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June 28, 2013

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P. O. Box 3265
Harrisburg, PA 17105-3265

In re: Docket No. R-2013-2346441, *et al.*
Pennsylvania Public Utility Commission, *et al.* v. Equitable Gas Company, LLC

Dear Secretary Chiavetta:

Enclosed via electronic filing in the above matter is the Joint Settlement Agreement of Equitable Gas Company, LLC, the Bureau of Investigation and Enforcement and the Office of Consumer Advocate including their respective statements in support of the settlement. Copies of the Joint Settlement Agreement are being served upon Administrative Law Judge Dunderdale and the parties to the proceeding in the manner set forth on the certificate of service attached to it. If approved, the settlement would resolve all contested issues in Equitable's 2013 1307(f) proceeding.

Very truly yours,

THOMAS, LONG, NIESEN & KENNARD

By

Thomas T. Niesen

Encl.
cc: Certificate of Service (w/encl.)
David W. Gray, Esq. (w/encl.)
John M. Quinn (w/encl.)

130628 Chiavetta (Settlement).wpd

Before The
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Administrative Law Judge
Katrina L. Dunderdale, Presiding

In The Matter Of

R-2013-2346441	-	**Pennsylvania Public Utility Commission**
C-2013-2356202	-	**Tanya J. McCloskey, Acting Consumer Advocate**
C-2013-2353255	-	**Stephen C. Gray, Acting Small Business Advocate**

v.

Equitable Gas Company, LLC

JOINT SETTLEMENT AGREEMENT

The Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA") and Equitable Gas Company, LLC ("Equitable," "EGC" or "Company"), active parties to the above-captioned Section 1307(f) proceeding (hereinafter sometimes referred to collectively as "Settling Parties"), respectfully present this Joint Settlement Agreement for consideration and approval by Administrative Law Judge Katrina L. Dunderdale and, upon her recommendation, by the Commission.

I. The Company

Equitable is engaged in the purchase, distribution, sale and transportation of natural gas and serves over 260,000 residential, commercial and industrial customers in the City of Pittsburgh and adjacent territories in Allegheny, Armstrong, Butler, Clarion, Fayette, Greene, Indiana, Jefferson, Washington and Westmoreland Counties in Southwestern Pennsylvania.

II. <u>The 1307(f) Filing at R-2013-2346441</u>

On April 1, 2013, Equitable filed its Computation of Annual Purchased Gas Cost ("Section 1307(f) Filing") with the Commission, pursuant to Section 1307(f) of the Pennsylvania Public Utility Code and the Commission's Regulations at Section 53.61, *et seq.*, of Title 52 of the Pennsylvania Code. In support of the filing, Equitable also submitted the prepared direct testimony and accompanying exhibits of two witnesses. Equitable's Section 1307(f) Filing proposed a Purchased Gas Cost ("PGC") Rate of $5.97 per Mcf, a decrease of $0.08 per Mcf in the then effective PGC rate of $6.05 per Mcf.

III. <u>The 1307(f) Proceeding at R-2013-2346441</u>

An investigation was instituted to determine the lawfulness, justness and reasonableness of the rates proposed in the Section 1307(f) Filing and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code. In addition to the Commission's investigation docketed at R-2013-2346441, the OCA and the Office of Small Business Advocate ("OSBA") filed Complaints which were docketed by the Commission at C-2013-2356202 and C-2013-2353255, respectively. I&E filed a Notice of Appearance pursuant to the provisions of 52 Pa. Code § 5.71(a)(1).

A prehearing conference was held on April 8, 2013, at which a schedule of various hearing, testimony submission, briefing and other dates was agreed to by the parties. In accordance with the procedural schedule, OCA served direct testimony on May 15, 2013. Neither I&E nor OSBA filed direct testimony. I&E, the OCA and the OSBA, propounded a substantial number of interrogatories, which were answered by Equitable. Equitable served rebuttal testimony on May

30, 2013. Following the circulation of the direct and rebuttal testimony and the completion of discovery, the Settling Parties were able to achieve a proposed resolution of their issues. No surrebuttal testimony was served.

IV. The Proposed Settlement Stipulation

A. Overview

In accordance with the Commission's Rules of Practice, OCA and Equitable have engaged in extensive discussions in an effort to resolve the contested issues in this 1307(f) proceeding. The terms and conditions set forth in the following section of this Joint Settlement Agreement present a comprehensive resolution of all contested issues.[1]

B. Settlement Terms and Conditions

1. Credits for Balancing Service

EGC has a PGC crediting mechanism for demand charges associated with no-notice service to transportation customers. As agreed in settlement of its 2012 Section 1307(f) filing, Equitable, as part of its 2013 Section 1307(f) filing, presented an analysis in Equitable Exhibit JMD-7 evaluating the extent to which no-notice service is used and variable charges are incurred to accommodate PGC and transportation customer imbalances. The Settling Parties agree that as part of its 2014 Section 1307(f) filing, EGC will submit a study of balancing service similar to Equitable Exhibit JMD-7 covering calendar year 2013. The OCA withdraws its proposed PGC adjustment for no-notice service variable charges in settlement of this year's proceeding.

