results of that analysis with its Purchased Gas Costs case in 2020. The revised calculation is provided in Appendix B. Effective October 1, 2019, the tariffed retainage rate for all rate classes shall be 7.5%.

25. As proposed in Peoples Gas Statement No. 5, the producer retainage rate shall be 3.4% and will continue to apply regardless of where conventional local gas enters the Company's system.

## B. DESIGN DAY METHODOLOGY

26. Peoples Gas will analyze its design day methodology for weather-sensitive customers, with the specific purpose of trying to improve the forecast at the coldest temperatures. The Company will present the results of such analysis as part of its definitive filing in the Company's 2020 Purchased Gas Costs proceeding and will update the design day model using inputs that include data from winter 2018-2019.

## C. SEPARATION OF RETAINAGE RATES

27. With regard to whether separate retainage rates should be established for customers who acquire their gas through the Company's gathering system and those customers who do not, Peoples Gas agrees that if this issue is raised in the Company's 2020 Purchased Gas Costs case, the Company will not object to providing information in discovery on the basis that the information should only be provided in a base rate proceeding. The scope of such discovery requests will be limited to:

- (1) the number of Purchased Gas Costs and transportation customers served from the gathering and distribution systems and their applicable volumes;
- (2) whether any gathering system customers receive base rate or retainage discounts, by class and applicable volumes;
- (3) the number of transporters that source their gas from local producers on the gathering system and their volumes; or
- (4) other similar requests intended specifically to elicit data related to examining the potential for establishing separate gathering and distribution retainage rates.

The Company will only be required to provide information that is readily available or calculable and will not be required to perform studies or unreasonable investigations. The Company retains all rights to oppose any proposal made by any party, including but not limited to whether a proposal is outside the scope of the 1307 (f) proceeding or is otherwise irrelevant.

## D. MISCELLANEOUS

28. Except as revised by this Settlement, the proposed rates and other requested approvals contained in the Company's Purchased Gas Costs filing should be approved.

29. In accordance with the provisions of 52 Pa.Code § 53.64(i)(5), the Company's compliance filing in this proceeding will reflect updated actual and projected over/undercollections through September 30, 2019.

30. The parties agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Gas Statement No. 2 and related exhibits included in the 1307(f)-2019 definitive filing.

IMPACT OF SETTLEMENT ON RATES

In Paragraphs 31 and 32 of the Settlement, the signatories noted the parties to a Section 1307(f) proceeding usually are requested to provide the following material in a settlement petition: (1) current rates for each customer class; (2) requested and negotiated changes in gas costs per customer class, including the increase/decrease in dollar amount and as a percentage of the current rates; and (3) the impact on each customer class if the proposed rate was approved versus if the settled-upon rate was approved. Specifically, the signatories provided this information in two tables in Paragraph 32, provided below *in verbatim*.

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

<b>Peoples Gas</b>		As-Filed	Percent	Settlement	Annual Bill	Annual Bill
<u>Rate Schedule</u>	<u>Existing Tariff Rates</u> <u>1/</u>	<u>Gas Cost</u> <u>Change</u>	<u>Change</u>	<u>Gas Cost</u> <u>Change</u>	<u>As-Filed</u>	<u>Settlement</u>
RS	\$11.7362	(\$0.9632)	-8.2%	\$0.0000	\$ 1,084.65	\$ 1,084.65
SGS	\$9.4898	(\$0.9482)	-10.0%	\$0.0000	\$ 2,269.97	\$ 2,269.97
MGS	\$9.2428	(\$0.9443)	-10.2%	\$0.0000	\$ 23,630.99	\$ 23,630.99
LGS < 100,000 Mcf/yr	\$8.1870	(\$0.9443)	-11.5%	\$0.0000	\$ 28,009.95	\$ 28,009.95

1/ PG net billing rate effective January 1, 2019.

## FINDINGS OF FACT

The signatories agreed to several proposed findings of fact with citations to the record of admitted evidence. The proposed findings appear in Section IV, Paragraphs 33 through 53, of the Settlement, stated *in verbatim* below.

33. Peoples Gas pursues its goal of least cost reliable service through a combination of local and interstate assets and supplies. The local assets consist of gas purchase agreements for Local Pennsylvania Gas produced directly into the Company's pipeline system ("Local Pennsylvania Gas") and Company-owned on-system storage fields. The Local Pennsylvania Gas represents a significant portion of the annual supply needs of the system, while the on-system storage has limited supply capacity and is, therefore, utilized more for meeting the system's short-term peak requirements. (Peoples Gas Statement No. 2, p. 4.)

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

35. Over the 1307(f)-2019 historical period, Peoples Gas's interstate capacity portfolio included: (1) interstate pipeline transportation and storage services from Equitrans; (2) interstate pipeline transportation and storage services from DETI; (3) interstate pipeline transportation service from TETCO; and (4) interstate pipeline transportation and storage services from TCO. (Peoples Gas Statement No. 2, p. 16.)

36. On December 10, 2013, as set forth in the application proceeding at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651 and approved by Order entered November 14, 2013 ("Equitable Acquisition"), the Company entered into a firm storage agreement under Equitrans Rate Schedule 60SS and a no-notice firm transportation agreement under Equitrans Rate Schedule NOFT. The rates for both the storage and firm transportation service are negotiated rates that are less than the Equitrans recourse rates for the services and less than the current cost for this same capacity under the existing

TCO and DETI agreements. Through the Commission Order referenced above, Peoples Gas received approval of the Equitrans storage and transportation agreements pursuant to Section 2204(e)(4) of the Public Utility Code, 66 Pa. C.S. § 2204(e)(4). (Peoples Gas Statement No. 2, p. 17.)

37. The Equitrans contracts provided peak demand period daily deliverability of 27,500 Dth and storage capacity of 1,500,000 Dth for the storage withdrawal period of November 1, 2014, through March 31, 2015. The deliverability under these contracts increased to 33,917 Dth and storage capacity increased to 1,850,000 Dth for the withdrawal period of November 1, 2015, through March 31, 2016. Effective April 1, 2018, the daily deliverability under these contracts increased to 44,917 Dth and storage capacity increased to 2,450,000 Dth. Effective April 1, 2022, the daily deliverability under these contracts will increase to 72,417 Dth and storage capacity will increase to 4,000,000 Dth. (Peoples Gas Statement No. 2, pp. 17-18.)

