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File #: 182417

December 1, 2021

VIA ELECTRONIC FILING

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: Joint Application of Peoples Natural Gas Company LLC and Peoples Gas Company LLC for All of the Authority and Necessary Certificates of Public Convenience to Merge Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Docket No. A-2021-**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Application of Peoples Natural Gas Company LLC (“Peoples Natural Gas”) and Peoples Gas Company LLC (“Peoples Gas”) (collectively the “Joint Applicants”) for All of the Authority and Necessary Certificates of Public Convenience to Merge Peoples Natural Gas Company LLC and Peoples Gas Company LLC (“Merger Application”).

In the Merger Application, the Joint Applicants are seeking Pennsylvania Public Utility Commission (“Commission”) approval to merge Peoples Gas into Peoples Natural Gas and, thereafter, operate Peoples Gas as a separate division of Peoples Natural Gas. This is consistent with Peoples Natural Gas’ prior structure under which the former Peoples Natural Gas and Equitable Gas Company were operated as separate divisions of Peoples Natural Gas with separate tariffs.¹ The Peoples Gas Division will continue to maintain separate distribution rates from the Peoples Natural Gas Division. However, as part of the Merger Application, the Joint Applicants are proposing to merge the Purchased Gas Cost (“PGC”) rates, Merchant Function Charge (“MFC”) and Gas Procurement Charge (“GPC”) of Peoples Gas with the PGC, MFC and GPC rates of Peoples Natural Gas. This will allow the two Divisions to have a single price-to-compare

¹ This prior structure of separate divisions for Peoples Natural Gas and Equitable was eliminated following the settlement of the 2019 Peoples Natural Gas rate case.

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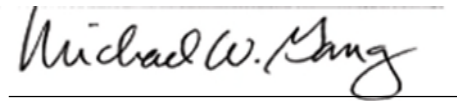
("PTC") which will facilitate shopping across both Divisions by allowing natural gas suppliers ("NGSs") to offer competitive pricing terms that will apply to both Divisions

The additional substantial benefits of the proposed merger are further explained in the testimony of Michael Huwar, Andrew Wachter and Edward Palombo, which are included as Appendices E through G to the Application.

The Joint Applicants are serving a copy of this Application on the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate, as well as all parties in the Companies' most recent PGC proceedings. Because Peoples Gas's sales customers would receive a small increase in rates as a result of the proposed merger of PGC, MFC and GPC rates, Peoples Gas customers will receive notice of the filing through a bill insert. The Joint Applicants are also providing an electronic notice of the filing to all NGSs that are licensed on their systems along with an electronic link to the filing. Further, the Companies will comply with any additional notice requirements that are directed by the Commission.

Please direct any questions regarding this filing to the undersigned.

Respectfully submitted,

A handwritten signature in black ink, reading "Michael W. Gang", is written over a horizontal line.

Michael W. Gang

MWG/kl

Enclosure

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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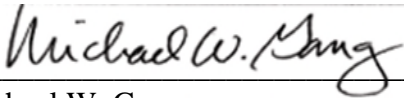
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Date: December 1, 2021



Michael W. Gang

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of Peoples Natural Gas :
Company LLC and Peoples Gas Company :
LLC for All of the Authority and : Docket No. A-2021-
Necessary Certificates of Public :
Convenience to Merge Peoples Natural :
Gas Company LLC and Peoples Gas :
Company LLC

**JOINT APPLICATION FOR CERTIFICATES OF PUBLIC
CONVENIENCE AUTHORIZING APPROVAL OF MERGER
PURSUANT TO SECTION 1102(a)(3) OF THE PUBLIC UTILITY CODE**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. INTRODUCTION

1. By this Application, Peoples Natural Gas Company LLC (“Peoples Natural Gas”) and Peoples Gas Company LLC (“Peoples Gas”) (hereinafter collectively the “Applicants” or the “Peoples Companies”), by and through their legal counsel, Post & Schell, P.C., hereby request all necessary approvals from the Pennsylvania Public Utility Commission (“Commission”) authorizing the merger of Peoples Natural Gas and Peoples Gas. For the reasons that follow, the Applicants respectfully request that the Commission issue certificates of public convenience, pursuant to Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3), evidencing the Commission’s approval of the proposed transaction. The Applicants also seek all other approvals or certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in this Application in a lawful manner.

2. The complete names and addresses of the Applicants are as follows:

Peoples Natural Gas Company, LLC
375 North Shore Drive
Pittsburgh, PA 15212

Peoples Gas Company LLC
205 North Main Street
Butler, PA 16001

3. The attorneys for the Applicants are:

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The Applicants' attorneys are authorized to receive all notices and communications regarding this Application.