2. Credits for Standby Service

EGC's transportation customers may contract for Standby Service pursuant to the Company's current tariff. In turn, EGC contracts with its pipeline supplier to reserve pipeline capacity for Standby Service. The cost of pipeline capacity reserved for Standby Service is credited to the PGC. As agreed in settlement of its 2012 Section 1307(f) filing, EGC, as part of its 2013 Section 1307(f) filing, submitted a study of the design day demands of customers. The Settling Parties

[1] Although not a signatory to the Joint Settlement Agreement, the OSBA has authorized the Settling Parties to state that it does not oppose approval of the Joint Settlement Agreement.

agree that Equitable, in its 2014 Section 1307(f) proceeding, will present a further analysis of the conversion of PGC customers to transportation service and the impact, if any, on design day demands of transportation customers and the design peak day demands of PGC customers. The OCA withdraws its proposed PGC adjustment for Standby Service capacity credits in settlement of this year's proceeding.

3. **Performance Based Rate No. 1**

The Settling Parties agree that Equitable may extend its current performance based rate mechanism for an additional two years through September 30, 2015.

C. Settlement Stipulation Re Requirements of Section 1318 of the Public Utility Code, 66 Pa. C.S. §1318

The Settling Parties stipulate Equitable's compliance with the requirements of Section 1318 of the Public Utility Code as follows:

Equitable is pursuing a least cost fuel procurement policy consistent with its obligation to provide safe, adequate and reliable service to its customers. Equitable Exhibit I, Items 53.64(c)(1) and 53.64(c)(6).

Equitable has fully and vigorously represented the interests of its ratepayers in proceedings before the FERC. Equitable Exhibit I, Item 53.64(c)(4).

Equitable has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve it from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of its ratepayers. Equitable Exhibit I, Items 53.64(c)(1) and 53.64(c)(6).

Equitable 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. Equitable Exhibit I, Items 53.64(c)(3) and 53.64(c)(8).

Equitable 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. Equitable Exhibit I, Item 53.65(5).

Equitable has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests. Equitable Exhibit I, Item 53.65(3).

Equitable's contracts with affiliates for the purchase of gas are consistent with a least cost fuel procurement policy. Equitable Exhibit I, Items 53.65(1) and 53.65(4).

Neither Equitable nor its affiliates have withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. Equitable Exhibit I, Item 53.65(5).

D. Discounting or Waiving of Tariff Rates

The discounting or waiving of tariff rates was fully litigated in the Company's 2005 1307(f) proceeding. As a result, the Commission issued an Order in Docket No. R-00050272 providing guidance on the treatment of discounts and waivers in future 1307(f) proceedings. The Commission's Order required that if Equitable exercised its discretion to discount or waive tariff rates in the future, the Company must provide a demonstration of the positive benefits to customers as a result of the discounts or waivers. Equitable addressed the discounting or waiving of rates in the testimony and accompanying exhibit of its witness Scanlon. No party proposed any PGC disallowance as a result of the discounting or waiving of tariff rates.

E. Settlement Tariff Supplement

The Settlement Terms and Conditions do not require adjustment to the form of tariff supplement included with the April 1 Section 1307(f) Filing. The PGC rate to be placed into effect as of October 1, 2013, will need to correspond to the October 1, 2013 quarterly filing pursuant to 52 Pa. Code Section 53.64(i)(5).

F. Evidentiary Basis

The Settling Parties believe that the testimony and exhibits sponsored by the Company and OCA, as further supported by the attached Statements in Support, fully support the fairness and reasonableness of the proposed settlement and demonstrate that it is in the public interest. At the hearing held on June 12, 2013, the OCA and Equitable offered into the record their respective statements and associated exhibits. With the approval of the presiding Administrative Law Judge, the statements of testimony and associated exhibits of Equitable and OCA were admitted into the record by stipulation without the necessity of calling their witnesses to the stand for the purpose of authenticating their respective statements and exhibits and being available for cross examination made unnecessary by virtue of the settlement. If for some reason the Commission should act to reject all or any part of this settlement, a hearing will be held on the subject issues prior to Commission disposition upon the request of any one of the Settling Parties:

Testimony and Exhibits of the Settling Parties Admitted into the Evidentiary Record

Party	Witness	Statements	Attachments/Exhibits Schedules
Equitable			Equitable Exhibit I - 2013 1307(f) Filing
Equitable	Carol A. Scanlon	Equitable St. No. 1	Equitable Exhibits CAS-1 and CAS-2 *(Highly Confidential)*
Equitable	Jason M. Dalton	Equitable St. No. 2	Equitable Exhibits JMD-1 through JMD-12
		Equitable St. No. 2-R	Equitable Exhibits JMD-1R through JMD-4R
OCA	Melissa Whitten	OCA St. No. 1	Exhibit MW-1,Schedules MW-1 through MW-3 and Attachments MW-1 and MW-2

The Settling Parties request that this Settlement Agreement be designated ALJ Exhibit 1 and admitted into the record as a late-filed exhibit.

G. **Settlement Perspective**

The Settling Parties agree that the resolution of the issues herein proposed is in the public interest and consistent with the requirements of Section 1318 of the Public Utility Code. Statements in support of this Joint Settlement Agreement on behalf of Equitable, OCA and I&E are attached hereto. Except where expressly noted to the contrary, this Joint Settlement Agreement is being presented only in the context of Equitable's 2013 Section 1307(f) proceeding in an effort to resolve outstanding issues in a manner which is fair and reasonable and in the public interest.