38. Peoples Gas is proposing for the projected period to assign to PNG via capacity release 4,000 Dth/day of Equitrans services for a one-year period. These services would be a portion of the storage and related firm transportation services that Peoples Gas currently has under contract with Equitrans, and the assignment would consist of 218,182 Dth of storage capacity under Rate GSS which has a maximum daily withdrawal quantity of 4,000 Dth/day, and 4,000 Dth/day of firm transportation under Rate FTS. Peoples Gas would release this capacity to PNG at the same rates that Peoples Gas pays for the services. Proceeds from this release would not be included in Peoples Gas's capacity release sharing mechanism. (Peoples Gas Statement No. 2, p. 19.)

39. For the 1307(f)-2019 historical period, Peoples Gas had 10,000 Dth/day of FT firm transportation service, 25,000 Dth/day of FT-GSS firm transportation service, and 35,000 Dth/day of GSS firm storage service under contract from DETI. (Peoples Gas Statement No. 2, p. 21.)

40. TETCO provides Peoples Gas with firm transportation service of 10,000 Dth/day under Rate Schedule FT-1. Peoples Gas purchases gas on TETCO's market zone M-2 and moves it over TETCO's facilities to an interconnection at Delmont, Westmoreland County, which is also in market zone M-2. This negotiated rate agreement which commenced on November 1, 2015, and expires on October 31, 2030, allows the Company to purchase gas in a very liquid and competitively low-priced commodity market and deliver it to the southern part of the Peoples Gas system to support service to the Allegheny Valley. (Peoples Gas Statement No. 2, p. 22.)

41. For the 1307(f)-2019 historical period, TCO provided Peoples Gas firm transportation service under Rate FTS of up to 3,257 Dth/day. TCO also provided firm storage service under Rate GSS and related firm transportation service under Rate SST of up to 10,807 Dth/day with a total storage capacity of 609,827 Dth. (Peoples Gas Statement No. 2, p. 23.)

42. Peoples Gas currently owns and operates four storage fields which have 567,000 Mcf of combined storage capacity and 19,800 Mcf of maximum daily withdrawal capacity. (Peoples Gas Statement No. 2, p. 25.)

43. PNG and Peoples Gas have a gas exchange agreement that provides for an exchange of equivalent volumes between PNG and Peoples Gas where the receipt of gas from the other party would provide for more efficient operation of the recipient's system and would improve service reliability for both companies. Under the exchange arrangement, Peoples Gas receives gas from PNG at interconnections located in Mars, PA and Indiana, PA. In exchange, PNG receives equivalent volumes of gas from Peoples Gas at various interconnections. (Peoples Gas Statement No. 2, pp. 27-28.)

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

45. Peoples Gas has an incentive pricing program that is intended to increase receipts of locally-produced gas into operationally favorable locations on lines that have limited redundancy options. To date, Peoples Gas has not utilized this mechanism because it has been able to utilize other more cost effective supply options to ensure the availability of supplies. Peoples Gas intends to continue to explore the possible use of this price incentive when and where it may be needed. (Peoples Gas Statement No. 2, p. 33.)

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

47. For the period ending August 31, 2018, the overall system loss stabilized at about 1.7 Bcf, but, because of increased system throughput, this results in an overall loss rate of 6.71% which is down slightly from the prior year. (Peoples Gas Statement No. 5, p. 5.)

48. The two main contributors to UFG are Distribution UFG and Gathering UFG. The gathering UFG of 1.28 Bcf, is up slightly from the 1.13 Bcf in the prior year while the production moving through the gathering system has dropped more significantly resulting in an increase to the gathering loss rate to a level of 11.3%. The distribution UFG, however, has declined to 0.46 Bcf which yields a 1.92% loss rate. This distribution loss is well below the Commission's target for Distribution UFG of 3.0% and also below last year's Distribution loss rate. (Peoples Gas Statement No. 5, p. 5.)

49. Despite its efforts to reduce UFG and the improved distribution results, Peoples Gas remains challenged to reduce UFG on its pipelines that gather gas from local production wells. The Peoples Gas gathering system comprises over 500 miles of older, low pressure pipe, much of which has provided service for producers and customers for many years and is nearing the end of its useful life. (Peoples Gas Statement No. 5, p. 5.)

50. In the Company's last Purchased Gas Costs proceeding, prospective gathering loss rate targets were established. Peoples Gas's 2018 gathering loss of 11.3% is still above the first future target. However, several loss mitigation efforts were undertaken in the latter half of 2018. These were too late in the year to meaningfully affect 2018 performance, but should produce positive impacts in 2019. (Peoples Gas Statement No. 5, p. 6.)

51. Peoples Gas has taken several steps to try to reduce UFG on the gathering system, as outlined in Peoples Gas Exhibit No. 16. The Company also completed the following in 2018: (1) expired 9 zero flow production meters; (2) completed 22 meter audits; (3) completed 364 meter service/repair orders; (4) began automation of measurement data for ready UFG analysis; (5) began implementation of the Unauthorized Use Program including a Gas Theft Hotline; and (6) provided enhanced mapping to record monthly pressures and volumes to aid to loss determination. (Peoples Gas Statement No. 5, p. 8.)

52. Further, the Company has installed five additional meters and increased the segmented areas on its gathering system to include two additional pipeline segments. These additional areas will be included as targets for the UFG mitigation efforts going forward. (Peoples Gas Statement No. 5, p. 7.)

53. Peoples Gas monitors and participates in various proceedings before the FERC. Peoples Gas undertakes legal action as necessary to protect the interests of its ratepayers. (Peoples Gas Exhibit No. 14; Peoples Gas Statement No. 3, pp. 3-4.)

## DISCUSSION

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa. C.S. § 1307(f)(5), requires that the Commission determine the portion of Peoples Gas' historic period actual gas costs which meet the least cost fuel procurement standards set forth in Section 1318 of the Code, 66 Pa. C.S. § 1318. In addition, Section 1318 findings must be made with respect to new gas cost rates to be established in this proceeding. Section 1317 of the Code, 66 Pa. C.S. § 1317, requires the submission of certain information to enable the Commission to make a least cost fuel procurement policy evaluation.

In determining whether Peoples Gas is pursuing a least cost fuel procurement policy under Section 1318 of the Code, the specific findings in §§ 1318(a)(1) through (4) must be made as follows: (1) that the utility has fully and vigorously represented its ratepayers' interests before the Federal Energy Regulatory Commission (FERC); (2) that the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to ratepayer interests; (3) that the utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; and, (4) that the utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa. C.S. § 1318(a)(1)-(4).

In this proceeding, the parties reached a settlement. The Commission encourages parties in contested on-the-record proceedings to settle cases<sup>3</sup> because settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission's decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a "settlement" reflects a compromise of the positions the parties of interest held, which arguably fosters and promotes the public interest. When active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest.<sup>4</sup> In their supporting statements, Peoples Gas, BIE, OSBA and OCA conclude, after extensive discovery and discussion, this Settlement resolves the issues in this case, fairly balances the interests of the Company and its ratepayers, is in the public interest, is consistent with the requirements of Sections 1307 and 1318 of the Public Utility

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<sup>3</sup> 52 Pa.Code § 5.231.