4. The proposed transaction will be carried out pursuant to the Plan of Merger ("Agreement"), which is attached hereto as Appendix "A." The transaction contemplated by the Agreement is described in Section III of this Application and is hereinafter referred to as the "Proposed Merger."

5. This Application is organized as follows:

- (a) Section II of this Application provides a description of the Applicants and the other parties involved in the Proposed Merger.
- (b) Section III of this Application provides a description of the Proposed Merger.
- (c) Section IV sets forth the legal standards required for Commission approval of the Proposed Merger.
- (d) Section V addresses the effect of the Proposed Merger on rates.
- (e) Section VI addresses the effect of the Proposed Merger on competition.
- (f) Section VII describes post-merger operations of Peoples Natural Gas and Peoples Gas.
- (g) Section VIII demonstrates that Essential Utilities, Inc., LDC Funding LLC, LDC Holdings LLC¹ and PNG Companies LLC have the requisite technical, legal, and financial fitness to own and operate the merged companies.
- (h) Section IX demonstrates that the Proposed Merger will promote the public interest by producing significant benefits for the customers and communities served.
- (i) Section X provides further information on matters that may be considered relevant to the Proposed Merger.
- (j) Section XI sets forth the other regulatory and shareholder approvals required.
- (k) Section XII sets forth additional supporting data.
- (l) Section XIII sets forth the conclusion.

Peoples Natural Gas and Peoples Gas are both indirect subsidiaries of Essential Utilities, Inc. (“Essential”) and direct subsidiaries of PNG Companies LLC (“PNG Companies”). Peoples Natural Gas and Peoples Gas are affiliated natural gas distribution companies under the

¹ Currently pending before the Commission is an Application for Certificate of Public Convenience authorizing the merger of LDC Holdings LLC into LDC Funding LLC. (Docket Nos. A-2021-3026794 and A-2021-3026796)

provisions of Chapter 21 of the Public Utility Code. Many of the administrative management functions of Peoples Natural Gas and Peoples Gas are already provided by one management team pursuant to affiliated interest agreements approved by the Commission. In addition, Peoples Gas and Peoples Natural Gas have overlapping service areas and distribution facilities.

6. The Applicants submit, as explained in more detail below, that all criteria necessary for approval of the Proposed Merger pursuant to the Public Utility Code have been met, and that the Proposed Merger will benefit both Peoples Natural Gas' and Peoples Gas' customers, employees, and the communities they serve. The Applicants therefore request that the Application be approved without condition to or modification of the Proposed Merger.

II. THE PARTIES AND RELATED ENTITIES

A. PARTIES

Peoples Gas

7. Peoples Gas is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission's regulatory jurisdiction. As explained above, Peoples Gas is a wholly-owned indirect subsidiary of Essential and direct subsidiary of PNG Companies. By Final Order entered January 24, 2020, at Docket No. A-2018-3006061, et. al. (the "Aqua Acquisition Proceeding"), the Commission approved the transfer of indirect ownership of the Peoples Companies to Aqua America, Inc., now Essential. The closing on the acquisition occurred on March 16, 2020. Prior to that acquisition, Peoples Gas had been an indirect subsidiary of SteelRiver Infrastructure Fund North America LP ("SRIFNA"), pursuant to a Certificate of Public Convenience issued by the Commission on May 23, 2011, at Docket No. A-2010-2210326, authorizing SRIFNA's acquisition of T. W. Phillips Gas and Oil

Co. (“T. W. Phillips”) by means of the acquisition of all outstanding T. W. Phillips common stock by SRIFNA’s indirect subsidiary, LDC Holdings II LLC. The Commission subsequently approved the internal-reorganization and transfer of Peoples Gas from LDC Holdings II LLC, another indirect subsidiary of SRIFNA, to PNG Companies. *Application for All of the Authority and Any Necessary Certificates of Public Convenience to Transfer All of the Membership Interests In Peoples Gas Company, LLC from LDC Holdings II, LLC to PNG Companies, LLC*, Docket No. A-2017-2624578 (Order entered Nov. 8, 2017).

8. Peoples Gas is a “public utility” and a “natural gas distribution company” as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2202. Peoples Gas provides natural gas services to approximately 63,000 customers throughout its service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland. Peoples Gas’ principal mains and service territory are shown on the map attached as Appendix “B,” along with the principal mains and service territory of Peoples Natural Gas.

9. All of the annual reports, tariffs, certificates, applications, and other documents filed with the Commission by Peoples Gas are made a part hereof by reference. Peoples Gas has paid all special and general assessments made against it pursuant to Section 510 of the Public Utility Code, 66 Pa.C.S. § 510.