This Joint Settlement Agreement reflects compromises on all sides and is presented without prejudice to any position any of the Settling Parties may have advanced or may advance in the future, and without prejudice to the positions, if any, initially advanced by the Settling Parties on the merits of the issues. Those positions are preserved should the Commission reject this settlement in whole or in part. In such event, all parties retain the right to litigate their respective issues, if any, and may withdraw from the settlement, or a portion of the settlement, within 5 days of a Commission order rejecting the settlement in whole or in part. Regardless of whether this Joint Settlement Agreement is approved or not, no adverse inference shall be drawn, nor shall prejudice result, to any party hereto in this or any future proceeding as a consequence of this Joint Settlement Agreement.

WHEREFORE, Equitable Gas Company, LLC, the Office of Consumer Advocate and the Bureau of Investigation and Enforcement, by their respective attorneys, respectfully request that Administrative Law Judge Katrina L. Dunderdale and the Pennsylvania Public Utility Commission approve the settlement proposed in this Joint Settlement Agreement.

Respectfully submitted,

BUREAU OF INVESTIGATION AND ENFORCEMENT

By Allison Curtin Kaster

Johnnie E. Simms, Chief Prosecutor
Allison Curtin Kaster, Prosecutor

OFFICE OF CONSUMER ADVOCATE

By____________________

Darryl Lawrence
Assistant Consumer Advocate

EQUITABLE GAS COMPANY, LLC

By____________________

Charles E. Thomas, Jr., Esquire
Thomas T. Niesen, Esquire
David W. Gray, Esquire

Joint Settlement Agreement - Final.wpd

EQUITABLE GAS COMPANY, LLC

STATEMENT IN SUPPORT

Before The
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Administrative Law Judge
Katrina L. Dunderdale, Presiding

In The Matter Of

R-2013-2346441	-	**Pennsylvania Public Utility Commission**
C-2013-2356202	-	**Tanya J. McCloskey, Acting Consumer Advocate**
C-2013-2353255	-	**Stephen C. Gray, Acting Small Business Advocate**

v.

Equitable Gas Company, LLC

EQUITABLE GAS COMPANY'S STATEMENT IN SUPPORT OF JOINT SETTLEMENT AGREEMENT

AND NOW, comes Equitable Gas Company, LLC ("Equitable" or "Company"), by its attorneys, and submits the following statement in support of the Joint Settlement Agreement presented in the above captioned Section 1307(f) proceeding ("Joint Settlement Agreement").

I. Background

1. This proceeding concerns Equitable's 2013 Computation of Annual Purchased Gas Adjustment pursuant to Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f). As filed with the Commission on April 1, 2013, Equitable's 2013 Section 1307(f) Filing ("April 1 Filing") proposed a Purchased Gas Cost ("PGC") Rate of $5.97 per Mcf.

2. The Commission instituted an investigation at Docket No. R-2013-2346441 to determine the lawfulness, justness and reasonableness of the rates proposed in the April 1 Filing and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code, 66

Pa.C.S. §§ 1307, 1317, 1318. The signatory parties to the Joint Settlement Agreement (the "Settling Parties") are Equitable, the Office of Consumer Advocate ("OCA") and the Bureau of Investigation and Enforcement ("I&E"). Although not a signatory, the Office of Small Business Advocate, the only remaining party to the proceeding, is not opposed to the settlement.

3. The Settling Parties have agreed that this Section 1307(f) proceeding can be settled without further litigation under the terms set forth in the Joint Settlement Agreement. They agree that, based upon the evidence of record, the resolution of the issues proposed in the Joint Settlement Agreement is in the public interest and consistent with the requirements of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318.

II. The Joint Settlement Agreement Is Consistent with the Requirements of the Public Utility Code and in the Public Interest

Policy Considerations

4. The benchmark for determining the acceptability of a settlement or partial settlement is whether the proposed terms and conditions are in the public interest.[1] The Joint Settlement Agreement proposes a comprehensive resolution of all issues in Equitable's 2013 Section 1307(f) proceeding. Where the active parties in a proceeding have reached a settlement, the principal issue for Commission consideration is whether the agreement reached is in the public interest.[2]

5. It is the stated policy of the Commission to encourage parties in contested proceedings to enter into settlements.[3] Settlements lessen the time and expense the parties must

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[1] *Pa. P.U.C. v. C S Water & Sewer Assocs.*, 74 PA PUC 767 (1991); *Warner v. GTE North, Inc.*, Docket No. C-00902815 (Opinion and Order entered April 1, 1996).

[2] *C S Water & Sewer Assocs.*, *supra*; *see also Pa. P.U.C. v. Phila. Elec. Co.*, 60 PA PUC 1 (1985).

[3] 52 Pa. Code § 5.231(a). The Commission, moreover, has stated that the results achieved from a negotiated settlement in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401.

expend litigating a case and, at the same time, conserve administrative hearing resources. Such savings directly benefit the individual parties to a proceeding, the Commission and utility ratepayers, who otherwise may have to bear the financial burden such litigation necessarily entails.[4] The avoidance of unnecessary litigation expense is in the public interest.

