

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3017846
Office of Consumer Advocate	:	C-2020-3019228
Office of Small Business Advocate	:	C-2020-3019439
	:	
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, which proposes the Purchased Gas Cost for Peoples Gas Company LLC decrease by \$0.0152 per Mcf, or by -0.1%, as of October 1, 2020, for the residential class. In addition, the public utility proposes to maintain its Producer Retainage Charge rate, for gas produced in conventional wells and gathered into the system, at 3.4% and a tariffed retainage rate for all classes at 6.8%. These rates are to be effective on October 1, 2020. The Joint Petition for Settlement is in the public interest.

HISTORY OF THE PROCEEDINGS

Pursuant to Section 1307(f) of the Public Utility Code, on April 1, 2020, Peoples Gas Company LLC (Peoples Gas, PG or the Company) filed with the Pennsylvania Public Utility Commission (Commission) a Pro Forma Supplement with changes to Retail Tariff Gas Pa.

P.U.C. No. 8. This filing is docketed at R-2020-3017846.¹ Peoples Gas proposed the Supplement should become effective for service rendered on and after October 1, 2020, in connection with the Company's 2020 Purchased Gas Cost (PGC) filing for the period ending September 30, 2020. Peoples Gas' initial filing proposed a decrease of \$0.0067 per Mcf for the gas cost recovery rate from residential sales service customers, in comparison to the rates in effect as of January 1, 2020. Rate changes were proposed for other customer classes. In addition, Peoples Gas proposed to maintain its retainage rate charged to producers for gas produced in conventional wells and gathered into the system at 3.4%.

This proceeding was consolidated for purposes of litigation only with a filing by Peoples Natural Gas Company (Peoples Natural Gas or PNG) on April 1, 2020.² Peoples Natural Gas filed a Pro Forma Supplement with changes to Tariff Gas Pa. P.U.C. No. 47 and docketed at R-2020-3017850. Peoples Natural Gas' filing proposes a decrease of \$0.2499 per Mcf for the gas cost recovery rate from residential sales service customers, in comparison to the rates in effect as of January 1, 2020. Rate changes were proposed for other customer classes. In addition, Peoples Natural Gas proposed to revise its retainage rate charged to producers for gas produced in conventional wells and gathered into the system to 2.3%, to be effective on October 1, 2020.

Various parties have entered appearances in addition to the utilities, 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 Nos. C-2020-3019228 against PG and C-2020-3019230 against PNG,

¹ Peoples Gas filed its Pro Forma Supplement through the Commission's eService capabilities because the Commission's offices closed on or about March 16, 2020 due to the Coronavirus 2019 pandemic (CoVid19). The Commission's employees continued working remotely from home while the Commission offices remained closed and continues to be closed as of the date of this Recommended Decision. All service and filing of documents by the parties and by the Commission occurred electronically during the pendency of this proceeding.

² A separate Recommended Decision appears in Docket No. R-2020-3017850. In addition, by Order entered November 14, 2019, the Commission granted a Petition for Reconsideration and Stay filed by Peoples Natural Gas and assigned PNG's complaint to the Office of Administrative Law Judge to be heard concurrently with PNG's next Purchased Gas Cost proceeding. This proceeding was the next Purchased Gas Cost proceeding after November 14, 2019 and the proceedings at Docket No. D-2017-2583670 and Docket No. M-2019-3008275 were consolidated with this proceeding for the purposes of litigation only in the Prehearing Order dated April 9, 2020.

and by OSBA at Docket Nos. C-2020-3019439 against PG and C-2020-3019440 against PNG. PG and PNG (collectively, the Companies).

By Notice issued April 6, 2020, the Office of Administrative Law Judge (OALJ) scheduled a prehearing conference for April 9, 2020 at 9:00 a.m., as an initial call-in telephonic prehearing conference, with the presiding officer and all parties appearing through the Commission's conference bridge capability. Prehearing Memoranda were filed on behalf of the Companies, BIE and OSBA. The Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Petition to Intervene on April 6, 2020.

The presiding officer conducted the prehearing conference on April 9, 2020 with the following parties present and represented by counsel: the Companies, OCA, OSBA, BIE and PIOGA. At the prehearing conference, the parties considered issues raised by the filings, discussed prehearing matters, discussed the litigation schedule, and considered issues raised by the ongoing CoVid19 pandemic. Thereafter, on April 20, 2020, the presiding officer issued a prehearing order which memorialized the matters discussed, established a litigation schedule, and granted the Petition to Intervene of PIOGA which was unopposed.

Peoples Gas filed its direct testimony with the initial filing on April 1, 2020. On May 6, 2020, written direct testimony was served on the parties from BIE and OCA. On May 26, 2020, written rebuttal testimony was served on the parties from Peoples Gas and PIOGA. On June 3, 2020, written surrebuttal testimony was served on the parties from BIE and OCA.

The presiding officer scheduled the initial hearings for June 9, 2020 and June 10, 2020. Prior to the start of the proceedings, the parties informed the presiding officer on June 5, 2020, that the parties reached a settlement, and the parties proposed to submit all written testimony and exhibits by stipulation. Accordingly, the presiding officer cancelled the hearings.

According to the established litigation schedule, the parties were given until July 1, 2020, in which to submit a fully executed settlement with substantive Statements in Support. All

testimony and exhibits admitted into evidence by stipulation of the parties are listed in the Joint Stipulation for Admission of Evidence filed with the Commission on July 1, 2020, and in Attachment A to this Recommended Decision.