<sup>4</sup> *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

Code,<sup>5</sup> and should be approved. The issues specifically addressed by the parties are discussed below.

## SETTLEMENT AND STATEMENTS IN SUPPORT

### Purchased Gas Cost Rates effective October 1, 2019

#### The Company Position

The Company noted the Joint Petitioners agreed the Commission should approve the proposed rates and other requested approvals contained in the Company's Purchased Gas Costs filing, except to the extent the rates and/or requests are modified by the Settlement.<sup>6</sup> Further, the Company noted it will update the proposed rates in the compliance filing to reflect updated actual and projected over/undercollections through September 30, 2019.<sup>7</sup> Finally, the Joint Petitioners agreed the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts as explained in 2019's Section 1307(f) Definitive Filing.<sup>8</sup>

The Company contended the Purchased Gas Costs and balancing rates the Company proposes to place into effect on October 1, 2019 are supported by record evidence. Peoples Gas explained in detail the development of the natural gas supply rates utilizing cost projections, sales projections, and the reconciliation process, and averred its testimony provided full support for the rates and the underlying calculations.<sup>9</sup> The Company averred these settlement provisions concerning its proposed Purchased Gas Costs and balancing rates are just and reasonable and should be approved without modification.

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<sup>5</sup> 66 Pa.C.S.A. § 1307 and § 1318.

<sup>6</sup> Settlement ¶ 28.

<sup>7</sup> Settlement ¶ 29.

<sup>8</sup> Settlement ¶ 30.

<sup>9</sup> Peoples Gas Statement No. 3.

### BIE Position

BIE did not express an opinion about this issue in its Statement in Support.

### OCA Position

OCA did not express an opinion about this issue in its Statement in Support.

### OSBA Position

OSBA did not express an opinion about this issue in its Statement in Support.

### Lost and Unaccounted For Gas and Retainage

#### The Company Position

Peoples Gas recommended increasing the tariffed retainage rate from 5.4% to 7.2% for all non-discounted transportation customers based on a calculation using the most recent three-year average for unaccounted for gas (UFG) and company use (CU).<sup>10</sup> In addition, the Company proposed to increase its producer retainage charge to 3.4% and to continue to apply it regardless of where conventional local gas enters the system. The purpose of the producer retainage charge was to recover a portion of the gathering system losses from producers, who are the primary beneficiaries of the gathering system. Peoples Gas argued these producers should contribute to the costs of the UFG.<sup>11</sup>

Peoples Gas disagreed with OCA's recommendation to propose a retainage rate of 9.4% for non-discounted transportation customers. The Company argued the proposed retainage rate is dependent on the volumes paying the maximum retainage rate, and it is improper to

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<sup>10</sup> Peoples Gas Statement No. 3, p. 3; Peoples Gas Exhibit No. 4; Peoples Gas Exhibit No. 6.

<sup>11</sup> Peoples Gas Statement No. 5, p. 8.

eliminate system throughput because throughput is integral to the UFG calculation.<sup>12</sup> Peoples Gas also contended it was not aware of any gas utility that makes such an assumption. Additionally, Peoples Gas disagreed a 43% allocation of compressor fuel would yield the correct 21.5% result, as argued by OCA. Peoples Gas argued 21.5% is the amount of on-system storage attributable to balancing, which is required for sales and transport customers alike, and as such it was not appropriate to attribute the entire amount to transportation customers.<sup>13</sup>

However, in an attempt to address OCA's concerns without eliminating throughput, Peoples Gas proposed a revised retainage rate calculation, which resulted in a revised retainage percentage of 7.4%.<sup>14</sup> As the Company explained, the customer throughput used in Peoples Gas Exhibit No. 4, line 10, did not include all system throughputs found in line 5. The additional throughputs include off system deliveries, exchanges with Peoples Natural Gas Company LLC, and storage turn. Peoples Gas believed that the most appropriate way to address OCA's concern regarding the retainage calculation was to account for all throughput volumes and any associated recoveries. Accordingly, on Peoples Gas Exhibit No. 4-R, the line 10 throughput was adjusted to include those volumes and an additional recovery was inserted, matching these flows.<sup>15</sup>

Furthermore, in the process of reviewing OCA's proposals, the Company discovered it incorrectly included all Company Use gas in Peoples Gas Exhibit No. 4, line 15, when the only cost there should have been compressor fuel. This correction was made in Peoples Gas Exhibit No. 4-R, line 16. After the Company refreshed its calculation of the amount of on-system storage attributable to balancing, Peoples Gas determined 23% of on-system storage is used for balancing.<sup>16</sup>

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<sup>12</sup> Peoples Gas Statement No. 1-R, pp. 5-6.

<sup>13</sup> Peoples Gas Statement No. 1-R, p. 6.

<sup>14</sup> Peoples Gas Statement No. 1-R, pp. 6-8; Peoples Gas Exhibit No. 4-R.

<sup>15</sup> Peoples Gas Statement No. 1-R, pp. 6-7.

<sup>16</sup> Peoples Gas Statement No. 1-R, pp. 6-8.

Peoples Gas agreed to revise its calculation of the tariffed retainage rate for all classes in Paragraph 24 of the Settlement. For purposes of calculating its retainage rate, Peoples Gas agreed to use 30% as the percentage share of compressor fuel used to support the on-system storage that provides balancing service to its transportation customers. Further, Peoples Gas agreed to perform a detailed analysis of the extent to which compressor fuel is used for on-system storage and for other purposes, and to present the results of that analysis with its 2020 Purchase Gas Costs case. The revised calculation, provided in Appendix B of the Settlement, shows that, effective October 1, 2019, the tariffed retainage rate for all rate classes shall be 7.5%.

Peoples Gas contended the Settlement reflects a reasonable compromise of the parties' positions. It acknowledged there had been a disagreement between Peoples Gas and OCA over the percentage of compressor fuel that should be included in the retainage rate calculation and the difference in the parties' calculations resulted in proposed retainage rates of 7.4% by Peoples Gas and 7.6% by the OCA. The two parties were able to settle the dispute in the Settlement where the retainage rate became 7.5%, which Peoples Gas asserted is a reasonable compromise of the parties' positions. Moreover, in response to OCA's alleged lack of detail on the uses of compressor fuel, Peoples Gas committed to performing a detailed analysis of those uses and will present the results in the 2020 Purchased Gas Costs proceeding. Thus, these settlement provisions are reasonable and in the public interest and should be approved without modification.