Equitable's Proposed PGC Rate

6. Equitable presented a proposed PGC rate of $5.97 per Mcf which is an $0.08 per Mcf reduction to the PGC of $6.05 per Mcf in effect at the time of the PGC filing on April 1, 2013.[5] The proposed PGC rate is reflective of the Company's current gas acquisition strategy which was addressed at length in the testimony of Equitable witness Jason M. Dalton.[6] Mr. Dalton explained that Equitable has transitioned to a gas supply strategy focused on minimizing purchase gas costs through the procurement of Pennsylvania produced Marcellus Shale and other local Appalachian production.[7] Equitable now fulfills 100% of its supply requirements with Marcellus Shale and other local Appalachian production.[8]

7. Equitable's proposed PGC rate and gas acquisition strategy were reviewed but not opposed or otherwise challenged by any party. After reviewing the Company's filing, OCA witness Whitten testified as follows:

> "I find that that the Company's filing appears to be in compliance with its PGC tariff and that the commodity cost of gas appears to be consistent with market area pricing for both the historical period (the twelve months ending December

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[4] *Pa. P.U.C. v. The Newtown Artesian Water Co.*, Docket No. R-2011-2230259 (Recommended Decision of Administrative Law Judge Elizabeth H. Barnes dated September 20, 2011), slip op. at 9.

[5] Equitable Exhibit I, Section I, Part A, Sheet 1 of 6.

[6] Equitable St. No. 2.

[7] Equitable St. No. 2 at 3-4.

[8] Equitable St. No. 2 at 10-12.

2012) and the projected periods of January through September 2013 and October 2013 through September 2014. The 2013 PGC calls for a decrease of $0.08 per Mcf in the tariff rate. The current PGC rate is $6.05 per Mcf and the 2013 PGC proposed rate is $5.97 per Mcf."[9]

8. The evidence of record demonstrates that Equitable is in compliance with applicable statutory requirements and pursuing a least cost fuel procurement policy consistent with its obligation to provide safe, adequate and reliable service to its customers.[10] Approval of the settlement PGC Rate is in the public interest.

Specific Settlement Terms and Conditions

9. Specific settlement terms and conditions are presented in the Joint Settlement Agreement. They are generally set forth below and are in the public interest for the following reasons:

Credits for Balancing Service

Equitable subscribes to a FERC regulated "no-notice" interstate pipeline transportation service that benefits both PGC and transportation customers. Details of the "no-notice" service are presented in Mr. Dalton's direct testimony at page 5 of Equitable Statement No. 2. For PGC purposes, Equitable provides a PGC credit for the demand charges associated with the no-notice service provided to transportation customers.[11] OCA initially proposed a change to the crediting calculation to include a variable charge component. The OCA also proposed that EGC extend the balancing service study that it

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[9] OCA St. No. 1 at 2. Ms. Whitten was the only non-Company witness to present testimony in the proceeding.

[10] *See* 66 Pa.C.S. § 1318.

[11] *See* Equitable St. No. 1 at 9-10.

submitted in this proceeding to include the time frame after the pending reduction in variable charges for no-notice firm transportation service.[12]

Equitable disagreed with the OCA's attempt to expand the allocation of no-notice costs to transportation customers.[13] Equitable, however, offered in rebuttal testimony and agreed in settlement to submit, as part of its 2014 Section 1307(f) filing, a study of balancing service similar to Equitable Exhibit JMD-7 in this proceeding but covering calendar year 2013.[14] The OCA agreed to withdraw its adjustment in settlement of this year's proceeding.

Equitable supports the settlement resolution as reasonable and appropriate and consistent with the public interest. Equitable would continue to oppose the expansion of the balancing credit to include variable charges but supports the development of further information in next year's proceeding with the preparation and submission of the agreed upon additional analysis. Equitable supports the settlement resolution of this issue as a reasonable and appropriate accommodation of competing positions and consistent with the public interest.

Credits for Standby Service

Equitable provides Standby Service to transportation customers who contract for it. In turn, Equitable contracts with its pipeline supplier to reserve pipeline capacity for Standby Service. Standby Service capacity costs are credited to the PGC.[15] Citing recent conversions of PGC customers to transportation service, the OCA initially recommended

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[12] OCA St. No. 1 at 10-11.

[13] Equitable St. No. 2-R at 2-4.

[14] Equitable St. No. 2-R at 4.

[15] Equitable St. No. 1 at 9.

that the capacity credit to the PGC be increased to reflect higher levels of Standby Service.[16]

Equitable submitted updated design day studies in rebuttal to the OCA recommendation and adjustment. The studies showed that Equitable's standby needs have not dramatically changed since design day requirements were addressed in the Company's 2011 1307(f) proceeding. The Company explained further that the OCA proposal was an attempt to shift costs of approved capacity requirements from PGC to transportation customers ultimately increasing rates paid by transportation customers.[17]

Equitable disagreed with the OCA's attempt to expand the allocation of capacity costs to transportation customers[18] but agreed, in settlement, to present a further analysis in next year's proceeding of the conversion of PGC customers to transportation service and the impact, if any, on design day demands of transportation customers and the design peak day demands of PGC customers. The OCA agreed to withdraw its adjustment in settlement of this year's proceeding.