On July 1, 2020, the Joint Petition for Settlement (Settlement or Joint Petition), including Statements in Support by Peoples Gas, BIE, OSBA and OCA, was filed with the Secretary's Bureau, along with a Joint Stipulation for Admission of Evidence. Intervenor PIOGA did not join in the Settlement; however, PIOGA filed a Statement in Support of the Settlement on July 1, 2020.

On July 7, 2020, the presiding officer issued an Interim Order closing the hearing record.

This Recommended Decision recommends the Settlement be adopted without modification.

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 (signatories or Joint Petitioners), consists of 22 pages and 5 appendices. Appendix A sets forth the tariff supplement describing the agreed upon rates. Appendix B sets forth the Statement in Support of Peoples Gas Company LLC. Appendix C sets forth the Statement in Support of the Commission's Bureau of Investigation and Enforcement. Appendix D sets forth the Statement in Support of the Office of Consumer Advocate. Appendix E sets forth the Statement in Support of the Office of Small Business Advocate.

The parties expressed their agreement with respect to four matters: (1) Retainage and Lost and Unaccounted For Gas; (2) Balancing Charges; (3) Interest on Over/Under

Collections; and (4) Miscellaneous. The Joint Petitioners specifically agreed to the following settlement terms, as provided in the Settlement at Section II, paragraphs Nos. 24 through 31, and as provided *verbatim* below.

A. RETAINAGE AND LOST AND UNACCOUNTED FOR GAS

24. The Company’s tariffed retainage rate for all rate classes effective October 1, 2020 shall be 6.8%, as explained in Peoples Gas Statement No. 1-R and as calculated on Peoples Gas Exhibit No. 3-R. The revised calculation is provided in Appendix A.

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

26. The Joint Petitioners acknowledge that the Company’s distribution unaccounted for gas (“UFG”) percentage for the twelve-month period ending August 31, 2019, is in compliance with the Commission’s regulations at 52 Pa.Code § 59.111(c)(1). The Joint Petitioners further acknowledge that the Company’s gathering system UFG percentage is lower than the target contained in the settlement of the Company’s 2018 PGC case at Docket No. R-2018-2645296.

B. BALANCING CHARGES

27. Peoples Gas shall revise its transportation balancing charges as follows:

	<u>SGS</u>	<u>MGS</u>	<u>LGS</u>
Rebuttal Position	\$0.3640	\$0.3165	\$0.2132
Settlement Position	\$0.3657	\$0.3180	\$0.2145
Increase	\$0.0017	\$0.0015	\$0.0013

C. INTEREST ON OVER/UNDERCOLLECTIONS

28. Interest on over/undercollections for the period October 1, 2019, through September 30, 2020, shall be computed at the rate of 4.75%, which is the prime interest rate as of 60 days prior to April 1, 2020. In future PGC proceedings, the Company shall compute interest on over/under collections for the twelve-month period ending as of the effective date of PGC rates based upon the published prime rate 60 days prior to the tariff filing to be made six months in advance of the effective date of new PGC rates (i.e., published prime rate 60 days prior to April 1 for new PGC rates to be effective October 1). No change will be made with respect to over/under collection calculations for prior periods.

D. MISCELLANEOUS

29. Except as revised by this Settlement, the proposed rates and other requested approvals contained in the Company’s PGC filing should be approved. Further, the form of tariff supplement attached hereto as **Appendix A** includes Peoples Gas’s proposed tariff modifications that were unopposed and that will be included in the Company’s tariff supplement to be filed on October 1, 2020.

30. 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, 2020.

31. The Joint Petitioners agree that the Commission should approve the renewals and changes in gas supply, pipeline, and storage capacity contracts that are explained in Peoples Gas Statement No. 2 and related exhibits included in the 1307(f)-2020 definitive filing

IMPACT OF SETTLEMENT ON RATES

In Paragraph Nos. 32 and 33 of the Settlement, the signatories noted the presiding officer directed the parties to provide the following material in a settlement petition: (1) current rates for each customer class; (2) requested and negotiated changes in gas costs for each customer class, identified in terms of dollar amounts and as a percentage of increase or decrease of the current rates; and (3) the impact on each customer class (e.g., under the proposed rate each customer would have paid X, and under the agreed-upon amount, each customer will pay Y).

Specifically, in Paragraph No. 33, the signatories provided this information in one table, provided below.

Peoples Gas	Existing	As-Filed		Settlement	Annual Bill	Annual Bill
<u>Rate Schedule</u>	<u>Tariff Rates 1/</u>	<u>Gas Cost</u>	<u>Percent</u>	<u>Gas Cost</u>	<u>As-Filed</u>	<u>Settlement</u>
		<u>Change 2/</u>	<u>Change</u>	<u>Change</u>		
RS	\$9.7905	(\$0.0067)	-0.1%	(\$0.0152)	\$ 1,013.03	\$ 1,012.30
SGS	\$8.1056	(\$0.0066)	-0.1%	(\$0.0150)	\$ 2,001.25	\$ 1,999.57
MGS	\$7.8737	(\$0.0105)	-0.1%	(\$0.0149)	\$ 19,749.09	\$ 19,739.10
LGS < 100,000 Mcf/yr	\$6.8651	(\$0.0066)	-0.1%	(\$0.0149)	\$ 24,281.88	\$ 24,263.04
1/ PG net billing rate effective January 1, 2020						
2/ The as-filed gas cost decrease is shown here. PG filed revised exhibits that increased the as-filed gas cost rate by \$0.0037/Mcf.						

FINDINGS OF FACT

The signatories agreed to several proposed findings of fact with citations to the record of admitted evidence. As set forth in Section IV, Paragraphs Nos. 34 through 53 of the Settlement, these proposed findings provide the information necessary to support the “Findings of Fact” set forth as stated *in verbatim* below.