Peoples Gas also noted it proposed to increase its producer retainage charge from 2.9% to 3.4% and to continue applying it regardless of where conventional local gas enters the system.<sup>17</sup> The Company had argued the purpose of the producer retainage charge would be to recover a portion of the gathering system losses from producers, who are the primary beneficiaries of the gathering system. Peoples Gas argued the producers should contribute to the costs of the UFG and noted no party opposed the proposed increase of the producer retainage

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<sup>17</sup> Peoples Gas Statement No. 5, p. 8.

charge.<sup>18</sup> Peoples Gas asserted this settlement provision is reasonable, in the public interest and should be approved without modification.

### BIE Position

BIE noted Peoples Gas agreed to revise its calculation of the tariffed retainage rate for all classes.<sup>19</sup> For purposes of calculating its retainage rate, Peoples Gas agreed to use 30% as the percentage share of compressor fuel used to support the on-system storage that provides balancing service to its transportation customers. Further, Peoples Gas agreed to perform a detailed analysis of the extent to which compressor fuel is used for on-system storage and for other purposes, and to present the results of that analysis with its 2020 Purchase Gas Costs. BIE points out the revised calculation is provided in Appendix B of the Joint Petition, and effective October 1, 2019, the tariffed retainage rate for all rate classes shall be 7.5%. BIE also noted, as proposed in Peoples Gas Statement No. 5, the producer retainage rate will be 3.4% and will continue to apply regardless of where conventional local gas enters the Company's system.<sup>20</sup> BIE did not oppose inclusion of these terms in the Settlement.

### OCA Position

OCA initially recommended the Company's proposed retainage rate for transportation customers should be increased from 7.2% to 9.4% based on several factors involving the Company's method for calculating the rate.<sup>21</sup> First, OCA recommended the retainage charge should be calculated using a three-year average of actual Lost and Unaccounted For Gas (LUFG) volumes, rather than an average of the percentages of LUFG over the previous three years. OCA's concern was the Company was applying its average percentage to projected

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<sup>18</sup> Peoples Gas Statement No. 5, p. 8. Also, Settlement ¶ 24.

<sup>19</sup> Peoples Gas Statement No. 1-R.

<sup>20</sup> Settlement, ¶¶ 24, 25.

<sup>21</sup> OCA St. No. 1 at 3, 15; OCA Sched. JDM-4.

throughput volumes that were lower than the historical volumes used to arrive at the average percentage.<sup>22</sup>

Second, OCA was concerned how storage losses and gas used for compressor fuel (one form of company use gas) were incorporated into the calculation. The Company proposed to use 21.5% of its historic 3-year average storage loss and compressor fuel experience in calculating the retainage charge. OCA had pointed out that, with respect to storage losses, the 21.5% reflected the percentage of on-system storage that is used to provide balancing service to transportation customers. However, OCA noted that not all compressor fuel is used to support storage operations and it is also used to compress gas from local production wells and to move excess local production off-system during the summer. OCA contended the Company provided no information as to the amount of compressor fuel used to support these other functions.<sup>23</sup>

Further, because transportation customers represent approximately 50 percent of the retainage throughput on the PG system, OCA contended the percentage used in connection with storage losses and compressor fuel when calculating the retainage rate should be double the 21.5% used by the Company, or 43%.<sup>24</sup>

OCA pointed out the Company responded to OCA's concerns in its rebuttal. Peoples Gas proposed including volumes in its retainage calculation that it had omitted from its initial proposal which represented off-system deliveries, exchanges with Peoples Gas' affiliated company Peoples Natural Gas LLC, and what the Company termed "storage turn" (reflecting both the injection and withdrawal of on-system storage gas). OCA noted - as a result of including the previously omitted volumes, the projected throughput volume used to calculate the retainage charge increased significantly.<sup>25</sup>

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<sup>22</sup> OCA St. No. 1 at 14-15.

<sup>23</sup> OCA St. No. 1 at 12-13.

<sup>24</sup> OCA St. No. 1 at 12.

<sup>25</sup> Peoples Gas Statement No. 1-R at 6-7. Also, Peoples Gas Exhibit 4-R.

OCA noted the Company had refreshed its original calculation and determined 23% of its on-system storage was used for balancing. Peoples Gas reflected the increase in volumes and the increased percentage for storage losses and compressor fuel in Peoples Gas Exhibit 4-R, and as a result of those changes, the Company's proposed retainage rate increased from 7.2% to 7.4%. The inclusion of these additional volumes in the retainage calculation alleviated OCA's concerns that Peoples Gas had based its calculation on unrealistically-low projected throughput volumes.

OCA also noted the Company's increase in its allocator from 21.5% to 23% resulted in OCA including a new schedule which calculated the retainage rate using the Company's increased volumes but also doubled the Company's compressor fuel/storage loss allocator to 46%.<sup>26</sup> These modifications yielded a retainage rate of 7.6%. Given that the Company's retainage calculation in Rebuttal yielded a 7.4% rate and OCA's calculation produced a rate of 7.6%, OCA noted it and the Company compromised in the Settlement and agreed to use a compressor fuel allocator of 30% which would result in a retainage rate of 7.5%. OCA submitted this compromise is a reasonable resolution and, in addition, the Company agreed to perform a detailed analysis of the extent to which compressor fuel is used for on-system storage and for other purposes and present the results in the 2020 Purchased Gas Costs case. OCA opined this settlement provision addresses the concern it raised that the Company had not supplied information regarding the various uses of compressor fuel.

### OSBA Position

OSBA contended it reviewed the Company's actions taken to mitigate its levels of lost and unaccounted-for gas (LAUFG). OSBA pointed out the Company's overall LAUFG rose from 4.0% in 2016, to 6.8% in 2017, to 6.7% in 2018.<sup>27</sup> OSBA further noted the gathering system losses were 11.3% in 2018, which amount exceeded the 2020 target of 9.0%. Specifically, to address concerns regarding gathering system losses, the parties agreed in the

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<sup>26</sup> OCA Sched. 1-S.

<sup>27</sup> Peoples Gas Company Exhibit No. 4.

Company's 2018 Section 1307(f) proceeding to establish prospective gathering loss rate targets beginning in 2020, with a rebuttable presumption that any loss levels exceeding such targets would be unreasonable. Overall, OSBA is satisfied that Peoples Gas is taking actions to reduce its levels of LAUFG but OSBA plans to revisit this issue in the Company's 2020 Section 1307(f) proceeding.

