



PEOPLES NATURAL GAS™



PEOPLES TWP

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March 4, 2015

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Peoples Natural Gas Company LLC
Annual Asset Optimization Plan Filing
Docket No. M-2015**

Dear Secretary Chiavetta:

Enclosed on behalf of Peoples Natural Gas Company LLC is the Annual Asset Optimization Plan containing actual performance for the twelve months ended December 31, 2014 and projected performance for the calendar year 2015

Respectfully submitted,


Lynda W. Petrichevich

Enclosure

cc: Matt Stewart, Bureau of Technical Utility Services (via E-mail)

**Peoples Natural Gas Company LLC
2015 – 2019 Long-Term Infrastructure Improvement Plan
2015 Annual Asset Optimization Plan**

Background

Peoples Natural Gas Company LLC (“Peoples”) received approval of its 2013-2017 Long-Term Infrastructure Improvement Plan (“LTIIIP”) and Distribution System Improvement Charge (“DSIC”) by Commission Order dated May 23, 2013 at Docket No. P-2013-2344596. Peoples began billing the DSIC surcharge July 1, 2013.

Equitable Gas Company LLC (“Equitable”) received approval of its 2013-2017 LTIIIP and DSIC by Commission Order dated July 16, 2013 at Docket No. P-2013-2342745. Equitable began billing the DSIC surcharge October 1, 2013.

Acquisition of and Merger with Equitable

On March 31, 2013 Peoples, Equitable, Peoples TWP LLC (“Peoples TWP”), and a number of other affiliated entities filed a Joint Application at Docket No. A-2013-2353647, A-2013-2353649, and A-2013-2353651 seeking the necessary approvals for, among other things, (1) the transfer of 100% of the membership interests in Equitable to PNG Companies LLC, Peoples’ direct parent and an indirect subsidiary of SteelRiver Infrastructure Fund North America LP; (2) the merger of Equitable with Peoples, and the operation of the former Equitable properties and business as an operating Division of Peoples; and (3) the transfer of certain storage and transmission assets of Peoples to EQT Corporation (“EQT”). The Joint Application was referred to the Office of Administrative Law Judges for hearing. The active parties in the case filed testimony and were able to reach an agreement resolving all issues in the case. A Joint Petition for Settlement was submitted to the presiding Administrative Law Judge, who entered an Initial Decision on November 1, 2013, approving the Joint Petition for Settlement.

On November, 14, 2013, the Commission entered an Order approving the Initial Decision and thereby approving the Joint Petition for Settlement of all issues in the Acquisition Proceeding (“Acquisition Settlement”). By this Order, the Commission approved the merger of Equitable with Peoples and the transfer of certain storage and transmission assets of Peoples to affiliates of EQT.

On December 17, 2013, the transaction was closed between the parties and Peoples subsequently was merged with Equitable.

In the approved Acquisition Settlement Peoples agreed to suspend the inclusion of eligible DISC costs in the Peoples Division and Equitable Division DSIC mechanisms until such time as Peoples files a revised LTIIIP or Asset Optimization Plan for 2015 through 2019 that reflects its commitment to continue acceleration of the

replacement of higher risk pipelines and addresses the effects of the acquisition transaction, including how redundant facilities will be handled. Peoples submitted a "Revised LTIP" filing on June 18, 2014 in compliance with these Acquisition Settlement provisions. The Revised LTIP was approved on December 18, 2014 and is used to guide infrastructure improvement efforts for both Divisions that are reflective of the assets currently owned by Peoples and to avoid duplicative replacement of pipelines of the Divisions that are in close proximity. The Acquisition Settlement also contained Peoples' accelerated capital spending commitments for the period from 2015 through 2019 for both Divisions and the Revised LTIP is reflective of those obligations. Further, the approved Revised LTIP permits Peoples to apply the annual Division specific capital commitments on a combined basis with the requirement that Peoples will ensure that the required minimum annual investments for the Equitable Division, as specified in the Equitable acquisition settlement, will be achieved with the added provision that if the required minimum annual investments for Equitable are not achieved in a particular year, the shortfall will be rolled forward and expended along with next year's spending commitment. Per the Commission Order that approved the Revised LTIP, Peoples is also required to send an immediate notice to the Commission's Bureau of Technical Utility Services ("TUS") if in any calendar year the capital spending under the Revised LTIP varies by more than 5% between the Peoples and Equitable Divisions.