Equitable supports the settlement resolution as reasonable and appropriate and consistent with the public interest. Equitable would continue to oppose the expansion of the Standby Service credit but supports the development of further information in next year's proceeding with the preparation and submission of the agreed upon additional analysis. Equitable supports the settlement resolution of this issue as a reasonable and appropriate accommodation of competing positions and consistent with the public interest.

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[16] OCA St. No. 1 at 11-12.

[17] Equitable St. No. 2-R at 4-6.

[18] *See* Equitable St. No. 2-R at 4-6.

Performance Based Rate No. 1 – Credit for Other Capacity Revenues

Equitable's Performance Based Rate No. 1 provides for a sharing of 75%(PGC Customers)/25%(Company) of the net gains and losses associated with off-system sales, non-choice capacity release transactions, exchange transactions, storage management arrangements or any other transaction that uses, or allows others to use, Equitable's PGC funded upstream capacity or storage services. The current mechanism expires on September 30, 2013 and the Company is proposing to extend it for an additional two years through September 30, 2015.[19] No party opposed or otherwise challenged, the proposed extension of the PBR sharing mechanism. The PBR mechanism has been in place for many years. It provides for an appropriate sharing of capacity release and other related gas cost transactional revenue weighted in favor of the PGC customer.[20] Its continuation is in the public interest.

An Additional Matter - Discounting or Waiving of Tariff Rates

10. Equitable addressed the discounting or waiving of rates in the testimony and accompanying confidential exhibit of its witness Carol A. Scanlon.[21] No party proposed any PGC disallowance as a result of the discounting or waiving of tariff rates. The direct testimony of Ms. Scanlon and accompanying confidential exhibit to her direct testimony demonstrate that the Company's negotiation of gas cost related tariff provisions provides benefits to customers

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[19] Equitable St. No. 2 at 24-25.

[20] *See Pa. P.U.C. v. Equitable Gas Co.,* Docket No. R-00072111 (Recommended Decision of Administrative Law Judge John H. Corbett, Jr., dated July 19, 2007) (approving settlement including an extension of PBR-1 for two years at existing sharing percentages of 75%(PGC Customers)/25%(Company)), *adopted by id.* (Order entered August 30, 2007).

[21] Equitable St. No. 1 and Confidential Exhibit CAS-2.

consistent with the Commission's Order in Equitable's 2005 Section 1307(f) proceeding at Docket No. R-00050272 and is in the public interest.

Additional Statutory Findings

11. In consideration of the settlement and the evidence of record, the Settling Parties support the Commission making the following findings required by Section 1318 each of which is supported by the cited record reference:

(1) Equitable is pursuing a least cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. Equitable Exhibit I, Items 53.64(c)(1) and 53.64(c)(6).

(2) Equitable has fully and vigorously represented the interests of its ratepayers in proceedings before the FERC. Equitable Exhibit I, Item 53.64(c)(4).

(3) Equitable has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve it from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of its ratepayers. Equitable Exhibit I, Items 53.64(c)(1) and 53.64(c)(6).

(4) Equitable 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. Equitable Exhibit I, Items 53.64(c)(3) and 53.64(c)(8).

(5) Equitable 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. Equitable Exhibit I, Item 53.65(5).

(6) Equitable has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests. Equitable Exhibit I, Item 53.65(3).

(7) Each contract for the purchase of gas from its affiliated interest is consistent with a least cost fuel procurement policy. Equitable Exhibit I, Items 53.65(1) and 53.65(4).

(8) Neither Equitable nor its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. Equitable Exhibit I, Item 53.65(5).

The evidence supporting the above findings is uncontested and further supports the conclusion that the proposed settlement is in the public interest.

WHEREFORE Equitable Gas Company, LLC requests that Administrative Law Judge Katrina L. Dunderdale recommend approval of the Joint Settlement Agreement and upon her recommendation that the Pennsylvania Public Utility Commission approve the Joint Settlement Agreement and the resolution of the proceeding as proposed therein.

Respectfully submitted,

By______________________

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BUREAU OF INVESTIGATION AND ENFORCEMENT

STATEMENT IN SUPPORT

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2013-2346441
	:	
Equitable Gas Company, LLC	:	

BUREAU OF INVESTIGATION AND ENFORCEMENT STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

TO ADMINISTRATIVE LAW JUDGE KATRINA DUNDERDALE:

The Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), by and through its Prosecutor, Allison C. Kaster, hereby respectfully submits that the terms and conditions of the foregoing Joint Settlement Agreement ("Settlement") are in the public interest and represent a fair, just and reasonable balance of the interests of Equitable Gas Company, LLC ("Equitable" or "Company") and its customers. The parties to this Settlement conducted extensive discovery and negotiation sessions and, as a result, the Joint Petitioners have agreed upon the terms embodied in the foregoing Settlement. This request is based upon I&E's conclusion that the Settlement is in the public interest as supported by the following factors:

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission. Consequently, in negotiated settlements, it is

incumbent upon I&E to ensure that the public interest is served and to quantify to what extent amicable resolution of any such proceeding will benefit the public interest. Based upon I&E analysis of the Company's 1307(f) filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judge Katrina Dunderdale and the Commission approve the Settlement in its entirety.