OSBA noted it reviewed the Company's proposed retainage rates for (i) all rate classes (7.2%) and (ii) producers (3.4%). OSBA argued the Peoples Gas retainage rates must be increased due to changes in the Company's overall LAUFG levels. In light of such loss levels, OSBA agreed the 7.5% retainage rate derived in Appendix B to the Settlement, as well as the Company's proposal to increase the producer retainage rate to 3.4%, are reasonable.

## Design Day Methodology

### The Company Position

Peoples Gas explained the design peak day is a 24-hour period of extreme weather conditions which could result in the highest customer usage for which the Company would plan to serve (Design Peak Day).<sup>28</sup> The development of total design day requirements is divided into two categories of usage. The first category is weather-sensitive usage, which includes gas used by the Company's residential customers and most commercial customers that use the majority of their gas for heating purposes (heat-sensitive usage).<sup>29</sup> The second category of usage is non-weather sensitive usage, which includes gas used by the Company's mostly larger users and industrial customers.<sup>30</sup> These customers may use a small proportion of their natural gas usage for heat, but the vast majority is used for their production processes (non-heat sensitive usage).

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<sup>28</sup> Peoples Gas Statement No. 1, p. 5.

<sup>29</sup> Peoples Gas Statement No. 1, p. 6.

<sup>30</sup> Peoples Gas Statement No. 1, p. 6.

In addition to considering the Design Peak Day usage of Peoples Gas’ sales customers, the Company contended it considers the usage of all ratepayers during not only Design Peak Day but also during the entire heating season (November – March). This planning allows Peoples Gas to ensure the capacity portfolio and supply are sufficient to provide safe and reliable gas service to heat-sensitive ratepayers not only on the Design Peak Day but also throughout the entire heating season. Peoples Gas contended it has been using this methodology to calculate its design day requirements since 2015.<sup>31</sup>

Peoples Gas noted OCA expressed certain concerns with the Company’s design day methodology, and had argued the methodology was “highlighted by the differences between the actual and projected daily demands of these weather-sensitive customers” based on examples where the Company’s design day model either over- or under-forecasted actual demands. (OCA Statement No. 1, pp. 4-8.) OCA had argued these differences between actual and projected demands indicated “potential data integrity and statistical modeling concerns,” and OCA recommended the Company should further analyze and evaluate its design day model for weather-sensitive customers and address these concerns.<sup>32</sup>

In response on rebuttal, Peoples Gas explained it is premature to adopt OCA’s recommended solutions to a hypothetical problem.<sup>33</sup> Instead, the Company agreed to examine each of the items (storage deliverability, capacity recall, city-gate deliveries) identified by OCA, as well as other available options, if the Company determines additional capacity is needed to meet a design day deficiency. Peoples Gas agreed to examine its design day analysis with the specific purpose of improving the forecast at the coldest temperatures. Then, in the 2020 1307(f) proceeding, the Company agreed to provide the results of this analysis and update the model using inputs including the 2018-2019 winter data.<sup>34</sup>

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<sup>31</sup> Peoples Gas Statement No. 1, p. 6.

<sup>32</sup> OCA Statement No. 1, p. 8.

<sup>33</sup> Peoples Gas Statement No. 1-R, pp. 3-5.

<sup>34</sup> Peoples Gas Statement No. 1-R, p. 3.

Peoples Gas pointed out the Settlement at ¶ 26 requires it to analyze its design day methodology for weather-sensitive customers, with the specific purpose of trying to improve the forecast at the coldest temperatures. The Company agreed to present the results of such analysis as part of its Definitive Filing in the 2020 Purchased Gas Costs proceeding and update the design day model using inputs that include data from winter 2018-2019. Peoples Gas insisted these settlement terms reflect a reasonable compromise of the parties' positions concerning the Company's design day methodology and, as such, are reasonable, in the public interest and should be approved without modifications.

#### BIE Position

BIE noted Peoples Gas agreed to analyze its design day methodology for weather-sensitive customers, with the specific purpose of trying to improve the forecast at the coldest temperatures. The Company also agreed to present the results of such analysis as part of its Definitive Filing in the Company's 2020 Purchase Gas Cost proceeding and will update the design day model using inputs that include data from winter 2018-2019.<sup>35</sup> BIE noted it did not oppose inclusion of these terms in the Settlement.

#### OCA Position

Initially, OCA presented three circumstances in which there were significant differences between the demand of the Company's weather-sensitive customers as predicted by its design day model and the actual demand of those customers. In one instance, the model over-predicted actual demand and in two instances the model under-predicted actual demand.<sup>36</sup> OCA argued these discrepancies were large enough to raise concerns regarding the accuracy and integrity of the model, and contended these significant differences between actual and projected demands suggest potential data integrity and statistical modeling concerns.<sup>37</sup> Accordingly, OCA

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<sup>35</sup> Settlement, ¶ 26.

<sup>36</sup> OCA St. No. 1 at 6-7; OCA Sched. JDM-1, JDM-2 and JDM-3.

<sup>37</sup> OCA St. No. 1 at 8.

asked Peoples Gas to undertake a study of its Design Day model as it relates to predicting the demands of its weather-sensitive customers. OCA noted the Company generally defended its design day model as producing reliable results and described recent adjustments it had made to improve the model's reliability.<sup>38</sup> However, OCA noted the Company did agree to examine its design day analysis with the specific purpose of improving its forecast at the coldest temperatures and provide the results of that analysis in the 2020 Purchased Gas Costs proceeding.

### OSBA Position

OSBA averred it conducted an independent evaluation of the Company's design day demand levels, based on statistical analysis of daily loads. In general, the Company's proposed design day demand levels are reasonably consistent with OSBA's analysis. Without specifically endorsing the Company's design day methodology, the OSBA supported the Purchased Gas Costs rates set forth in Appendix A to the Settlement. Furthermore, OSBA noted the Settlement at ¶ 3 proposes Peoples Gas will update its design day methodology in the Company's 2020 Section 1307(f) filing. OSBA opined this update should allow the parties, including OSBA, to better analyze whether the Peoples Gas design day methodology remains just and reasonable.

### Separation of Retainage Rates

#### The Company Position

Peoples Gas noted that in its 2018 Purchased Gas Costs proceeding, Commissioner Place asked the Company to provide the "[a]dministrative costs related to implementation of separate retention fuel charges for gathering and distribution versus combined billing as is done today on Equitable."<sup>39</sup> The Company averred this question refers to the

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<sup>38</sup> Peoples Gas Statement No. 1-R at 2.

<sup>39</sup> Peoples Gas Statement No. 5, pp. 12-14.

administrative costs of applying separate gathering retainage charges to producers that deliver into the distribution system versus the gathering system.