34. Peoples Gas pursues its goal of least cost reliable service through a combination of local and interstate assets and supplies. The local assets are PNG’s on-system storage facility and a gathering system, which have allowed PNG to enhance the deliverability of local natural gas supplies produced in Pennsylvania and purchased by PNG from 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.)

35. 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.)

36. Over the 1307(f)-2020 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.)

37. 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.)

38. 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.)

39. There were Equitrans contract changes due to litigation stemming from FERC Order 849, which was issued in response to the Tax Cuts and Jobs Act (“TCJA”) and addressed pipeline rates in the context of the TCJA. In that Order, FERC directed pipelines with presumed returns of equity over 12% to file Form 501-G that would compute an indicated cost of service reduction. Pipelines then had one of four options: (1) file a limited Section 4 rate filing to make the reduction; (2) file a full Section 4 rate case; (3) provide an explanation why no rate change is necessary; or (4) take no further action other than filing Form 501-G. Equitrans elected Option 3 and argued that no rate adjustment needed to be made. Peoples Natural Gas and Peoples Gas filed a Protest to Equitrans’s filing, arguing that the income tax savings should be flowed through as soon as possible. Ultimately, the parties reached a settlement that was approved by FERC on May 24, 2019. Under that settlement, Peoples Gas secured a more immediate reduction in rates by reducing the negotiated retainage factor in Contract No. 771 to 1.72%. This retainage reduction, which will be fully passed onto customers, is estimated to be valued at \$100,000 annually at \$3.00 per Dth gas price and \$165,000 annually at \$5.00 per Dth gas price. The Company’s schedules in this PGC case reflect the changes due to this FERC settlement. (Peoples Gas Statement No. 2, pp. 18-22.)

40. For the 1307(f)-2020 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. 22.)

41. 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. 23.)

42. For the 1307(f)-2020 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, pp. 24-25.)

43. Through the spring of 2015, the Company regularly received gas at the TGP Pittsburgh Terminal, pursuant to a transportation agreement with TGP for 2013 and then pursuant to delivered gas purchase arrangements for 2014 and 2015. With the rearrangement of pipeline capacity services in 2015, the Company anticipated that the firm supply source from TGP would no longer be operationally needed. Since then, the Company has operated without a firm contractual delivery at the TGP interconnect but has on occasion purchased gas at that delivery point to bolster system operations in that area of its service territory. (Peoples Gas Statement No. 2, p. 26.)

44. The Company believed it could obtain a new firm commitment for delivered gas at the TGP interconnect without a reservation charge. As a result, Peoples Gas issued an RFP to multiple potential suppliers for firm deliveries of up to 5,000 Dth/day to the Company's Pittsburgh Terminal meter for the period commencing November 1, 2020, and extending through March 31, 2021. Peoples Gas plans to enter into an agreement with one supplier to make deliveries of up to 5,000 Dth/day with no associated reservation fee and a commodity-based premium to the TGP Z4 index. This agreement will extend from November 1, 2020, through March 31, 2021. As a result of the acceptance of the lowest cost offer, Peoples Gas rejected four higher cost offers. (Peoples Gas Statement No. 2, pp. 26-27.)

45. Peoples Gas currently owns and operates four storage fields which have 567,000 Mcf of combined storage capacity and 23,300 Mcf of expected design day withdrawal capacity. (Peoples Gas Statement No. 2, p. 28.)

46. Peoples Natural Gas and Peoples Gas have a gas exchange agreement that provides for an exchange of equivalent volumes between Peoples Natural Gas and Peoples Gas where the receipt of gas from the other party would provide for more efficient operation of the recipient's system and would improve service reliability for both companies. Under the exchange arrangement, Peoples Gas receives gas from Peoples Natural Gas at interconnections located in Mars, PA and Indiana, PA. In exchange, Peoples Natural Gas receives equivalent volumes of gas from Peoples Gas at various interconnections. (Peoples Gas Statement No. 2, p. 30.)

47. 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. 32.)

48. 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. 36.)

49. 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. 36.)

50. Consistent with the Peoples Companies' Combined UFG Mitigation Plan, Peoples Gas has been working on reducing UFG. The gathering UFG of 0.53 Bcf for 2019 is down significantly from the 1.3 Bcf in the prior year, while the production moving through the gathering system has dropped by 12%. This results in an overall decrease to the gathering loss rate to a level of 5.21% when producer retainage of 300.7 MMcf is considered. This percentage is substantially below the 9% target, inclusive of producer retainage, contained in the settlement of the Company's 2018 PGC proceeding at Docket No. R-2018-2645296. The distribution UFG for 2019 was a 2.7% loss rate. This distribution loss is below the Commission's target for distribution UFG of 3.0%.³ The combined total system loss rate is down to 3.4% even though the receipts of natural gas have decreased by 8%. (Peoples Gas Statement No. 5, p. 4.)

51. 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.)

52. Peoples Gas has taken several steps to reduce UFG on the gathering system, as outlined in Peoples Gas Exhibit No. 15. In addition to the activity and spending listed in Peoples Gas Exhibit No. 15, a significant change was made to both the number of producer meter audits as well as the number of items that were checked during the audits. Peoples Gas stepped up its audit process for producer meters, which resulted in finding a number of wells that were operating outside the Company's standards and, in some cases, contributing to UFG. Peoples Gas took action in each of these cases to have the issues

³ 52 Pa.Code § 59.111(c)(1).

remediated, which in many cases resulted in shutting in the production. The Company also completed the following in 2019: (1) expired and removed 336 zero flow production meters; (2) completed 466 meter service/repair orders; (3) continued automation of measurement data for ready UFG analysis; (4) continued implementation of the Unauthorized Use Program including centralizing the function and adding a supervisor that specializes in gas theft; and (5) provided enhanced mapping to record monthly pressures and volumes to aid loss determination. (Peoples Gas Statement No. 5, pp. 6-7.)

