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January 29, 2016

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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

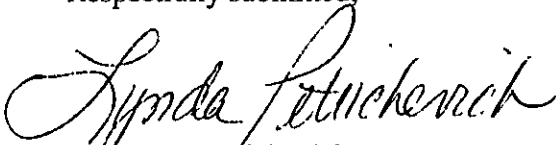
Re: R-2016-_____ -- Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC (1307(f)-2016 Proceeding)

Dear Secretary Chiavetta:

Enclosed for filing on behalf of Peoples Natural Gas Company LLC ("Peoples") is the information related to purchases from an affiliated interest that is required under 52 Pa. Code Section 53.65 to be filed 60 days prior to the filing of a tariff under 66 Pa.C.S. Section 1307(f). This information pertains to both Peoples and to Peoples-Equitable Division on a combined basis in accordance with the settlement in the last annual gas cost proceedings in Docket Nos. R-2015-2465172 and R-2015-2465181. Peoples is providing copies of the enclosed materials to the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate.

Please direct any questions regarding this matter to the undersigned.

Respectfully submitted,



Lynda W. Petrichevich



Attachment

cc: Bureau of Investigation and Enforcement
Office of Consumer Advocate
Office of Small Business Advocate

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Peoples Natural Gas 1307(f) - 2016

Section 53.65 Special Provisions Relating to Section 1307(f) Gas Utilities with Affiliated Interests

Whenever a Section 1307(f) gas utility purchases gas, transportation or storage from an affiliated interest, as defined at 66 Pa. C.S. §2101, it must, in addition to the normal submission expected of a Section 1307(f) gas utility, file evidence to meet its burden under 66 Pa. C.S. §1317(b). The evidence, to be filed 60 days prior to the filing of a Section 1307(f) tariff, shall include, but not be limited to, statements regarding:

- (1) The costs of the affiliated gas, transportation or storage as compared to the average market price of other gas, transportation or storage and the price of other sources of gas, transportation or storage.
- (2) Estimates of the quantity of gas, transportation or storage available to the utility from all sources.
- (3) Efforts made by the utility to obtain gas, transportation or storage from nonaffiliated interests.
- (4) The specific reasons why the utility has purchased gas, transportation or storage from an affiliated interest and demonstration that the purchases are consistent with a least cost fuel procurement policy.
- (5) The sources and amounts of gas, transportation or storage which have been withheld from the market by the utility or affiliated interest and the reasons why the gas, transportation or storage has been withheld.
- (6) To the extent that the information required in this Section has been submitted under Section 53.64, the utility need only designate information which applies to affiliated interest.

Response:

Peoples Natural Gas Company LLC purchases gas, transportation or storage from an affiliated interest, as defined at 66 Pa. C.S. §2101, only in limited circumstances where no other viable options exist. The purchases are as follows:

1. Peoples Natural Gas Company LLC and Peoples TWP LLC are parties to an affiliated interest, natural gas exchange agreement filed and approved at Docket No. G-2011-2265150. The agreement provides for the exchange of equivalent volumes of gas between Peoples and Peoples TWP where the receipt of gas from the other party would provide for more efficient operation of the recipient's system and will improve service reliability for both companies. The exchange is made without charge. Under the exchange arrangement, Peoples TWP receives gas from Peoples at the Beaver Street interconnection located in Mars, PA. In exchange, Peoples

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Natural Gas receives equivalent volumes of gas from Peoples TWP at various specified interconnections.

The filing was approved by Secretarial Letter issued on March 15, 2012. The exchange agreement has been amended three times since it was originally approved. The first two amendments added new interconnection points. Each of these amendments was filed with the Commission and each was approved on July 13, 2012 and January 29, 2013, respectively.

The third amendment was filed on November 21, 2013, when the Companies filed an Amended and Restated Gas Exchange Agreement (the "A&R GEA"). The A&R GEA is intended to accommodate the ongoing long-term infrastructure improvement plans of the Companies. Over the next twenty (20) years, the Companies plan to replace their entire systems of unprotected bare steel pipe and associated facilities. With geographically overlapping distribution systems and a goal of avoiding pipeline replacement where there is a more efficient means of continuing service to customers, the Companies anticipate additional opportunities for new interconnection points and gas exchanges that enhance efficient operation. The A&R GEA permits the Companies to install up to 15 new interconnection points, per calendar year, without filing for further approval, provided that, among other things, each new interconnection point does not exceed \$250,000 in costs and each new interconnection point results in projected cost savings to the installing Company. The filing was approved by Secretarial Letter issued on May 27, 2014.