Peoples Natural Gas

10. Peoples Natural Gas is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution and supplier of last resort services subject to the Commission’s jurisdiction. As explained previously, Peoples Natural Gas is an indirect subsidiary of Essential and direct subsidiary of PNG

Companies. Peoples Natural Gas is the successor to The Peoples Natural Gas Company, which became an indirect subsidiary of SRIFNA in 2010, as approved by the Commission by Order of November 19, 2009 at A-2008-2063737. Subsequently, Peoples Natural Gas merged with Equitable Gas Company LLC as approved by the Commission by Order of November 14, 2013 at A-2013-2353647, A-2013-2353649 and A-2013-2353651.

11. Peoples Natural Gas provides service to approximately 630,000 customers throughout its service territory which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Jefferson, Mercer, Somerset, Venango, Washington, and Westmoreland. The principal mains and service territory of Peoples Natural Gas are also shown in Appendix “B.”

12. All of the annual reports, tariffs, certificates, applications, and other documents filed with the Commission by Peoples Natural Gas are made a part hereof by reference. Peoples Natural Gas has paid all special and general assessments made against it pursuant to Section 510 of the Public Utility Code, 66 Pa.C.S. § 510.

B. ESSENTIAL RELATED ENTITIES

Essential was registered in Pennsylvania in 1968, originally as Philadelphia Suburban Corporation and subsequently Aqua America, Inc. Essential is a natural gas, water and wastewater utility holding company that currently provides service through its operating subsidiaries in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Virginia, West Virginia and Kentucky.

13. LDC Funding LLC (“Funding”) is a Delaware limited liability company. Essential acquired 100% of the membership interests in Funding in the transaction approved in the Aqua Acquisition Proceeding.

14. LDC Holdings LLC (“Holdings”) is a Delaware limited liability company. Funding owned 100% of the membership interests in Holdings prior to the Aqua Acquisition Proceeding, and that corporate structure remains in place following the transaction. Holdings owns 100% of the membership interests in PNG Companies. There is currently pending before the Commission an Application for a Certificate of Public Convenience at Docket Nos. A-2021-3026794 and A-2021-3026796 for approval to merge Holdings into Funding, with the result that Funding would own a 100% interest in PNG Companies. The outcome of that proceeding will have no impact on this Application.

15. PNG Companies is a limited liability company organized, validly existing, and in good standing under the laws of Delaware. PNG Companies directly owns 100% of the membership interests in each of the Peoples Companies.

16. Attached as Appendix “C” hereto is a chart showing the corporate structure of Essential and its natural gas subsidiaries as it exists today. Attached as Appendix “D” hereto is a chart showing the corporate structure of Essential and its natural gas subsidiaries as contemplated by the Proposed Merger following receipt of the necessary approvals from the Commission. The Proposed Merger will not alter the ownership structure of Essential’s water and wastewater operations.²

III. DESCRIPTION OF PROPOSED MERGER

17. Under the Agreement attached as Appendix “A”, Peoples Gas will be merged with and into Peoples Natural Gas, with Peoples Natural Gas being the surviving entity and Peoples

² There is pending before the Commission an Application for a Certificate of Public Convenience at Docket Nos. A-2021-3026774 and A-2021-3026775 to insert a new Company, Aqua Water Holdings, Inc., between Essential and Aqua Pennsylvania, Inc. That transaction will not affect, and will not be affected by, the merger of Peoples Natural Gas and Peoples Gas contemplated by this Application.

Gas becoming an operating division of Peoples Natural Gas. Because Peoples Gas will be merged into Peoples Natural Gas with Peoples Natural Gas being the surviving entity, Peoples Natural Gas will therefore retain all of the service rights and certificates of public convenience of Peoples Gas and ownership interests in Peoples Gas's property. PNG Companies will continue to be the sole direct owner of all membership interests in Peoples Natural Gas. The proposed merger is explained in the testimony of Michael Huwar (Appendix "E").

18. At the effective time of the Merger, Peoples Natural Gas will assume all the debt that Peoples Gas has outstanding with PNG Companies (the "Debt Assumption"). The terms and conditions of the debt assumed by Peoples Natural Gas will not change. The principal amount of the total debt outstanding at Peoples Natural and Peoples Gas will be unchanged by the Proposed Merger. Peoples Natural Gas will file a request for issuance of a Securities Certificate and approval of an Affiliated Interest Agreement concerning the promissory note to PNG Companies.