2. On April 1, 2013, the Company filed its Annual Purchased Gas Cost Filling pursuant to Section 1307(f) of the Public Utility Code. Equitable's 1307(f) filing proposed a purchased gas cost rate of $5.97 per Mcf, which is an $0.08 reduction from the current purchased gas cost rate of $6.05 per Mcf.

3. I&E filed a Notice of Appearance on March 13, 2013.

4. A telephonic Prehearing Conference was held on April 8, 2013, which resulted in the establishment of a procedural schedule.

5. Discovery was undertaken by the parties during the proceeding.

6. Through the course of discovery and settlement negotiations, I&E determined that it did not have proposed adjustments to the Company's filing. Accordingly, I&E did not submit testimony in this proceeding.

7. In accordance with the Commission's policy favoring settlements over costly and time consuming litigation, 52 Pa. Code § 5.231, the Settling Parties were successful in achieving a full and complete settlement of all issues utilizing the discovery and settlement negotiation process.

8. I&E submits that the proposed Settlement is in the public interest and should be approved by the ALJ and the Commission for the following reasons:

a. After review of the filing and discovery, I&E did not prepare Direct Testimony because the information provided by the Company indicates that its gas purchasing practices have satisfied its least cost procurement obligation under the Public Utility Code. 66 Pa. C.S. § 1317. Adhering to a least cost procurement policy benefits ratepayers is in the public interest because least cost gas directly impacts customer gas bills, while still ensuring that customers receive safe, adequate and reliable service.

Specifically, I&E analyzed the Company's E-factor and found that it was calculated in accordance with established Commission practices. This review is critical because the proper calculation of the E-factor ensures that rates are adjusted appropriately. I&E is satisfied that the Company's E-factor calculation is appropriate and accurate. Additionally, I&E reviewed the Company's projected gas costs and determined that it appears those costs are consistent with a least cost fuel procurement policy.

Equitable's current PGC rate is $6.05 per Mcf. In its filing, Equitable projects a decrease of $0.08 per Mcf for a proposed PGC rate of $5.97 per Mcf to be effective October 1, 2013. The average monthly bill for a residential customer using 90 Mcf per year will decrease by approximately $0.60 or by 0.70%. Equitable Statement No. 1, p. 4. While those costs are subject to review in a future PGC proceeding, I&E maintains that ratepayers are protected in that Equitable gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

Moreover, Equitable has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve it from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of its ratepayers.

Equitable Exhibit I, Items 53.64(c)(1) and 53.64(c)(6). I&E agrees that Equitable 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. Equitable Exhibit I, Items 53.64(c)(3) and 53.64(c)(8). Finally, I&E recognizes that Equitable 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. Equitable Exhibit I, Item 53.65(5).

For these reasons, I&E maintains that Equitable is pursuing a least cost fuel procurement policy consistent with its obligation to provide safe, adequate and reliable service to its customers.

9. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense.

10. I&E further submits that the acceptance of the foregoing settlement will negate the need for any direct and cross-examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the filing of possible appeals.

11. The Settlement is conditioned upon the Commission's approval of all terms and conditions contained therein and should the Commission fail to grant such approval

or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or I&E as provided therein.

12. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

13. If the ALJ recommends that the Commission adopt the Settlement as proposed, I&E has agreed to waive the filing of Exceptions. However, I&E has not waived its rights to file Reply Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJ in the Recommended Decision. I&E has also reserved the right to file Reply Exceptions to any Exceptions that may be filed by the Company.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the Settlement as being in the public interest and respectfully requests that Administrative Law Judge Katrina Dunderdale recommend, and the Commission subsequently approve, the foregoing Joint Settlement Agreement, including all terms and conditions contained therein.

Respectfully submitted,

Allison C. Kaster

Allison C. Kaster
Prosecutor

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
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Dated: June 28, 2013

OFFICE OF CONSUMER ADVOCATE

STATEMENT IN SUPPORT

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	Docket Nos. R-2013-2346441
v.	:	C-2013-2356202
	:	C-2013-2353255
EQUITABLE GAS COMPANY	:	

STATEMENT OF THE OFFICE OF
CONSUMER ADVOCATE IN SUPPORT
OF THE JOINT SETTLEMENT AGREEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Settlement Agreement (Settlement) respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge and the Pennsylvania Public Utility Commission (Commission). This request is based upon the OCA's conclusion that the proposed Settlement is in the public interest and is in the interest of the customers of Equitable Gas Company (Equitable or Company).

I. INTRODUCTION

On March 1, 2013, pursuant to Section 53.64(c) of the Commission's Rules and Regulations, 52 Pa. Code Section 53.64(c), Equitable Gas Company (Equitable or Company) submitted pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates under Section 1307(f) of the Public Utility Code. 66 Pa. C. S. § 1307(f). On April 1, 2013, pursuant to Sections 53.61 through 53.68 of the Commission's Rules and Regulations, 52 Pa. Code Sections 53.61-53.68, Equitable filed the definitive copies of its annual purchased gas cost filing for the period ending September 30, 2014.

