

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105-3265**

**Pennsylvania Public Utility Commission,
Law Bureau Prosecutory Staff**

**Public Meeting held January 27, 2012
2185982-OSA**

v.

Docket No. M-2011-2185982

Equitable Gas Company, LLC

**JOINT STATEMENT OF COMMISSIONER WAYNE E. GARDNER
AND COMMISSIONER JAMES H. CAWLEY**

By letter dated August 6, 2010, Prosecutory Staff informed Equitable Gas Company (Equitable) that it was initiating an informal investigation regarding the transfer of intellectual property to EQT IP Ventures, LLC (EQT IP) and affiliated interest transactions with EQT IP. EQT IP Ventures was formed in 2001. Subsequently, Equitable's parent company, Equitable Resources, Inc. (ERI) and its operating subsidiaries transferred certain intangible/intellectual property, including the trade names and trade marks relating to Equitable, to EQT IP in a tax free transaction. EQT IP received royalty payments in exchange for the services it provided in connection with the intangible/intellectual property and the right to use that property retained by ERI and its operating subsidiaries.

The informal investigation was based on information obtained in the Commission's Bureau of Audits Stratified Management and Operations Audit (2010 Management Audit), a 2003 Management Audit and a related Management Efficiency Investigation. The audits resulted in recommendations that Equitable update its affiliated interest agreements to reflect all affiliate transactions since Equitable did not include EQT IP in any of its affiliated interest filings in response to the 2003 Management Audit or the related Management Efficiency Investigation. On June 7, 2011, in response to a recommendation in the 2010 Management Audit, Equitable filed an updated affiliated interest agreement that included EQT IP. The Commission's Bureau of Technical Utility Services (TUS) is currently reviewing the pending affiliated interest filing at Docket No. G-2011-2246777.

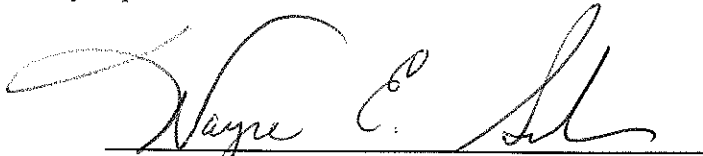
On December 2, 2011, Prosecutory Staff and Equitable filed a Settlement Agreement to resolve the matters related to the informal investigation. This Settlement Agreement is the subject matter of the Tentative Order before us that directs that the Tentative Order, together with the Settlement Agreement and Joint Statement in Support be issued for comments from all interested parties.

Paragraph No. 22 of the Settlement Agreement proposes to resolve all matters raised and which could have been raised by Prosecutory Staff in the investigation as well as any potential issues or liability associated with Equitable's transactions with EQT IP prior to the date of the Commission's Order in the Affiliated Interest proceeding at Docket No. G-2011-2246777. I note

that there is nothing in the record of this proceeding relating to Equitable's base rate case at Docket No. R-2008-2029325. Therefore, we request that Equitable, Prosecutory Staff and any other interested parties comment on any effect the transfer to EQT IP might have had on rates related to revenue requirements asserted by Equitable in its 2008 base rate case¹ as well as any other relevant issues.

January 27, 2012

Date



Wayne E. Gardner, Commissioner



James H. Cawley, Commissioner

¹ Prior to July 1, 2007, Equitable was charged a licensing fee by EQT IP beginning in October 2001 for the use of the legal protection and use of intangible assets, specifically Equitable's name and logo, equal to 7.5% of residential net revenues, and 1.0% of commercial and industrial customer net revenues. Shortly before filing its 2008 rate case on June 30, 2008, Equitable increased this royalty payment to 6.5% of residential, commercial and industrial revenues. The royalty expense deduction reduces the taxable income component of the Pennsylvania corporate net income tax. This expense also reduces the book income component of the Pennsylvania capital stock/franchise tax. According to the audit report, the licensing expense increased from \$35,449,533 for the period December 2006 to November, 2007, to \$59,995,353 for the period December 2007 to November 2008. The audit report does not disclose what the impact on state tax expenses would result, or did result, from this change, and what impact, if any, the failure to disclose this transaction would have on future rates.