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. 2; Peoples Gas Statement No. 4, pp. 15-16.)

DISCUSSION

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa.C.S.A. § 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.A. § 1318. In addition, Section 1318 findings must be made with respect to new GCR to be established in this proceeding. Section 1317 of the Code, 66 Pa.C.S.A. § 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 Sections 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.

In this proceeding, the parties reached a settlement. The Commission encourages parties in contested on-the-record proceedings to settle cases,⁴ 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.⁵

In their supporting statements, People Gas, BIE, OSBA and OCA conclude, after extensive discovery and discussion, this Settlement resolves the issues in these dockets, 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 Code,⁶ and should be approved.

The issues specifically addressed by the parties are discussed below.

⁴ 52 Pa.Code § 5.231.

⁵ *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

⁶ 66 Pa.C.S.A. §§1307 and 1318.

SETTLEMENT AND STATEMENTS IN SUPPORT

Natural Gas Cost Rates effective October 1, 2020

The Company Position

Peoples Gas noted the purchased gas cost (PGC) and the balancing rates, proposed to be effective on October 1, 2020, are supported by record evidence. Peoples Gas used cost projections, sales projections, and the reconciliation process to explain the development of the natural gas supply rates and the testimony it submitted into the record provides full support for the rates and their underlying calculations. (*See* Peoples Gas Statement No. 3.) Peoples Gas averred these settlement provisions concerning the proposed PGC and balancing rates are just, reasonable and should be approved without modification.

Peoples Gas provided the form of tariff supplement (attached to the Settlement as Appendix A) including the proposed tariff modifications that were unopposed. (Settlement ¶ 29.) Peoples Gas asserted it was changing the cash-out pricing for under-deliveries of gas by suppliers from 115% to 120% of the applicable price set forth in the tariff (Peoples Gas Statement No. 3, p. 6.) because this change would encourage suppliers to deliver to their requirements.

In addition, the Company changed its Nomination of Local Gas Supplies tariff language to align with the language previously approved for its affiliate, Peoples Natural Gas Company LLC, in its 2018 Base Rate Case at Docket No. R-2018-3006818. (Peoples Gas Statement No. 3, p. 6.)

Lastly, Peoples Gas noted 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 1307(f)-2020 definitive filing. (Settlement ¶ 31.) No parties opposed these renewals and changes.

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 other than to note the proposed PGC rates in the Settlement will reflect the agreements and understandings of the parties and the rates will take effect on October 1, 2020.

OSBA Position

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

Retainage and Lost and Unaccounted For Gas

The Company Position

Concerning the Retainage Rate, Peoples Gas recommended decreasing the tariffed retainage rate from 7.5% to 6.8% for all non-discounted transportation customers. (Peoples Gas Statement No. 1, pp. 5-6; Peoples Gas Exhibit No. 3; Peoples Gas Exhibit No. 6.) The proposed retainage rate was calculated based on the most recent three-year average for unaccounted for gas (UFG) and company use (CU). The CU included storage-injection fuel costs because storage is used, in part, to support transportation customer balancing. (Peoples Gas Statement No. 1, pp. 5-6; Peoples Gas Exhibit No. 3.)

Peoples Gas disagreed with OCA's proposed retainage rate of 7.2% (OCA Statement No. 1, pp. 3, 9; OCA Schedule JDM-3.) and the retainage calculation set forth in OCA Schedule JDM-3. Peoples Gas proposed modifications to the retainage calculation in its rebuttal testimony. (Peoples Gas Statement No. 1-R, pp. 3-4.) Specifically, Peoples Gas averred 53% of the compressor fuel use of the Kinter station is used for storage injections in a normal year, based

on its modeling results, while “[t]he remainder is pumped directly into distribution.” Peoples Gas proposed to include the 47% of Kinter fuel in the Company’s retainage calculation. (Peoples Gas Statement No. 1-R, p. 3.) Moreover, regarding the 53% of Kinter fuel that is used for storage injections, the Company proposed to include 24% of the 53% in the retainage calculation. (Peoples Gas Statement No. 1-R, p. 3.) Peoples Gas explained that this 24% “represents system storage attributable to balancing and is derived from the revised balancing rate calculation shown in Peoples Gas Exhibit No. 12-R.” (Peoples Gas Statement No. 1-R, p. 3.) Additionally, Peoples Gas corrected a formula error in its originally-filed retainage calculation. (Peoples Gas Statement No. 1-R, p. 4.) The revised calculation, accounting for these modifications, was set forth in Peoples Gas Exhibit No. 3-R. Ultimately, there was no change to the as-filed retainage rate of 6.8% because the revised allocation was not large enough to effectuate a change. (Peoples Gas Statement No. 1-R, p. 4.)

Peoples Gas noted OCA’s witness accepted the Company’s modifications to the retainage rate calculation in surrebuttal testimony. (OCA Statement No. 1-S, p. 3.) However, OCA’s witness argued Peoples Gas’ calculation should include Rubright compressor fuel as well. (OCA Statement No. 1-S, p. 3; *see* OCA Schedule JDM-3R.) Under the new proposal, the retainage charge would increase from 6.8% to 7.0%. (OCA Statement No. 1-S, p. 3; OCA Schedule JDM-3R.)