Equitable's current PGC rate is $6.05 per Mcf. In its filing, Equitable projects a decrease of $0.08 per Mcf for a proposed PGC rate of $5.97 per Mcf to be effective October 1, 2013. The average bill of a residential customer using 90 Mcf per year would decrease by approximately $0.60 per month as a result of the proposed new PGC rate.

The Company's filing was assigned to the Office of Administrative Law Judge, and was further assigned to Administrative Law Judge Katrina L. Dunderdale (ALJ Dunderdale) for investigation and scheduling of hearings to determine whether Equitable's gas costs comply with the standards set forth in the Public Utility Code. On April 4, 2013, the OCA filed a Formal Complaint against Equitable's proposed PGC rate.

Equitable Gas Company is a wholly owned subsidiary of Equitable Resources, Inc. In Pennsylvania, Equitable provides service to approximately 242,995 residential, 17,683 commercial and 136 industrial customers in the City of Pittsburgh and adjacent territories in Allegheny, Armstrong, Butler, Clarion, Fayette, Greene, Indiana, Jefferson, Washington and Westmoreland Counties in Southwestern Pennsylvania. Approximately 93% of the Company's Pennsylvania customers are residential customers.

On April 8, 2013, ALJ Dunderdale held a prehearing conference. The parties agreed to a litigation schedule, as well as certain modifications to the discovery rules.

As part of its investigation and analysis of this matter, the OCA reviewed the Company's purchasing policies and practices for natural gas supply for the 12-month historic period ending December 31, 2012 and the projected periods of January through September 2013 and October 2013 through September 2014. This analysis included an evaluation of numerous issues associated with the Company's historic and projected purchasing practices and policies, including, but not limited to:

(1) Whether Equitable has properly estimated its gas cost to be incurred during the interim and prospective periods covered by the Company's filing;

(2) Whether the gas supply mix proposed by Equitable and the costs produced by such mix are optimal and in the best interest of the Company's customers;

(3) Whether Equitable has properly provided for the optimal mix of demand entitlements, storage, and local production on its system in order to meet its system requirements at the lowest available cost;

(4) Whether Equitable, through its purchasing practices concerning local gas supplies, has prudently used its available procurement resources to the advantage of its customers and engaged in appropriate hedging techniques;

(5) Whether Equitable's treatment of interstate pipeline charges resulting from the restructuring of the gas industry is reasonable and in the best interest of Equitable's customers;

(6) Whether the Company's projected sales for the applicable period are accurate and otherwise consistent with the standards set forth in Section 1307(f) of the Public Utility Code, Commission rules and regulations;

(7) Whether Equitable has properly reported all refunds and attendant interest that it has received or will be receiving from suppliers;

(8) Whether the impact of Equitable's proposed allocations of purchased gas costs and refunds are unduly discriminatory;

(9) Whether the existing incentive mechanisms for capacity release revenues and off-

system sales are appropriate in that they result in a least cost fuel procurement policy;

(10) Whether Equitable's design day study and capacity entitlements are consistent with providing reliable service at least cost;

(11) Whether Equitable has accurately projected capacity release revenues and off-system sales and has appropriately utilized the capacity release market to offset capacity costs;

(12) Whether the existing performance-based incentive mechanisms are reasonable and should be continued;

(13) Whether the current Asset Management Agreement is reasonable and in the best interest of Equitable's customers; and,

(14) Technical issues pertaining to the gas cost recovery mechanism, including computation of quarterly adjustments to purchased gas costs, treatment of supplier refunds, provision of carrying costs associated with gas in storage, interest on gas cost over-collections, and proper computation of the E-factor and migration riders.

Following an initial round of formal discovery, the OCA submitted the written Direct Testimony of Melissa Whitten on May 15, 2013. Based on the initial discovery and analysis, Ms. Whitten testified in relevant part that:

> I find that the Company's filing appears to be in compliance with its PGC tariff and that the commodity cost of gas appears to be consistent with market area pricing for both the historical period (the twelve months ending December 2012) and the projected periods of January through September 2013 and October 2013 through September 2014. The 2013 PGC calls for a decrease of $0.08 per Mcf in the tariff rate. The current PGC rate is $6.05 per Mcf and the 2013 PGC proposed rate is $5.97 per Mcf.

> However, I have identified two concerns related to the Company's Balancing Service and Standby Service and associated studies presented in the Company's testimony. My findings and recommendations with these two services are:
>
> - Based on its Balancing Services Study, the Company's conclusion that there is minimal potential for cross-subsidization of Transportation customers by PGC customers under the Balancing Service is premature. The Study should be extended to include at least another year of data;
>
> - The determination of the credit provided to the PGC for Standby Service is based on a maximum daily quantity that is too low and should be reviewed in light of growth in Standby Service customer usage; and
>
> - The credit to the PGC customers based on the current maximum daily quantity of 24,168 Dth per day is inadequate and should be increased, which if adopted has the potential of lowering the under collection used to calculate the E-Factor rate, and a reduction in the E-Factor rate would all else equal reduce the Proposed Purchased Gas Cost per Mcf for the 2013 PGC. Based on my recommended adjustments, the PGC rate should be $5.91 per Mcf, not $5.97 per Mcf as filed.