In response to Commissioner Place's question, Peoples Gas explained applying the same retainage charge to producers regardless of whether they are delivering into the distribution system or gathering system does create some level of "administrative ease," but the administrative cost of implementing a different method (assessing retainage only on conventional gas delivered into gathering pipelines) is not significant. Peoples Gas averred this application involves not a cost issue, but an issue of maintaining simplicity to the market and ensuring that producers contribute to the use of the pipeline systems. Peoples Gas contended changing the practice to assess only retainage on gathering may incent producers to move production from the gathering system to the distribution system. Given that conventional production volumes are declining, which is making the existing gathering system less efficient to operate, a shift of this nature would only serve to accelerate the eroding efficiency. Further, charging retainage only to deliveries to the gathering system and not to the distribution system also may incent producers to move their production to the distribution system and could create operational problems for customers since local production gas can contain water and impurities.<sup>40</sup>

The Company noted OCA's objection that the Company should provide information related to adopting separate retainage rates for customers for the use of Peoples Gas' gathering and distribution systems in the 2020 Purchased Gas Costs proceeding.<sup>41</sup> OCA argued Commissioner Place's third question concerned "whether separate retainage charges should be assessed to customers that procure their gas supplies from local producers that deliver gas into Peoples Gas' gathering system" and "customers that procure their gas supplies from interstate sources which are delivered directly into Peoples Gas' distribution system and do not require delivery by Peoples Gas' gathering system." OCA had opined that adopting separate gathering

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<sup>40</sup> Peoples Gas Statement No. 5, p. 13-14.

<sup>41</sup> OCA Statement No. 1, pp. 3, 15-17.

and distribution system retainage charges for customers “would more reasonably assign responsibility for LUGF to those customers that use the facilities that cause LUGF.”<sup>42</sup>

Peoples Gas disagreed with OCA’s interpretation of Commissioner Place’s Statement. Peoples Gas argued that in the 2018 Purchased Gas Cost case, the Company requested to implement a producer retainage charge on both Peoples Gas’ system and PNG’s Peoples Division’s system consistent with the already approved application of producer retainage on PNG’s Equitable Division’s system. Peoples Gas believed Commissioner Place’s Statement related only to the application of the producer retainage charge, particularly given the context of the Commissioner’s specific support for a retention charge on conventional gas producers. Peoples Gas explained that the “[s]eparate application of transportation retainage rates based on where the transportation customer’s nominated gas supplies enter the system runs counter to the goals of administrative ease, fairness, and cost causation.”<sup>43</sup>

Peoples Gas contended that when OCA continued to recommend in its surrebuttal testimony that Peoples Gas be required to provide the information requested in the 2020 Purchased Gas Cost proceeding,<sup>44</sup> the parties were able to compromise in the Settlement. With regard to whether separate retainage rates should be established for customers who acquire their gas through the gathering system, Peoples Gas agreed in the Settlement at ¶ 27 that it will not object to providing information in discovery on the basis that the information should only be provided in a base rate proceeding if this issue is raised in the Company’s 2020 Purchased Gas Costs proceeding. Peoples Gas agreed it will only be required to provide information that is readily available or calculable and will not be required to perform studies or unreasonable investigations. The Company also retained all rights to oppose any proposal made by any party including, but not limited to, whether a proposal is outside the scope of the 1307(f) proceeding or is otherwise irrelevant.

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<sup>42</sup> OCA Statement No. 1, p. 16-17.

<sup>43</sup> Peoples Gas Statement No. 5-R, p. 2-5.

<sup>44</sup> OCA Statement No. 1S, pp. 5-7.

Peoples Gas asserted these settlement terms reflect a reasonable compromise of the parties' positions, by enabling parties to propound discovery related to the issue of separate retainage rates for customers in the 2020 Purchase Gas Cost proceeding, while limiting the scope of such discovery and preserving the Company's rights to oppose any such proposal to institute separate retainage rates for customers. As a result, the settlement terms are reasonable, in the public interest and should be approved without modification.

### BIE Position

BIE noted Peoples Gas agreed that - if this issue is raised in the Company's 2020 Purchased Gas Costs case - the Company will not object to providing information in discovery on the basis the information should only be provided in a base rate proceeding, specifically with regard to whether separate retainage rates should be established for customers who acquire their gas through the Company's gathering system and those customers who do not. The signatories agreed the scope of such discovery requests will be limited to: (1) the number of Purchased Gas Costs and transportation customers served from the gathering and distribution systems and their applicable volumes; (2) whether any gathering system customers receive base rate or retainage discounts, by class and applicable volumes; (3) the number of transporters that source their gas from local producers on the gathering system and their volumes; or (4) other similar requests intended specifically to elicit data related to examining the potential for establishing separate gathering and distribution retainage rates. The signatories agreed the Company will only be required to provide information that is readily available or calculable and will not be required to perform studies or unreasonable investigations, plus the Company retained all rights to oppose any proposal made by any party, including but not limited to whether a proposal is outside the scope of the Section 1307(f) proceeding or is otherwise irrelevant.<sup>45</sup> BIE did not oppose inclusion of these terms in the Settlement.

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<sup>45</sup> Settlement, ¶ 27.

## OCA Position

OCA initially recommended Peoples Gas should provide information in the 2020 Purchase Gas Costs proceeding on the administrative costs of adopting separate retainage rates for transportation customers who procure their gas supplies from local producers that deliver their gas into Peoples Gas' gathering system versus transportation customers who procure their gas supplies from interstate or local sources which are delivered directly to Peoples Gas' distribution system and do not require delivery by the gathering system.

Through its witness, Mr. Mierzwa, OCA explained the rationale for recommending an examination of separate retainage rates as follows:

Peoples Gas' gathering system is used to collect gas from local production wells and deliver that gas to Peoples Gas' distribution system. Those customers that do not utilize Peoples Gas' gathering system to obtain their gas supplies from local production wells utilize interstate pipelines to have their gas delivered to Peoples Gas' distribution system. Customers using interstate pipelines to acquire gas supplies are required to pay retainage to the interstate pipelines. Customers relying on Peoples Gas' gathering system to deliver gas to Peoples Gas' distribution system are not required to pay any portion of the interstate pipeline retainage assessed to customers relying on interstate pipelines to deliver gas to Peoples Gas' distribution system. Adopting separate gathering and distribution system retainage fuel charges would more reasonably assign responsibility for losses to those customers that use the facilities that cause these losses.

OCA St. No. 1 at 16-17.