Annual Asset Optimization Plan

In accordance with the requirements at 66 Pa. Code §1356, a utility with an approved DSIC must file an Annual Asset Optimization Plan ("AAOP"). The AAOP must contain:

- (1) a description that specifies all eligible property repaired, improved and replaced in the prior 12-month period under its LTIP and prior year's AAO Plan;**
- (2) a description of the eligible property to be repaired, improved and replaced in the upcoming 12-month period.**

In response to part (1), Peoples 2015 AAOP shows the 2014 projections set forth in Peoples' filed 2014 AAOP and the actual eligible property replaced for 2014 by Division. Further, in response to part (2), Peoples will provide a description of the eligible property to be replaced and capital expenditures for 2015 that is reflective of the Revised LTIP approved by the Commission on December 18, 2014.

1. Description of all eligible property repaired, improved and replaced in the prior 12-month period under its LTIP and prior year's AAO Plan

The prioritization of pipeline replacement projects for 2014 focused on maximizing risk mitigation which resulted in the majority of pipeline replacements occurring in urban locations, the acceleration of planned projects from 2015 to 2014 and significantly increased spending above the projected plan for 2014. As a result

of this focus, in 2014, Peoples spent an additional \$8.6 million or about 34% more than planned in the 2014 AAOP on Peoples Division LTIP projects and \$2.5 million or about 11% more than planned in the 2014 AAOP on Equitable Division LTIP projects. The majority of the increased expenditures were in the pipeline replacement category. Also, in 2014, an additional 1.7 miles or 6% of pipelines were replaced in the Peoples Division and an additional 4.4 miles or 24% more footage was replaced in the Equitable Division. Of the footage replaced, a total of almost 25 miles of bare steel pipe was removed from the Peoples Division system and more than 16 miles of bare steel pipe was removed from the Equitable Division. Additionally, 2.9 miles of cast iron pipe was removed from the Equitable Division system. Since the majority of the risk is generated in the urban areas which have a higher population density, there were also considerably more service lines replaced. In fact, 75% more service lines were replaced than originally planned.

Actual expenditures for meter replacements were up approximately 6% from plan for the combined divisions. Peoples replaced 8,879 meters for the combined Divisions in 2014. This is an increase from the 2014 plan of 1,829 meters or 26%.

Additional supporting information can be found on the attached Table 1 and Table 3 which compares the 2014 LTIP project projections with 2014 actual LTIP activity for the Peoples and Equitable Divisions, respectively. Additional details will also be provided in response to the Bureau of TUS Annual Natural Gas Reliability Data - 2015 data request that is due in June.

2. Description of the eligible property to be repaired, improved, and replaced in the upcoming 12-month period. ("2015 LTIP Expenditures")

The Revised LTIP for the Peoples and Equitable Divisions reflect the new higher spending commitments for the period from 2015-2019 made by Peoples in the Equitable acquisition proceeding. The projected 2015 LTIP expenditures from the approved Revised LTIP for the Peoples and Equitable Divisions are \$54.5 million and \$32.9 million, respectively. The total projected 2015 LTIP expenditures for both divisions are \$87.3 million. Based on the project plans for 2015, Peoples projects that it will spend \$87.4 million for both divisions on LTIP related capital items during 2015. In order to maximize the reduction in overall system risk across both divisions, in 2015, Peoples will continue to prioritize pipeline replacement in the most populated areas with an initial focus in the city of Pittsburgh and surrounding Allegheny County. In 2015, Peoples also plans to replace all currently known small diameter cast iron pipelines in the system (Equitable Division). As a result of the initial focus on urban locations and small diameter cast iron pipeline replacement, Peoples estimates that it will spend \$45.2 million on LTIP related capital and replace approximately 39 miles of pipelines on the Peoples Division during 2015. As to the Equitable Division, Peoples estimates that it will spend \$42.2 million on LTIP related

capital and replace approximately 30 miles of pipelines on the Equitable Division for during 2015. Since these planned LTIP related spending amounts for each Division vary by more than 5% as compared to the spending by Division as set forth in the approved Revised LTIP, Peoples expects that it will provide the required notice to the Commission's Bureau of Utility Services during 2015 as required by the Commission's December 18, 2014 Order.