19. As explained herein, and in the attached testimony of the Peoples Companies' witnesses, a primary benefit of the merger is the consolidation of gas purchases and gas purchasing practices, and the establishment of a single Price to Compare across the systems. To achieve these benefits, it is necessary to consolidate the two companies' purchased gas cost rates. Due to the timing of the two companies' 1307(f) proceedings, the Applicants respectfully request that the merger be approved by June 30, 2022, to allow the merger of Purchased Gas Cost ("PGC") rates effective October 1, 2022.³

³ Peoples Gas and Peoples Natural Gas are already on the same 1307(f) procedural schedules, with annual PGC rate changes becoming effective October 1.

IV. LEGAL STANDARDS FOR COMMISSION APPROVAL

A. STANDARD FOR APPROVAL

20. Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3), provides, in pertinent part, that the Commission's prior approval, evidenced by a certificate of public convenience, is required:

For any public utility or an affiliated interest of a public utility . . . to acquire from, or to transfer to, any person or corporation . . . by any method or device whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.

21. Accordingly, a certificate of public convenience is required under Section 1102(a)(3) of the Public Utility Code for Peoples Gas and Peoples Natural Gas to effectuate the Proposed Merger. A certificate of public convenience is required under Section 1102(a)(3) for the merger of Peoples Natural Gas and Peoples Gas because all of the utility assets currently owned by Peoples Gas will be transferred to Peoples Natural Gas by means of the merger.

22. As noted above, Funding is the indirect owner of 100% of the outstanding membership interests in Holdings which, in turn holds 100% of the membership interests of PNG Companies, which holds 100% of the membership interests of Peoples Natural Gas and Peoples Gas. Therefore, Funding and its subsidiaries, Holdings and PNG Companies, are affiliates of Peoples Natural Gas and Peoples Gas, Pennsylvania public utilities. Under Section 1102(a)(3), these public utilities may be required to obtain a certificate of public convenience for their affiliated interests to engage in the Proposed Merger.

23. Section 1103 of the Pennsylvania Public Utility Code sets forth the procedure to obtain certificates of public convenience. Under Section 1103 of the Public Utility Code, the Applicants must demonstrate that the party to whom the assets and service obligations are being

transferred is legally, technically, and financially fit. *Seaboard Tank Lines*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Pub. Util. Comm’n*, 138 A.2d 240, 243 (Pa. Super. 1958).

24. The Commission may issue a certificate of public convenience upon a finding that “the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public.” 66 Pa.C.S. § 1103(a). In *City of York v. Pa. Pub. Util. Comm’n*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972), the Pennsylvania Supreme Court concluded that, in the context of a merger, this standard requires the Commission to find that the Proposed Transaction will “affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way.”

B. BURDEN OF PROOF

25. Section 332(a) of the Public Utility Code, 66 Pa.C.S. § 332(a), provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. A litigant’s burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible. *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm’n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990). The preponderance of evidence standard requires proof by a greater weight of the evidence. *Cmwlth. v. Williams*, 557 Pa. 207, 732 A.2d 1167 (1999). Consequently, as the parties seeking relief, the Applicants bear the burden of proving that the Proposed Merger satisfies the requirements of Sections 1102 and 1103 of the Public Utility Code.

26. The “substantial public interest” standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. Pub. Util. Comm’n*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007). Further, the substantial public benefit test does

not require that every customer receive a benefit from the Proposed Merger. *Popowsky*, at 617-18, 937 A.2d at 1061.

27. Additionally, any finding of fact necessary to support an adjudication of the Commission must be based upon substantial evidence. *Met-Ed Indus. Users Group v. Pa. Pub. Util. Comm’n*, 960 A.2d 189, 193 n.2 (Pa. Cmwlth. 2008) (citing 2 Pa. C.S. § 704). Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. *Borough of E. McKeesport v. Special/Temporary Civil Serv. Comm’n*, 942 A.2d 274, 281 (Pa. Cmwlth. 2008). The “presence of conflicting evidence in the record does not mean that substantial evidence is lacking.” *Allied Mechanical and Elec., Inc. v. Pa. Prevailing Wage Appeals Bd.*, 923 A.2d 1220, 1228 (Pa. Cmwlth. 2007) (citation omitted).

V. EFFECT OF THE PROPOSED MERGER ON RATES

28. With the exception of changes described herein, the base tariff rates of Peoples Natural Gas and of Peoples Gas in effect at the time the Proposed Merger is consummated will remain in full force and effect following the completion of this Proposed Merger. Following the merger, the base rates of Peoples Natural Gas and Peoples Gas will be maintained separately with separate accounting for each Division. The only changes to base rates proposed to be made in conjunction with the Proposed Merger and the Application are to merge each of the Purchased Gas Cost (“PGC”) rates and the Merchant Function (“MFC”) and Gas Procurement (“GPC”) charges of Peoples Natural Gas and Peoples Gas, effective October 1, 2022. Upon closing, the existing tariff of Peoples Gas will be adopted as the tariff of the Peoples Gas Division of Peoples Natural Gas.