OCA St. 1 at 2-3.

Following the filing of the OCA's Direct Testimony, the OCA and the Company engaged in extensive informal discovery and settlement discussions as to the issues raised by the OCA. On May 30, 2013, Equitable served the Rebuttal Testimony of Jason. M. Dalton. Equitable Statement 2-R. The Company's Rebuttal Testimony provided additional information on the Balances Service and Design Day studies. As a result of this additional information received as to the OCA's areas of concern in this matter, an agreement was reached.

The complete terms and conditions of that agreement are set forth in the Joint Settlement Agreement (Settlement) being submitted by Equitable. As a result of the Settlement, a hearing was held on June 12, 2013, for the purpose of entering testimony into the record without the need for cross examination or further evidentiary proceedings. Consistent with the instructions provided at the hearing, the OCA submits this Statement in Support of the Joint Settlement Agreement.

II. TERMS AND CONDITIONS OF THE JOINT SETTLEMENT AGREEMENT

The following represents the terms of the Settlement that directly address the OCA's outstanding concerns in this case.

As discussed above, OCA witness Whitten testified as to her concerns over the proper treatment of credits for balancing service in conjunction with the provision of transportation service. OCA St. 1 at 6-11. The parties agreed to address this issue, as follows:

1. <u>Credits for Balancing Service</u>

> EGC has a PGC crediting mechanism for demand charges associated with no-notice service to transportation customers. As agreed in settlement of its 2012 Section 1307(f) filing, Equitable, as part of its 2013 Section 1307(f) filing, presented an analysis in Equitable Exhibit JMD-7 evaluating the extent to which no-notice service is used and variable charges are incurred to accommodate PGC and transportation customer imbalances. The Settling Parties agree that as part of its 2014 Section 1307(f) filing, EGC will submit a study of balancing service similar to Equitable Exhibit JMD-7 covering calendar year 2013. The OCA withdraws its proposed PGC adjustment for no-notice service variable charges in settlement of this year's proceeding.

Settlement Agreement at 3.

An additional crediting mechanism may need to be created in order to reflect the entire range of costs being collected from transportation customers. Such a mechanism would be intended to properly reflect cost responsibility for variable and fuel charges related to No Notice Firm Transportation Service. At this time, however, the OCA submits that further study on this issue is needed as the current data is inconclusive. It is possible that the current data is not representative of average conditions on Equitable's system due to certain anomalies in the data over the last several years. As the Settlement provides, after further analysis and investigation the OCA reserves the right to raise this issue in Equitable's next 1307(f) proceeding if necessary.

Ms. Whitten also testified as to the treatment of the costs associated with the provision of standby service to transportation customers. OCA St. 1 at 11-15. The parties agreed to address this issue, as follows:

> **2. <u>Credits for Standby Service</u>**
>
> EGC's transportation customers may contract for Standby Service pursuant to the Company's current tariff. In turn, EGC contracts with its pipeline supplier to reserve pipeline capacity for Standby Service. The cost of pipeline capacity reserved for Standby Service is credited to the PGC. As agreed in settlement of its 2012 Section 1307(f) filing, EGC, as part of its 2013 Section 1307(f) filing, submitted a study of the design day demands of customers. The Settling Parties agree that Equitable, in its 2014 Section 1307(f) proceeding, will present a further analysis of the conversion of PGC customers to transportation service and the impact, if any, on design day demands of transportation customers and the design peak day demands of PGC customers. The OCA withdraws its proposed PGC adjustment for Standby Service capacity credits in settlement of this year's proceeding.

Settlement Agreement at 3-4.

The OCA's initial analysis as to this issue showed that there are increasing numbers of PGC customers converting to transportation service. It would reasonably follow that the design day demands of this expanding transportation class would also be larger. After further discovery and review of additional data provided by the Company, however, this was not the case at the present time. The data set being reviewed includes an abnormally warm period during the winter of 2011-2012, which results in certain conclusions about the actual design day demands of customers which may or may not accurately reflect longer term trends in this area. The resolution of this issue, as set out above will provide additional data for review of this issue in next years' 1307(f) proceeding. Accordingly, the resolution of this issue in this case is reasonable and in the best interest of Equitable's customers.

The Settlement Agreement represents compromise on all sides and is not completely indicative of the positions that various parties may have taken had these issues been fully litigated. That said, however, the agreements reached herein all represent reasonable resolutions of the issues raised in this proceeding and preclude the need to expend additional resources to litigate this matter. Accordingly, the OCA submits that the Settlement Agreement reached here is in the public interest and should be approved.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and therefore, should be approved.

Respectfully Submitted,

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Dated: June 28, 2013

170859

Before The
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Administrative Law Judge
Katrina L. Dunderdale, Presiding

Pennsylvania Public Utility Commission, *et al.*	:	
	:	
v.	:	**Docket No. R-2013-2346441, *et al.***
	:	
Equitable Gas Company, LLC	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this 28th day of June 2013 served a true and correct copy of the foregoing Joint Settlement Agreement, upon the persons and in the manner set forth below:

BY EMAIL AND FIRST CLASS MAIL, POSTAGE PREPAID

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