Peoples Gas noted that, under the Settlement, the tariffed retainage rate for all classes effective October 1, 2020, will be 6.8%, as explained in Peoples Gas Statement No. 1-R and as calculated on Peoples Gas Exhibit No. 3-R. (Settlement ¶ 24.) The signatories agreed to this settlement provision as the product of compromise on several issues. Moreover, Peoples Gas contended it presented substantial evidence to support its proposed retainage rate of 6.8%, the settlement provision is reasonable and in the public interest, and the provision should be approved without modification.

Concerning the Producer Retainage Charge (PRC), Peoples Gas proposed to maintain its producer retainage charge at 3.4% and to continue applying it regardless of where conventional local gas enters the system. (Peoples Gas Statement No. 5, p. 7.) The purpose of

the PRC remains the same—to recover a portion of the gathering system losses from producers, who are the primary beneficiaries of the gathering system and, therefore, should contribute to the costs of the UFG. (Peoples Gas Statement No. 5, p. 7.) Peoples Gas noted no party opposed the proposal to maintain the current producer retainage charge, and the Settlement expressly incorporates this unopposed proposal. (Settlement ¶ 25.) Finally, Peoples Gas contends this settlement provision is reasonable, in the public interest and should be approved without modification.,

Concerning distribution and gathering Unaccounted For Gas (UFG), Peoples Gas averred its distribution UFG for the last reporting period was 0.6 Billion cubic feet (Bcf) of gas or 2.7%, which was below the Commission’s target for distribution UFG of 3.0%. (Peoples Gas Statement No. 5, p. 4.) As for gathering UFG, Peoples Gas noted future gathering loss rate targets were established in the settlement of the Company’s 2018 PGC proceeding (*See* Peoples Gas Statement No. 5, pp. 4-5.), wherein the gathering UFG target rate for the 2020 PGC UFG Reporting Period of September 2018 to August 2019 was 9.0%. (Peoples Gas Statement No. 5, p. 5.) Peoples Gas noted it had a 2019 gathering loss of 5.21%, which was below this year’s target and was also below the target levels of 8.5% for the 2021 PGC UFG Reporting Period ending August 31, 2020, and 7.5% for the 2022 PGC UFG Reporting Period ending August 31, 2021. (Peoples Gas Statement No. 5, p. 5.) Peoples Gas explained it made substantial efforts to reduce UFG, including the activity and spending listed in Peoples Gas Exhibit No. 15. (Peoples Gas Statement No. 5, pp. 5-7; *see* Peoples Gas Exhibit No. 15.)

Peoples Gas points out the signatories acknowledge the Company’s distribution UFG percentage, for the 12-month period ending August 31, 2019, complies with the Commission’s regulations at 52 Pa.Code § 59.111(c)(1). (Settlement ¶ 26.) The Joint Petitioners further acknowledged the gathering system UFG percentage is lower than the target contained in the settlement of the Company’s 2018 PGC case. (Settlement ¶ 26.) These settlement provisions simply acknowledge Peoples Gas’ compliance with these UFG requirements as well as the Company’s progress in reducing UFG on its distribution and gathering systems. Accordingly, Peoples Gas contended these settlement provisions are reasonable, in the public interest and should be approved without modification.

BIE Position

BIE noted it did not oppose the Retainage Settlement terms and asserted it supported the terms in the Settlement concerning the Lost and Unaccounted for Gas. BIE contended Peoples Gas' distribution system UFG must not exceed 3.0%, as it concerns distribution system UFG.⁷ BIE averred Peoples Gas reflected 2.67% UFG for its distribution systems for the year ended August 31, 2019.⁸ As a result, BIE agreed the Company's reported combined distribution system loss for the year ended August 31, 2019 met the UFG target of 3.0%.⁹

BIE noted the distribution system loss of 2.67% was an increase from the 1.92% reported in the 2018 UFG report at Docket No. M-2018-2640820.¹⁰ BIE remained concerned by the increase in UFG from the 2018 to 2019 test period¹¹ and asserted it will continue to closely monitor the Company's UFG level and may recommend an adjustment in future cases if the UFG level continues to increase, even though BIE did not recommend any adjustment due to the end-result UFG remaining below the 3.0% target in the current proceeding.

BIE also noted Peoples Gas agreed to a series of gathering system UFG targets as part of the settlement in the 2018 Peoples Gas PGC filing.¹² The gathering system target for the period September 2018 through November 2019 was 9.0%.¹³ The target for the period ending August 2020 is 8.5% and the target for the period ending August 2021 and beyond is 7.5%.¹⁴ BIE pointed out a gathering system UFG of 5.21% for 2019 was a decrease from the 11.33% gathering

⁷ 52 Pa.Code § 59.111.

⁸ I&E Exhibit No. 2, Schedule 1.

⁹ I&E Statement No. 2, p. 4.

¹⁰ I&E Exhibit No. 2, Schedule 2, p. 1.

¹¹ I&E Statement No. 2, p. 4.

¹² Docket No. R-2018-2645296.

¹³ I&E Statement No. 2, p. 5.

¹⁴ I&E Statement No. 2, p. 5.

system UFG reported in 2018.¹⁵ BIE averred it supported the Retainage and Lost and Unaccounted for Gas provisions in the Settlement because Peoples Gas met both its distribution system and gathering system targets for unaccounted-for-gas.