OCA pointed out Mr. Mierzwa's Direct Testimony showed that for the 12 months ended August 2018, the LUGF rate on Peoples Gas' gathering system was 11.3% while LUGF on its distribution system was 1.92.<sup>46</sup> Also, transportation customers had purchased nearly 9.3 Bcf of gas from local producers that was delivered by Peoples Gas' gathering system. By contrast, Peoples Gas purchased roughly 3.8 Bcf of gas from local producers, which was delivered through the gathering system to serve its sales customers.<sup>47</sup>

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<sup>46</sup> OCA St. No. 1 at 10.

<sup>47</sup> OCA St. No. 1 at 13.

On rebuttal, Peoples Gas opposed this recommendation and took the position that imposition of separate retainage rates based on where a transportation customer's nominated gas supplies enter the system is contrary to the goals of administrative ease, fairness and cost causation. The Company asserted establishing retainage rates that vary based on how gas enters the system is unreasonable, unfair and unnecessary because the sourcing of a customer's gas does not affect the operation of the Company's overall system.<sup>48</sup>

Given such fundamental disagreement on this point, OCA, in settlement, elected not to pursue the separate retainage rate issue as part of this proceeding but wanted to preserve the right, at its discretion, to raise the issue again in Peoples Gas' 2020 Purchased Gas Cost proceeding. In particular, OCA sought protection from an attempt by the Company to deflect the issue in the 2020 case by asserting that the issue would be more appropriately addressed in a base rate proceeding, as opposed to a Purchased Gas Costs proceeding. In return for Peoples Gas' agreement, OCA specified the kinds of information it might seek in discovery on the issue and, to allay concerns on the part of Company that it might be asked to conduct an extensive investigation or study, OCA agreed to language that commits the Company to providing information that is readily available and does not require the Company to perform studies or unreasonable investigations. OCA averred it was satisfied these Settlement provisions adequately preserve and protect its ability, should it decide to do so, to raise the separate retainage rate issue in the 2020 Purchased Gas Costs proceeding.

### OSBA Position

OSBA did not express an opinion about this issue in its Statement in Support.

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<sup>48</sup> PG St. No. 5-R at 4-5.

## Miscellaneous Issues

### The Company Position

Peoples Gas contended the Settlement resolves all of the issues raised by the Joint Petitioners, including whether the Company's historic natural gas costs were incurred, and the projected natural gas costs will be incurred, under a least cost fuel procurement policy. The Settlement provides benefits to customers and is in the public interest. The Settlement was achieved only after a comprehensive investigation of Peoples Gas's natural gas procurement policies and operations. Peoples Gas noted it responded to numerous formal discovery requests (many of which had multiple subparts) and both Peoples Gas and OCA served testimony and accompanying exhibits in support of their position. Peoples Gas also noted there were numerous settlement discussions and formal negotiations amongst the signatories, which ultimately led to the Settlement. Finally, Peoples Gas averred each of the Joint Petitioners, as well as their experts and counsel, have considerable experience in Purchased Gas Costs proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus on the settled issues.

The Company pointed out the Settlement resulted after a detailed examination of its natural gas procurement practices, followed by the presentation of counter-positions, and then settlement negotiations. The signatories achieved a fair and reasonable compromise which was evidenced by the agreement of all active parties in this proceeding. For the forgoing reasons, Peoples Gas requested the Commission make all the findings required under 66 Pa.C.S.A. § 1318 with regard to its gas purchases and gas purchasing practices for the 12-month period ending January 31, 2019, find the rates proposed in the Settlement to be just and reasonable, and approve the Settlement without modification.

### BIE Position

BIE contended the Settlement asks the Commission to approve the proposed rates and other requested approvals contained in the Company's original filing, except as revised by

this Settlement. BIE noted that, in accordance with the provisions of 52 Pa. Code § 53.64(i)(5), the Company's compliance filing will reflect updated actual and projected over/undercollections through September 30, 2019. BIE pointed out the signatories agreed the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Gas Statement No. 2 and related exhibits included in the Section 1307(f) Definitive Filing for 2019.<sup>49</sup> BIE contended it supports these miscellaneous terms, including that the requested approvals in the Peoples Gas' Purchased Gas Costs filing should be granted.

BIE maintained that, while the Company's costs are subject to review in a future proceeding, ratepayers are protected because Peoples Gas gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies. As provided for in the Public Utility Code, "[n]o rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy...."<sup>50</sup> BIE confirmed this Settlement provides that natural gas costs will be based on adherence to a least cost reliable service fuel procurement policy.<sup>51</sup> Specifically, BIE averred Peoples Gas' procurement approach attempts to protect customers from the risk of the gas market's volatility through a combination of local and interstate assets and supplies.<sup>52</sup> A least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its Purchased Gas Costs customers.

BIE agreed the Settlement allows Peoples Gas to place into effect the natural gas supply rates as proposed and identified in Appendix A attached to the Joint Petition. The proposed rates will be updated to reflect any changes as of October 1, 2019, when the final tariff supplements are filed, and are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. BIE noted it agrees Peoples Gas will adhere to the purchasing plan as established by the data and calculations provided in its testimony and associated exhibits, as

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<sup>49</sup> Settlement, ¶¶ 28-30.

<sup>50</sup> 66 Pa.C.S.A. § 1318.

<sup>51</sup> Settlement, ¶ 33.

<sup>52</sup> Settlement, ¶¶ 33-34.

modified by the Settlement and the purchasing plan provides reasonable protections for ratepayers while enabling the Company to adhere to the regulatory requirements in acquiring supplies for its customers. Lastly, BIE averred it fully supports the Settlement as in the public interest. Its own reviews and analyses support these rates as just and reasonable, which accurately reflect the costs of purchased natural gas and are based on sound regulatory practices. As such, BIE opined these rates are in the public interest and should be approved. BIE represented that line by line identification of the ultimate resolution of every issue is not necessary, the Settlement maintains the proper balance of the interests of all parties, BIE is satisfied no further action is necessary and BIE's investigation of this filing is complete.

#### OCA Position

OCA averred it found the Settlement to be in the public interest and submitted the terms and conditions of the Settlement should be approved by the Commission.

#### OSBA Position

OSBA contended it supports the proposed Settlement for the reasons set forth in the Settlement, as well as the additional factors enumerated in its Statement in Support, and OSBA requested the Commission approve the Settlement in its entirety.

### RECOMMENDATION

It is the policy of the Commission to encourage settlements.<sup>53</sup> The benchmark or inquiry to determine whether a settlement is acceptable is if the proposed terms and conditions are in the public interest.<sup>54</sup> I recommend the Commission accept Peoples Gas' 1307(f) filing as modified by the Settlement because the Settlement is in the public interest and advances the least cost procurement objective which benefits all ratepayers. This is based in large part upon the

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<sup>53</sup> 52 Pa.Code § 5.231.