29. As explained in the attached testimony of Mr. Wachter (Appendix “F”), the effect on customer rates from merging PGC rates of Peoples Natural Gas and Peoples Gas is reasonable. As also explained by Mr. Wachter, merging the PGC rates and the MFC and GPC charges will

result in one price to compare for all the operations of the Peoples Natural Gas Division and the Peoples Gas Division of Peoples Natural Gas following the merger. As explained subsequently in Section VI concerning the effect of the Proposed Merger on retail competition, a single price to compare will encourage enhanced retail competition.

30. As explained in the attached testimony of Mr. Palombo (Appendix “G”), the merging of PGC rates of Peoples Natural Gas and Peoples Gas is justified by the fact that the gas procurement process and policies of Peoples Natural Gas and of Peoples Gas already have been made consistent under the common ownership of the Peoples Companies. Mr. Palombo also explains the purchased gas cost benefits of interconnecting the distribution systems of the companies that will be made possible by merger of the companies.

31. Attached hereto as Appendix “H” are balance sheets for the year ended September 30, 2021, for Peoples Natural Gas and Peoples Gas. Attached hereto as Appendix “I” are income statements for the year ended September 30, 2021, for Peoples Natural Gas and Peoples Gas.

VI. EFFECT OF THE PROPOSED MERGER ON COMPETITION

32. Under Section 2210(a)(1) of the Public Utility Code, the Commission, in conjunction with the proper exercise of its authority to approve certain transactions including the acquisition of a natural gas utility, is to consider whether such a transaction is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail gas customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market. 66 Pa.C.S. § 2210(a)(1).

33. The Proposed Merger will not result in anti-competitive or discriminatory conduct in the retail market for natural gas in Pennsylvania. The Proposed Merger will have no adverse effect on the retail natural gas market in Pennsylvania. To the contrary, the Proposed Merger will enhance retail competition by permitting the merger of PGC rates and the creation of

a single price to compare for all customers served by Peoples Natural Gas and Peoples Gas. This will allow natural gas suppliers (“NGSs”) to offer competitive pricing terms that will apply to all customers across the combined company. In this regard, as a settlement condition of SRIFNA’s acquisition of Peoples Gas, Commission approval of the merger of Peoples Natural Gas and Peoples Gas is required to merge the PGC rates.⁴

34. Peoples Natural Gas and Peoples Gas already have taken steps to facilitate retail shopping across their service areas by adopting changes to create consistent requirements for NGSs to deliver gas to customers. As explained in the testimony of Mr. Wachter (Appendix “F”), Peoples Gas already has adopted pooling and transportation policies for non-priority one (“NP-1”) transportation customers that are consistent with policies used by Peoples Natural Gas. In addition, the Peoples Companies have constructed several interconnections to facilitate limited movement of gas supplies between the two companies pursuant to exchange agreements. The further interconnection of Peoples Gas’ facilities with the facilities of Peoples Natural Gas that will be made possible by merger of the companies and merger of PGC rates will further facilitate unification of the supply competition process as explained in Mr. Palumbo’s testimony. Further interconnection of facilities will also benefit gas transportation customers and suppliers, by providing greater flexibility to deliver gas supplies into either division regardless of what division their customers are served from.

⁴ Paragraph 68 of the settlement in the proceeding at Docket No. A-2010-2210326 approving the acquisition of Peoples Gas (formerly T. W. Phillips) by SRIFNA provides as follows: “T. W. Phillips and Peoples will not blend or consolidate their Purchased Gas Cost (“PGC”) rates or their distribution rates unless the companies first obtain a certificate of public convenience to merge the two NGDCs. Nothing herein shall prohibit T. W. Phillips and Peoples from obtaining services from the same service corporation, provided that the Commission approves the necessary affiliated interest agreement(s) pursuant to Chapter 21 of the Public Utility Code; and provided further that the recovery by T. W. Phillips and Peoples of the costs paid to that service corporation shall meet the standards prescribed by Chapter 21.”

35. Peoples Natural Gas and Peoples Gas will maintain their current tariff provisions that allow flexing of distribution rates under appropriate circumstances.

VII. POST-MERGER OPERATION OF PEOPLES NATURAL GAS WITH PEOPLES GAS

36. In conjunction with or following the closing of the Proposed Merger, PNG Companies plans to merge Peoples Gas with and into Peoples Natural Gas. Peoples Natural Gas will initially operate Peoples Gas as a separate operating division for accounting purposes.