Attached Tables 2 (Peoples Division) and 4 (Equitable Division) provide further details on the projected amounts of 2015 LTIP property to be replaced and related capital expenditures. The combined 2015 planned expenditures for the Peoples and Equitable Divisions are \$87.4 million. This amount significantly exceeds both the 2014 planned expenditures of \$47.7 million and the 2014 actual expenditures of \$58.8 million.

Peoples Natural Gas
Annual Asset Optimization Plan (AAOP)
Comparison of 2014 AAOP Projections to 2014 Actuals

Table 1

	Property Repaired, Improved and Replaced As Projected in 2014 AAOP	Property Repaired, Improved and Replaced during the TME December 31, 2014
Pipe in Miles 1/	29	30.7
Company Owned Services	1,750	3,401
Meter Replacement	3,850	5,282
Capital \$		
Pipeline Replacement	\$19.2	\$24.9
Company Owned Services	\$4.3	\$6.9
Meters	\$1.8	\$2.1

1/ 2014 Actual Pipe by Type in Miles:

Bare Steel	24.5
Coated Steel	3.2
Plastic	2.8
Cast Iron	0.0
Wrought Iron	0.3

Miles include relocations, reliability improvements and segments of pipelines which have been partially repaired.

Peoples Natural Gas
Annual Asset Optimization Plan (AAOP)
2015 LTIP Projections

Table 2

1	2	3
	Peoples	Peoples
	Property Repaired, Improved and Replaced As Projected for 2015 in Revised LTIP	Property Repaired, Improved and Replaced As Projected in 2015 AAOP
Pipe in Miles	59	39
Company Owned Services	5,698	4,600
Meter Replacement	6,115	5,800
Capital \$		
Pipeline Replacement	\$36.9	\$31.1
Company Owned Services	\$13.0	\$10.1
Meters	\$3.6	\$3.0
Bar Coding/Mapping Tech	\$1.0	\$1.0
Total Capital \$	\$54.5	\$45.2

Peoples Natural Gas - Equitable Division
 Annual Asset Optimization Plan (AAOP)
 Comparison of 2014 AAOP Projections to 2014 Actuals

Table 3

	Peoples - Equitable Division Property Repaired, Improved and Replaced As Projected in 2014 AAOP	Peoples - Equitable Division Property Repaired, Improved and Replaced during the TME December 31, 2014
Pipe in Miles 1/	18	22.4
Company Owned Services	1,950	3,089
Meter Replacement	3,200	3,597
Capital \$		
Pipeline Replacement	\$16.7	\$17.7
Company Owned Services	\$4.1	\$5.7
Meters	\$1.6	\$1.5

1/ 2014 Actual Pipe by Type in Miles:

Bare Steel	16.12
Coated Steel	2.13
Plastic	0.80
Cast Iron	2.88
Wrought Iron	0.47

Miles include relocations, reliability improvements and segments of pipelines which have been partially repaired.

Peoples - Equitable Division
Annual Asset Optimization Plan (AAOP)
2015 LTIP Projections
Table 4

1	2	3
	Peoples - Equitable Division	Peoples - Equitable Division
	Property Repaired, Improved and Replaced As Projected for 2015 in Revised LTIP	Property Repaired, Improved and Replaced As Projected in 2015 AAOP
Pipe in Miles	21	30
Company Owned Services	1,527	4,000
Meter Replacement	3,505	3,600
Capital \$		
Pipeline Replacement	\$26.6	\$31.2
Company Owned Services	\$3.3	\$8.8
Meters	\$2.0	\$1.2
Bar Coding/Mapping Tech	\$1.0	\$1.0
Total Capital \$	\$32.9	\$42.2