

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Focused Management
and Operations Audit of
the Peoples Natural Gas Company
d/b/a Dominion Peoples**

**Public Meeting -
March 11, 2010
2149012-Audit
Docket No. D-2009-2149012**

STATEMENT OF VICE CHAIRMAN TYRONE J. CHRISTY

Before the Commission for consideration is the Focused Management and Operations Audit (Audit) of the Peoples Natural Gas Company d/b/a Dominion Peoples (Peoples or Company) conducted by the Management Audit Staff of the Commission's Bureau of Audits (Staff), as well as the Implementation Plan submitted in response by Peoples. This Audit includes a total of 22 recommendations for improvement across nine functional areas of the Company's operations. Staff identified four functional areas as needing minor improvement, two areas as needing moderate improvement and two areas as needing significant improvement. Staff estimated that the quantifiable potential annual and one-time audit related cost savings from implementation would be approximately \$14.3 million and \$16,000 to \$165,000, respectively.

In response, Peoples has submitted an Implementation Plan indicating acceptance of 21 recommendations and partial acceptance of the other recommendation. No recommendations were rejected by the Company. The Company indicated that the Audit reflects conditions that existed at the Company as of the close of the field work on April 9, 2009 and that various events have occurred that have and will impact the overall operations of the Company. Most significant is that the Commission recently has approved the sale of Peoples by Dominion Resources, Inc. to SteelRiver Infrastructure Partners LP (SteelRiver). This sale recently closed on February 1, 2010, with the Company name being changed to Peoples Natural Gas LLC, as well as a new chief executive officer being appointed. As part of the sale, Dominion Resources Services, Inc. (DRS) and SteelRiver entered into a Transition Services Agreement whereby DRS will continue to provide various support services to Peoples on a temporary basis during the next 18 months. Peoples avers that some of the recommendations contained in the Audit relate to areas that will be supported by DRS during the transition period. The Company states that it intends to transfer much of this work back to Peoples as soon as possible and that it will ensure the Audit recommendations and the commitments it has made in its implementation plan are incorporated into the operations of Peoples.

It is readily apparent that the circumstances involved in this Audit represent a rather unique situation. The findings and recommendations within the audit coincide with the sale of this utility and the implementation of a new management structure. Considering the timing of this sale, as well as the existence of the 18 month transition period, the new management of Peoples face significant challenges to implement the Audit recommendations in a timely manner. Peoples is required to submit progress reports on its Implementation Plan annually, by March 1st, for the next three years. The

Bureau of Audits notes that it plans to follow-up on Peoples' implementation of the Audit recommendations at a later date. I believe that these follow-up audits will be very important for the Commission to determine if the new management is successfully transitioning this company to become a more effective organization.

I am particularly interested in the two functional areas found to be in need of significant improvement as a result of this management audit. I note that Staff made a total of 13 recommendations within these two functional areas, which include Gas Operations and Customer Service. A significant amount of the annual and one-time savings quantified by Staff is associated with the recommendations in these two areas. A major issue of concern was Peoples' unaccounted for gas (UFG) levels and reporting methodologies. Staff recommended that Peoples identify major sources of UFG, implement programs to reduce the amount of UFG in the system and establish reduction goals. According to Staff, Peoples could reduce its purchased gas costs by approximately \$13.2 million annually if it could reduce its UFG to panel average levels. While I have some concerns that this estimate may be optimistic given the uniqueness of Peoples system, which includes extensive gathering and storage facilities, significant cost savings may be possible through the implementation of the more rigorous UFG studies that Peoples has initiated or intends to initiate. Peoples has accepted this recommendation and states that it has agreed to several related programs per the settlement approved by the Commission involving the sale to SteelRiver as well as its most recent 1307(f) proceeding. Peoples has committed to presenting a report to the Commission as to the results of its UFG investigation no later than its 2011 1307(f) proceeding. I encourage the Company to diligently pursue these commitments and look forward to reviewing the results of its efforts.

I wish to commend the Bureau of Audits for the thorough and comprehensive examination of Peoples' operations within the context of this Audit. I will be monitoring Peoples' future progress reports and follow-up audits to ensure that the concerns expressed within this Audit are addressed by the Company in an expeditious fashion. I also would request the Bureau of Audits to closely monitor Peoples' progress and to alert the Commission in a timely manner if any implementation problems develop.

DATE

TYRONE J. CHRISTY, VICE CHAIRMAN