OCA Position

OCA noted it initially recommended the retainage charge calculation should be modified to account for additional quantities of compressor station fuel. OCA witness Mierzwa testified Peoples Gas' retainage charge calculation only included the compressor station fuel used to inject gas into storage. OCA argued, under Peoples Gas' current retainage calculation, all customers (sales and transportation) bear responsibility for storage injection-related compressor fuel costs, but only the PGC customers bear responsibility for non-storage injection-related compressor station fuel costs. OCA argued this approach was unreasonable because compressor stations support non-storage injection-related distribution system operations, which benefit all customers. OCA had recommended all customers bear responsibility for non-storage injection-related compressor station fuel costs, not just the PGC customers (OCA St. No. 1 at 10.), and OCA proposed that 100 percent (100%) of compressor station fuel charges should be included in the Company's retainage calculation.

OCA noted Peoples Gas disagreed with OCA's recommendation that all compressor station fuel charges should be part of the retainage calculation. The Company countered only two compressors on the PG system use gas as a compressor fuel, Rubright and Kinter, and the Rubright compressor is used primarily to move off Peoples Gas' system into the Dominion Energy Transmission Inc. (DETI) system for use by third parties where the third-party transporters pay the Company's retainage charge to move the gas. The Kinter compressor is used to move gathered gas into the distribution system or to inject gathered gas into storage. (Peoples Gas St. No. 1-R at 2-3.)

¹⁵ I&E Exhibit No. 1, Schedule 2, p. 4.

OCA pointed out that, though the Company opposed putting the Rubright compressor fuel charges into the retainage calculation, it proposed several modifications to the retainage charge calculation to account for a portion of the Kinter compressor fuel. Specifically, Peoples Gas proposed to include the 47% of Kinter fuel that is used to pump gas into the distribution system where the balance of the Kinter fuel (53%) is used to inject gas into storage. Of that amount, the Company proposed to include 24% of the 53% in the retainage calculation where the 24% represents the system storage that is attributable to balancing. (Peoples Gas St. No. 1-R at 3.)

OCA averred it opted to accept the Company's proposal in the Settlement to include the Kinter compressor station fuel in the retainage charge calculation and OCA would not pursue inclusion of the Rubright fuel charges. OCA averred it considered this proposal to be a reasonable compromise of the compressor fuel issue.

OSBA Position

Concerning Lost and Unaccounted-For Gas, OSBA averred the Settlement was in the public interest, and the Settlement terms and conditions should be approved by the Commission. As for Retainage Rates, OSBA noted Peoples Gas' tariffed retainage rate for all classes effective October 1, 2020, would be 6.8% as explained in the Company's rebuttal testimony. (Joint Petition, at Paragraph No. 24.) As originally proposed by Peoples Gas, the producer retainage rate would remain at 3.4%. (Joint Petition, at Paragraph No. 25.) OSBA pointed out it reviewed the Company's proposed retainage rates and found them to be reasonable and reflective of the Company's reported Lost and Unaccounted-For Gas levels.

Balancing Charges

The Company Position

Concerning Balancing Charges, Peoples Gas set forth its proposed balancing charges in Peoples Gas Exhibit No. 12. (Peoples Gas Statement No. 3, p. 10; Peoples Gas

Exhibit No. 12.) Peoples Gas asserted the balancing charges were derived based on the assets that Peoples Gas uses to balance transportation customer receipts and deliveries. (Peoples Gas Statement No. 3, p. 9.)

On rebuttal, Peoples Gas agreed to include the variable storage injection/withdrawal charges. (Peoples Gas Statement No. 3-R, p. 2.) The Company disagreed with including on-system storage losses. (Peoples Gas Statement No. 3-R, p. 2.) Peoples Gas’ Witness Waruszewski testified “it is not appropriate to assign on-system storage losses to transportation customers” because “[t]he on-system storage deliverability is what satisfies transportation customers’ balancing needs, not the on-system storage commodity.” (Peoples Gas Statement No. 3-R, p. 2.) Mr. Waruszewski presented calculations of the revised balancing charges that reflected his testimony. (Peoples Gas Exhibit No. 12-R.)

Under the Settlement, Peoples Gas agreed to revise its balancing charges as follows:

	<u>SGS</u>	<u>MGS</u>	<u>LGS</u>
Rebuttal Position	\$0.3640	\$0.3165	\$0.2132
Settlement Position	\$0.3657	\$0.3180	\$0.2145
Increase	\$0.0017	\$0.0015	\$0.0013

(Settlement ¶ 27.) Peoples Gas contended the rates do not reflect an agreed-upon formula for the calculation of the balancing charges as it reflects a reasonable compromise of the balancing charges proposed by Peoples Gas and by OCA. Peoples Gas acknowledged the agreed-upon charges are not as high as the balancing charges OCA proposed, the Company noted the charges are higher than the revised calculations presented in Peoples Gas Exhibit No. 12-R. Thus, the settlement provision is reasonable, in the public interest and should be approved without modification.

BIE Position

BIE noted the revised balancing charges specified by Peoples Gas in the chart provided in Paragraph 27 of the Settlement. BIE indicated it did not oppose inclusion of those terms in the Settlement.

OCA Position

OCA averred it recommended two modifications to Peoples Gas' calculation of the balancing charge: (1) that on-system storage losses be reflected in the balancing charge calculation; and (2) that the balancing charge include the variable storage injection/withdrawal charges and injection/withdrawal fuel charges that the Company incurs in connection with the storage it purchases from interstate pipelines. (OCA St. No. 1 at 5-6.) OCA noted Peoples Gas opposed the inclusion of on-system storage losses in the balancing charge calculation, but it accepted OCA's proposed inclusion of the variable storage injection/withdrawal charges. (Peoples Gas St. No. 3-R at 5-6.)