37. Post-closing, Peoples Natural Gas will keep a separate set of accounting records for both Peoples Natural Gas and Peoples Gas. Both sets of accounting records will separately track all of the required financial statements. This will facilitate the Commission's oversight of the two utility divisions' operations, financial results, reports and records. Separate billings to customers with the approved Commission base tariff rates will be timely and accurately produced and maintained. The Peoples Companies will utilize their current SAP financial software system to maintain detailed timekeeping and separate capital records by division.⁵ While the day to day operations of Peoples Natural Gas and Peoples Gas will be combined, complete and accurate accounting records will be maintained on the SAP financial system to ensure compliance with all Commission requirements.

38. PNG Companies will merge the operations of Peoples Natural Gas and Peoples Gas upon the closing of the Proposed Merger. The management of the Companies already has been combined into a single management and operations unit. The merger will allow the utilities to continue the process of eliminating the existing redundancies and inefficiencies resulting from

⁵ Financial records for the two companies are currently maintained on the same SAP software system.

separate ownership and operation, which has already commenced under operation of the companies as affiliates.

VIII. TECHNICAL, LEGAL AND FINANCIAL FITNESS

A. ESSENTIAL, FUNDING, AND PNG COMPANIES HAVE THE NECESSARY TECHNICAL FITNESS.

39. Peoples Natural Gas and Peoples Gas already are under Essential's ownership. Merging the companies will create only a change in the structure of ownership, not the ultimate ownership.

40. Essential is a financially strong, diversified manager of water, wastewater and natural gas infrastructure assets in the United States. Essential already manages both Peoples Natural Gas and Peoples Gas through a management structure that provides services to both companies.

41. Essential, Funding and PNG Companies believe that an important key to technical fitness is maintaining the highly experienced management and operations team already in place at Peoples Natural Gas and Peoples Gas. The management of Peoples Natural Gas and Peoples Gas already has been combined into a single management team which will provide continuity of business and safe and reliable service to customers.⁶

42. The management of Essential, Funding, and all of their subsidiaries including PNG Companies, are subject to an internal code of conduct that explicitly lays out standards and requirements relating to conduct in the workplace and interaction with stakeholders and business partners. Conduct in the workplace addresses confidentiality, safety, security, fairness and equity,

⁶ The Commission has recognized a presumption that operating utilities that hold certificates are fit to own utility property. *Application of Pennsylvania American Water Co.*, 1995 Pa. PUC LEXIS 146, Docket Nos. A-212285F019 et al., Order entered October 26, 1995. Similarly, as existing owners of Peoples Natural Gas and Peoples Gas, Essential, Funding and PNG Companies are fit to own the combined Companies.

and use of company assets. The latter two categories focus on communication, compliance, insider trading, conflicts of interest, and gifts and benefits. This code of conduct is updated regularly to adjust to changes in business practices and the workplace.

43. The key individual responsible for continued operation of the assets of Peoples Natural Gas and Peoples Gas is Mr. Michael Huwar. Mr. Huwar will continue as President - Peoples Natural Gas. Mr. Huwar's testimony in support of this Application is attached as Appendix "E." As explained by Mr. Huwar, the management team and employees of the companies have all the experience necessary to continue to operate the combined companies and maintain the high levels of service currently provide to customers.

44. For these reasons, Essential, Funding and PNG Companies, together with the current Peoples Natural Gas and Peoples Gas management team and employees, have the managerial and utility experience necessary to operate the merged company in the public interest.

B. ESSENTIAL, FUNDING, AND PNG COMPANIES ARE LEGALLY FIT

45. Essential, Funding and PNG Companies are legally fit to own and operate the merged companies as they already own them separately and, as explained in testimony of Mr. Huwar (Appendix "E"), have met all prior conditions of the prior acquisitions by SRIFNA and Essential. These entities are in compliance with all federal and state laws, and have never been prosecuted, indicted, or investigated for criminal activity in this country or any other country.

46. Essential and its subsidiaries have engaged numerous outside law firms to handle various specialized matters, including on-going compliance with this Commission's regulations, rules, and orders. Additionally, Essential and its subsidiaries have access to an internal team of legal counsel responsible for ensuring compliance with all applicable laws.

47. For these reasons, Essential, Funding and PNG Companies are legally fit to own and operate the merged companies.

C. ESSENTIAL, FUNDING AND PNG COMPANIES ARE FINANCIALLY FIT

48. As stated above, Funding is a direct subsidiary of Essential, and an indirect owner of Peoples Natural Gas and Peoples Gas. Essential is particularly well-suited to own the merged companies because of, among other things, its focus on pipeline investments, its financial strength, and its geographic diversity.