<sup>54</sup> *Pa.Pub.Util.Comm'n. v. C.S Water and Sewer Associates*, 74 Pa. PUC 767 (1991).

representations made by the statutory advocates averring the Settlement is in the interests of the constituencies that they represent. BIE averred that prior to agreeing to the Settlement, it conducted a thorough review of the filing and supporting information, discovery responses and submitted filing data, and contributed to the forthright discussions amongst the parties during Settlement talks. BIE specifically represented the Settlement should be accepted because it maintains the proper balance of the interests of all parties. BIE concluded it is satisfied no further action is necessary on the issues contained in the Settlement and considered its investigation of this filing complete. OCA and OSBA similarly represented, after full consideration of the materials submitted by Peoples Gas in discovery and set forth in the testimonies admitted into the record, that the Settlement is in the public interest.

In sum, the parties thoroughly investigated Peoples Gas' Purchased Gas Costs filing through discovery and the submission of testimony. The Company addressed the issues contested by the other parties through the specific provisions of the Settlement and I recommend the Commission approve Peoples Gas' Definitive Filing as to the uncontested issues. I conclude this Settlement constitutes a fair, just and reasonable resolution of the Commission's investigation for the reasons identified and discussed by the parties above. Therefore, the Settlement is in the public interest and should be approved.

#### CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S.A. §§ 501, 1307(f), 1318.
2. There is sufficient evidence in the record to make the findings required by Section 1318 of the Public Utility Code. 66 Pa.C.S.A. § 1318.
3. Peoples Gas Company LLC is pursuing a least cost fuel procurement policy during the relevant time period consistent with the obligation to provide safe, adequate and reliable service to customers in compliance with Section 1318 of the Public Utility Code, 66 Pa.C.S.A. § 1318.

4. The rates of Peoples Gas Company LLC for purchased gas costs, as the settling parties agreed upon in this proceeding, during the relevant time period, are just and reasonable and in compliance with Section 1318 of the Public Utility Code, 66 Pa.C.S.A. § 1318.

5. Peoples Gas Company LLC fully and vigorously represented the interests of ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings during the relevant time period in compliance with Section 1318(a)(1) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(1).

6. Peoples Gas Company LLC took all prudent steps necessary to negotiate favorable gas supply contracts and to relieve itself from terms in existing contracts with its gas suppliers, which are or may be adverse to the interests of ratepayers, during the relevant time period in compliance with Section 1318(a)(2) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(2).

7. Peoples Gas Company LLC took all prudent steps necessary during the relevant time period to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies in compliance with Section 1318(a)(3) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(3).

8. Peoples Gas Company LLC did not withhold from the market or caused to be withheld from the market during the relevant time period any gas supplies which should have been used as part of a least cost fuel procurement policy in compliance with Section 1318(a)(4) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(4).

9. Peoples Gas Company LLC fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests during the relevant time period in compliance with Section 1318(b)(1) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(1).

10. The contracts of Peoples Gas Company LLC for the purchase of gas from any affiliated interest during the relevant time period are consistent with a least cost fuel procurement policy in compliance with Section 1318(b)(2) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(2).

11. Neither Peoples Gas Company LLC nor any affiliated interest during the relevant time period withheld from the market any gas supplies, which should have been used as part of a least cost fuel procurement policy in compliance with Section 1318(b)(3) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(3).

12. The benchmark for determining the acceptability of a settlement is whether the proposed terms and conditions are in the public interest. *Pa.Pub.Util.Comm'n. v. C.S. Water and Sewer Associates*, 74 Pa. PUC 767 (1991).

13. The Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC, filed pursuant to 66 Pa.C.S.A. § 1307(f) and which Peoples Gas Company LLC, the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate executed and submitted at this docket is in the public interest.

### ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC pursuant to 66 Pa.C.S.A. § 1307(f) that Peoples Gas Company LLC, the Commission's Bureau of Investigation and Enforcement, the Office of

Consumer Advocate and the Office of Small Business Advocate have executed and filed at Docket No. R-2019-3007613, be approved.

2. That Peoples Gas Company LLC be permitted to file a tariff supplement, on at least one day's notice to the Commission, containing changes in rates to provide for the recovery of the costs of purchased gas, consistent with the terms and conditions of the Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC pursuant to 66 Pa.C.S.A. § 1307(f).

3. That the formal complaints of the Office of Consumer Advocate at Docket No. C-2019-3008563, and the Office of Small Business Advocate and at Docket No. C-2019-3008750, respectively, be marked satisfied.

4. That Peoples Gas Company LLC, the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate be ordered to comply with the terms and conditions of the Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC pursuant to 66 Pa.C.S.A. § 1307(f) executed and submitted in this proceeding as though each term and condition stated therein had been the subject of an individual ordering paragraph.

5. That upon the filing of a tariff supplement by Peoples Gas Company LLC, acceptable to the Commission as conforming with this Order and the Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC pursuant to 66 Pa.C.S.A. § 1307(f), and the Commission's approval thereof, the purchased gas cost rates established therein become effective for service rendered on and after October 1, 2019.

6. That upon acceptance and approval by the Commission of the tariff supplement and supporting data filed by Peoples Gas Company LLC, as being consistent with this Order and the Joint Petition for Settlement of the Section 1307(f) Rate Investigation of Peoples Gas Company LLC pursuant to 66 Pa.C.S.A. § 1307(f), the inquiry and investigation at



**Attachment A**

Exhibits Admitted into the Hearing Record  
On June 6, 2019  
Docket No. R-2019-3007613

For Peoples Gas Company LLC

PNG Statement No. 1	Direct Testimony of Carol A. Scanlon
PNG Statement No. 1-R	Rebuttal Testimony of Carol A. Scanlon PNG Exhibit 4-R
PNG Statement No. 2	Direct Testimony of Steven P. Kolich
PNG Statement No. 3	Direct Testimony of Robert Waruszewski
PNG Statement No. 4	Direct Testimony of Jason M. Dalton
PNG Statement No. 5	Direct Testimony of Lynda W. Petrichevich
PNG Statement No. 5-R	Rebuttal Testimony of Lynda W. Petrichevich
PNG Exhibits 1 through 17	PNG Exhibit No. 5 is Highly Confidential
PNG Exhibit 18	Original 30-Day Pre-Filing on March 1, 2019

For Office of Consumer Advocate

OCA Statement No. 1	Direct Testimony of Jerome D. Mierzwa with Schedules JDM-1 through JDM-4
OCA Statement No. 1-S	Surrebuttal Testimony of Jerome D. Mierzwa