2. On June 26, 2014, Peoples TWP and Peoples, including its Equitable Division, filed a petition for Accounting and Regulatory Approvals at Docket No. P-2014-2429346. Among other things, this petition requested approval of another exchange agreement between the Companies that will encourage efficient pipeline replacement by, for example, allowing one company to abandon a pipeline that is due for replacement and continuing service to the customers formerly connected to that pipeline by connecting them to a duplicative pipeline owned by the other company. The resulting gas exchange will use the delivery points from the above-referenced A&R GEA to balance deliveries under the new agreement. The parties to that proceeding reached a settlement to resolve all issues, which was approved by the Commission on December 18, 2014.

3. Peoples-Equitable Division currently purchases gas transportation service from its affiliate, Peoples TWP, pursuant to a Gas Transportation Service Agreement under Rate Schedule LGS. The transportation service that the Equitable Division purchases pre-dates the acquisition of the former Equitable Gas Company and has been in place for many years. As a result of Peoples' acquisition of Equitable in December, 2013, this service became an affiliated arrangement.

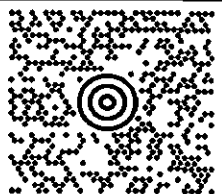

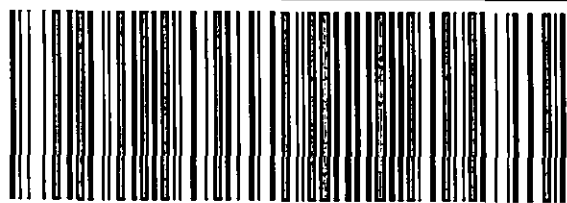

This service enables Peoples-Equitable Division to transport gas, acquired from an independent third party, across the Peoples TWP system for delivery into the Peoples-Equitable Division system. The currently effective rate includes a \$0.14 Volumetric Delivery Rate per Mcf, 1.75% retainage and a Balancing Fee of \$0.065 per Mcf. In addition, a monthly Customer Charge (i.e. demand charge) of \$7,500 applies. Comparable service would be difficult to obtain

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considering the critical supply delivery points that Peoples TWP offers into the Peoples Equitable Division system.

4. Subsequent to the acquisition of Equitable, PNG spun off all West Virginia properties and operations into Peoples Gas WV LLC ("Peoples WV). Prior to these transactions, Equitable engaged in natural gas utility operations in both West Virginia and Pennsylvania, and in doing so, purchased natural gas from sellers in West Virginia at points of receipt into or points upstream of Equitrans L.P., an interstate natural gas pipeline company, transported on Equitrans some of that gas for use in its West Virginia operations, and transported on Equitrans the remainder of the purchased gas to Pennsylvania for use in its Pennsylvania operations. During the period it took to restructure the Peoples WV gas portfolio, which ended in May 2015, the Company continued such occasional purchases from Peoples WV to supply the southern portion of its service territory. These purchases were made at market rates for that region.

5. Peoples and Peoples TWP are also parties to another affiliated interest, gas exchange agreement that was filed for Commission approval on August 6, 2015. This is a Service Expansion Gas Exchange and Interconnection Agreement to facilitate the extension of natural gas service to new Peoples TWP customers at the least possible cost. It allows interconnection of Peoples' distribution lines with new distribution facilities to be built by Peoples TWP to connect new customers. Peoples TWP will pay for the costs of the interconnections. These interconnection points will facilitate the expansion of service by Peoples TWP to new customers located in areas where Peoples TWP has authority to serve but where it is more economical for Peoples TWP to interconnect with existing facilities of Peoples for delivery of natural gas. Peoples will provide gas at such interconnection points to serve such customers in exchange for receipt of gas from Peoples TWP in equal quantities at existing interconnection points between Peoples TWP and Peoples. The filing was approved by Secretarial Letter issued on December 30, 2015.

TRACY SPROWLS 412-208-6806 PEOPLES NATURAL GAS 375 H SHORE DR PITTSBURGH PA 15212	0.0 LBS LTR	1 OF 1
SHIP TO: ROSEMARY CHIAVETTA PA PUBLIC UTILITY COMMISSION COMMONWEALTH KEYSTONE BUILDING 400 NORTH STREET, 2ND FLOOR HARRISBURG PA 17120-0093		
	PA 171 9-20 	
UPS NEXT DAY AIR 1		
TRACKING #: 1Z 17A OE2 01 9051 2245		
		
BILLING: P/P		
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