OCA pointed out that Peoples Gas opposed in principle the inclusion of on-system storage losses in the retainage calculation, but noted Peoples Gas chose to compromise by offering to increase its balancing charges to recover an additional \$28,000 from customers paying those charges. This increase is reflected in the table that appears in Settlement ¶ 27. OCA averred Peoples Gas' offer was a good faith effort to reach a compromise on the balancing charge issue and OCA agreed with the Company's proposal, even though the proposal is not necessarily reflective of the inclusion of specific amounts of on-system storage losses.

OSBA Position

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

Interest on Over/Under Collections

The Company Position

Peoples Gas Witness Waruszewski set forth the Company's experienced net collection or E-factor for 1307(f)-2020. (Peoples Gas Statement No. 3, pp. 8-9; *see* Peoples Gas Exhibit No. 10.) BIE had alleged Peoples Gas used an incorrect interest rate of 4.25% for the 12-month period ended September 30, 2019, when it calculated the interest component of its E-factor (I&E Statement No. 1, p. 3.) because Section 1307(f)(5) of the Public Utility Code required the Company to use "prime interest rate for commercial borrowing in effect 60 days prior to its tariff filing" on April 1, 2010, *i.e.*, 4.75%, rather than "the prime interest rate for commercial borrowing that was in effect 60 days prior to" the Company's quarterly rate filing on October 1, 2019," *i.e.*, 4.25%. (I&E Statement No. 1, pp. 3-4.)

Peoples Gas disagreed with BIE's position on rebuttal. (Peoples Gas Statement No. 3-R, p. 3.) Peoples Gas contended Section 1307(f)(5) of the Public Utility Code is unclear as to whether "tariff filing" means the pro-forma tariff filing or the compliance tariff filing. (Peoples Gas Statement No. 3-R, p. 3.) Since the rates resulting from the PGC proceeding are not put into effect until after the compliance tariff is filed on September 30, 2020, Peoples Gas contended the correct interest rate to use in the E-factor calculation is the interest rate in effect 60 days prior to the compliance filing. (Peoples Gas Statement No. 3-R, p. 3.) The Company noted BIE continued to disagree in its surrebuttal testimony concerning the meaning of Section 1307(f)(5)'s reference to "tariff filing" and further argued that, although the interest rate methodologies might balance out over time, BIE would not endorse an approach that was contrary to the statute. (I&E Statement No. 1-SR, p. 4.)

Peoples Gas noted that the signatories agreed the interest on over/under collections for the period October 1, 2019, through September 30, 2020, will be computed at the rate of 4.75%, which is the prime interest rate as of 60 days prior to April 1, 2020. (Settlement ¶ 28.) Peoples Gas also noted the signatories agree Peoples Gas would compute interest in future PGC proceedings on over/under collections for the 12-month period ending as of the effective

date of PGC rates, based upon the published prime rate 60 days prior to the tariff filing to be made six months in advance of the effective date of new PGC rates (i.e., published prime rate 60 days prior to April 1 for new PGC rates to be effective October 1). (Settlement ¶ 28.) However, no change will be made to over/under collection calculations for prior periods. (Settlement ¶ 28.) Peoples Gas contended the Settlement incorporates BIE’s recommendation for the 12-month period ended September 30, 2020, and future periods, but not for any prior periods. Consequently, these settlement provisions are a reasonable compromise of the parties’ positions, are reasonable, in the public interest, and should be approved without modification.

BIE Position

BIE averred it supported the Interest on Over/Under Collections provisions in the Settlement. BIE stated its concern was that the Company used an incorrect interest rate of 4.25% for the twelve-month period ended September 30, 2019, when Peoples Gas calculated the interest component of its E-factor.¹⁶ BIE disagreed with Peoples Gas’ interpretation of Section 1307(f)(5) in which Peoples Gas argued the section does not specify which tariff filing should be used to determine the interest rate, i.e., the October 1 compliance tariff filing or the April 1 pro-forma tariff filing.¹⁷ BIE contended the methodology mandated at 66 Pa.C.S.A. § 1307(f)(5) clearly required use of the prime interest rate for commercial borrowing in effect 60 days prior to the Company’s tariff filing, i.e., the annual GCR filing made on April 1.¹⁸

Specifically, BIE argued Section 1307(f)(5) states, in part: “Refunds to customers shall be with and recoveries from customers shall include interest at the prime rate for commercial borrowing in effect 60 days prior to the tariff filing made under paragraph (1)...” (emphasis added). BIE asserted the only tariff filing referenced under paragraph (1) [i.e., 66 Pa.C.S.A. § 1307(f)(1)] is

¹⁶ I&E Statement No. 1, p. 3 (citing Peoples Gas Exhibit 10, p. 17).

¹⁷ Peoples Natural Gas Statement No. 3-R, p. 3.

¹⁸ I&E Statement No. 1, p. 3.

the tariff filing made by the Company on April 1.¹⁹ Accordingly, BIE contended the Company should have used an interest rate of 4.75%, which is based on the prime rate for commercial borrowing in effect 60 days prior to the annual tariff filing on April 1, 2020.²⁰ BIE noted the Settlement terms, regarding interest on over/under collections, support BIE's position, and BIE is fully supportive of them

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.