49. Essential has significant experience and success in accessing capital and financial markets, and this access has been one of the key attributes of its successful infrastructure management and growth. Under the Proposed Merger, Peoples Natural Gas will continue to be able to access capital for important distribution infrastructure investment programs of it and its newly merged Peoples Gas Division. After the merger, Peoples Natural Gas will continue to have the access to significant capital resources provided by Essential and its subsidiaries, providing it with the ability to further improve customer service, customer satisfaction, and pipeline infrastructure for each of its Divisions, while maximizing the opportunities to avoid replacement of duplicative pipelines.

50. Finally, Essential is structured to ring-fence each of the businesses of Funding, including the combined Peoples Natural Gas and Peoples Gas, so as to separate Funding from risks and obligations arising from the other business activities of Essential. The ring-fencing of Funding will continue to shelter the combined assets of the Peoples Companies from other investments of Essential and will adequately protect the newly merged and surviving Peoples Natural Gas if any of these other investments become subject to adverse economic circumstances.

51. For these reasons, Essential, Funding and its subsidiaries have the required financial fitness.

IX. THE PROPOSED MERGER WILL BENEFIT THE CUSTOMERS AND COMMUNITIES SERVICED

A. AFFIRMATIVE PUBLIC BENEFITS

52. The primary affirmative benefits that will be created by the merger of Peoples Natural Gas and Peoples Gas derive from the significantly overlapping facilities of the two companies. The merger of the two companies and merger of the two companies' PGC rates will allow additional interconnections between the facilities of Peoples Natural Gas and Peoples Gas without metering. These additional interconnections will facilitate the replacement of duplicative overlapping distribution pipelines with more efficient single facilities serving one company and its customers. In addition, the merger of the PGC rates of the companies will allow all purchased gas supplies to be treated as one system supply, eliminating the need to install costly and impractical metering of interconnections which reduce the opportunity to avoid duplication of distribution facilities.⁷

53. As explained in the testimony of Mr. Palombo (Appendix "G"), merging the PGC rates also will broaden the supply portfolio of Peoples Natural Gas and Peoples Gas and allow access to local gas that is connected to Peoples Gas but cannot be used on Peoples Gas' system.

54. Another primary benefit of the merger is to provide a single price to compare to customers that are evaluating NGS offers as explained in the testimony of Mr. Wachter (Appendix "F"). This will be made possible by merger of PGC, MFC and GPC charges. With widely overlapping service territories, a single price to compare will make it much simpler for NGSs to explain offers and for customers to understand those offers.

⁷ Currently, if Peoples Natural Gas and Peoples Gas desire to use each other's gas supplies to reduce facility replacement costs, the gas is transferred pursuant to a Commission-approved exchange agreement, which requires metering and balancing of exchanged gas volumes.

55. The Commission has recognized the benefits of merging PGC rates by approving the merger of PGC rates of the former Peoples and Equitable Divisions of Peoples Natural Gas. Order of July 30, 2015, at R-2015-2465172 and R-2015-2465181. By separate order entered on September 17, 2014 at Docket Nos. R-2015-2492645 and R-2015-242647, the Commission approved the establishment of a uniform Price-to-Compare rate effective October 1, 2015, through the merging of the separate MFC and GPC charges of the former Peoples Division and Equitable Division.

56. As explained in the testimony of Mr. Huwar (Appendix “E”), the Proposed Merger also will allow for continued improvements in customer service. Many improvements in customer service, customer service metrics and low income programs have been made and significant uniformity has been developed under the current common ownership structure of Peoples Natural Gas and Peoples Gas. The Proposed Merger will further support the ongoing efforts to continually improve service to customers such as the implementation of the latest IT upgrades to improve work management, compliance, GIS mapping, inspection monitoring, and leak management as well as the continued benefits of the already combined operation of the Operations Departments of Peoples Natural Gas and Peoples Gas.

57. The merger will not have an impact on the already combined capital financing requirements of Peoples Natural Gas and Peoples Gas. Debt will continue to be issued by the parent of the Peoples Companies, PNG Companies, to finance future debt capital financing requirements of both Peoples Divisions.

58. Finally, Essential will continue to meet all prior conditions of the approvals by the Commission of the Aqua Acquisition Proceeding. In this regard, the chart at Appendix “J” shows the increased expenditures under the Long-Term Infrastructure Improvement Plan

(“LTIP”) filed prior to acquisition by Essential and such LTIP expenditures after the acquisition by Essential.

B. EFFECT OF THE PROPOSED MERGER ON EMPLOYEES

59. Under Section 2210(a)(2) of the Public Utility Code, in conjunction with its consideration of the disposition of assets of natural gas distribution companies, the Commission is to consider the effects of the Proposed Merger on employees. 66 Pa.C.S. § 2210(a)(2).