Miscellaneous

The Company Position

Peoples Gas averred that, through cooperative efforts and the open exchange of information between the signatories, the Joint Petitioners arrived at a Settlement that resolves all issues in a fair and equitable manner. The Company contended the Settlement resulted from a detailed examination of its natural gas procurement practices through numerous discovery responses, testimony and accompanying exhibits, followed by the presentation of counter-positions on some issues, and then settlement negotiations. Peoples Gas further contended the Joint Petitioners achieved a fair and reasonable compromise, as evidenced by the agreement of all active parties on how to resolve the issues. As a result, Peoples Gas requested the Commission make all the findings required under 66 Pa.C.S.A. § 1318 with regard to its gas

¹⁹ 66 Pa.C.S.A. § 1307(f)(1) states, in part: "...the tariffs shall have an effective date six months from the date of filing" (emphasis added). In this context, Peoples Natural Gas's tariff has an effective date of October 1, six months from the date of filing on April 1.

²⁰ I&E Statement No. 1, pp. 4-5.

purchases and gas purchasing practices for the 12-month period ending January 31, 2020, find the rates proposed in the Joint Petition for Settlement to be just and reasonable, and approve the Joint Petition for Settlement without modification.

BIE Position

BIE pointed out that the Settlement terms provide the Commission should approve the proposed rates and other requested approvals contained in the Company's PGC filing, except as revised by the Settlement. BIE noted the Company's compliance filing in this proceeding will reflect updated actual and projected over/under collections through September 30, 2020, in accordance with the provisions of 52 Pa.Code § 53.64(i)(5). Additionally, BIE noted the Joint Petitioners agree 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)-2020 definitive filing.

BIE averred it supports these miscellaneous terms, including granting the request to approve the Peoples Gas' PGC filing. BIE referred to the provision in the Public Utility Code, at 66 Pa.C.S.A. § 1318, which states "[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...."²¹ BIE averred that, while Peoples Gas' costs are subject to review in a future proceeding, BIE confirmed the Settlement provides that natural gas costs will be based on adherence to a least cost reliable service fuel procurement policy.²²

OCA Position

OCA noted it found the Settlement is in the public interest, and for that reason, submitted that the Settlement's terms and conditions should be approved by the Commission

²¹ 66 Pa.C.S.A. § 1318.

²² Joint Petition, ¶ 34.

OSBA Position

OSBA noted it conducted an independent evaluation of design day demand levels, based on statistical analysis of daily loads, and OSBA found the Company's proposed design day demand levels are reasonably consistent with OSBA's analysis. Accordingly, OSBA accepted the design day forecast of Peoples Gas without affirmatively endorsing the Company's methodology. In addition, OSBA noted Peoples Gas proposed to continue the 75/25 sharing mechanism for off-system sales and capacity release revenues. OSBA took no exception, noting that the sharing approach is generally the standard practice for Pennsylvania NGDCs.

RECOMMENDATION

It is the policy of the Commission to encourage settlements.²³ The benchmark or inquiry to determine whether a settlement is acceptable is if the proposed terms and conditions are in the public interest.²⁴ I recommend the Commission accept the Company's Section 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 recommendation is based in large part upon the representations made by the statutory advocates averring the Settlement is in the interests of the constituencies that they represent.

The parties conducted a thorough review of the initial filing and supporting information, discovery responses and the filing data, and engaged in settlement discussions. The Settlement should be accepted because the Settlement maintains the proper balance of the interests of all parties, no further action is necessary on the issues contained within the Settlement and the investigation of this filing is complete. Further, the Settlement is in the public interest, and 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 should be approved.

²³ 52 Pa.Code § 5.231.

²⁴ *Pa. Pub. Util. Comm'n. v. C.S Water and Sewer Associates*, 74 Pa. PUC 767 (1991).

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S.A. §§ 501, *et seq.*, 1307(f) and 1317-18.

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 cause 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 Docket No. R-2020-3017846 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-2020-3017846, 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-2020-3019228, and the Office of Small Business Advocate at Docket No. C-2020-3019439, 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

Attachment A

Exhibits Admitted into the Hearing Record
By Stipulation on July 1, 2020
Docket No. R-2020-3017846

For Peoples Gas Company LLC

Peoples Gas Statement No. 1	Direct Testimony of Carol A. Scanlon
Peoples Gas Statement No. 1-R	Rebuttal Testimony of Carol A. Scanlon Including Peoples Gas Exhibit No. 3-R
Peoples Gas Statement No. 2	Direct Testimony of Steven P. Kolich
Peoples Gas Statement No. 3	Direct Testimony of Robert Waruszewski
Peoples Gas Statement No. 3-R	Rebuttal Testimony of Robert Waruszewski Including Peoples Gas Exhibit No. 12-R
Peoples Gas Statement No. 4	Direct Testimony of Jason M. Dalton
Peoples Gas Statement No. 5	Direct Testimony of Lynda W. Petrichevich
Peoples Gas Statement No. 5-R	Rebuttal Testimony of Lynda W. Petrichevich
Peoples Gas Exhibits Nos. 1 through 16, including Revised Exhibit Nos. 6, 8, 9 and 11. ²⁵	
Peoples Gas Exhibit 17	Original 30-Day Pre-Filing on March 2, 2020

For Bureau of Investigation and Enforcement

I&E Statement No. 1	Direct Testimony of Anthony Spadaccio Including Appendix A and I&E Exhibit No. 1
I&E Statement No. 1-SR	Surrebuttal Testimony of Anthony Spadaccio
I&E Statement No. 2	Direct Testimony of Ethan A. Cline Including Appendix A and I&E Exhibit No. 2

²⁵ Peoples Gas Exhibit Nos. 6, 8, 9, and 11 were revised by Peoples Gas on April 24, 2020.

For Office of Consumer Advocate

OCA Statement No. 1

Direct Testimony of Jerome D. Mierzwa
with Schedules JDM-1 through JDM-3

OCA Statement No. 1-S

Surrebuttal Testimony of Jerome D. Mierzwa