60. Essential is committed to local management and local staff for its natural gas operations. A core component of this plan is to continue to utilize the experience, knowledge, and dedication of the existing employees of the Peoples Companies to maintain the current level of service. Continuity of management will be maintained and enhanced.

61. As explained in the testimony of Mr. Huwar (Appendix “E”), there is no expected loss of employee and management positions as a result of the merger because the Peoples Companies already are efficiently managed and operated as one company.

62. Essential also will ensure that Peoples Natural Gas continues to comply with the Commission’s diversity policy, 52 Pa. Code §§ 69.801-69.809.

63. Essential and PNG Companies will continue to provide access to financial resources necessary to further reduce lost and unaccounted for gas on a cost-effective basis.

C. LOCAL COMMUNITY AND RETAIL COMPETITION.

64. The Proposed Merger will have a positive impact on the local community and the economy of the Commonwealth.

65. Due to Peoples Gas’ small customer base, there are periods of the year during which Peoples Gas’ customers cannot consume all of the gas available to Peoples Gas’ system. This situation can adversely affect the local producers, whose gas must be shut-in during these periods of excess supply, since in most cases they are unable to move the gas available for

production to another market for sale to other purchasers. It also harms the economy of the Commonwealth, whose communities are no longer beneficiaries of the general economic benefits of these lost sales.

66. The Proposed Merger will simplify and improve the ability to construct additional interconnects between Peoples Natural Gas and Peoples Gas that would allow Peoples Natural Gas to offer to purchase or transport local gas that would be shut-in on Peoples Gas' system. Such gas would be purchased as part of the combined system supply for Peoples Natural Gas under a combined PGC or would be available for purchase by NGSs. As explained in the testimony of Mr. Palombo (Appendix "G"), such interconnects also may encourage the drilling of additional wells on the former Peoples Gas system. This improved market for local production would be a benefit for all parties involved, and particularly for local producers and the customers of a combined Peoples Natural Gas. This arrangement would allow local providers to maximize their productivity. It also would allow the customers of Peoples Natural Gas to access additional Pennsylvania produced gas at favorable prices, which will be reflected in the rates that customers are required to pay. Finally, it is beneficial to the Commonwealth because it will infuse local gas producing communities with additional money from sales that are currently lost for a portion of the year. This, in turn, will stimulate the economy and provide an economic benefit to the public.

67. Expanded opportunities for interconnection will also further facilitate customer choice. With further interconnections of the Peoples Natural Gas and Peoples Gas systems, the merger will create opportunities in the future for NGSs who use local gas supplies to serve customers on both the Peoples Natural Gas and Peoples Gas systems.

X. OTHER CONSIDERATIONS

A. THE CAPITAL TO BE ALLOCATED TO ONGOING SERVICE IMPROVEMENT PROGRAMS

68. As explained above, Peoples Natural Gas and Peoples Gas are indirect subsidiaries of Essential. Essential has significant experience and success in accessing capital and financial markets and this access has been one of the key attributes of its successful infrastructure management and growth.

69. This access to significant capital resources through Essential and PNG Companies will continue to enhance Peoples Natural Gas' ability to further improve customer satisfaction, service provided to customers, and its pipeline infrastructure, while maintaining reasonable and competitive rates. Overall, Essential and Peoples Natural Gas will continue to focus on customer service, financial and regulatory management, human resource programs, the accelerated replacement of dated infrastructure and extension of gas service to customers.

70. Further, as explained above, the Proposed Merger will result in avoided capital investment that would otherwise be needed to replace duplicative/overlapping pipelines on the Peoples Companies' systems. Essential and Peoples Natural Gas are committed to a cost-effective program of reinvestment with best available technologies and organizational practices.

B. CORPORATE GOVERNANCE/SARBANES-OXLEY COMPLIANCE

71. As a publicly-owned company, Essential is subject to Sarbanes-Oxley reporting requirements, and those requirements will not change as a result of the merger of Peoples Natural Gas and Peoples Gas.

C. THE COMMUNITY PRESENCE

72. Essential will maintain the commitments to annual charitable contributions set forth in the Aqua Acquisition Proceeding settlement.

73. The Proposed Transaction will not result in any changes to the existing offices, training center, warehouses or other work locations.

D. THE FEES PAID TO AND SERVICE PERFORMED BY AFFILIATES

74. Following the close of the Proposed Merger, Peoples Gas as a division of Peoples Natural Gas will be subject to Peoples Natural Gas' affiliated interest agreements. The provisions of the existing affiliated interest agreements between Peoples Natural Gas and Peoples Gas will be used solely for cost allocation purposes among the Divisions. Services provided by PNG Companies or other affiliated interests will be provided pursuant to existing, Commission-approved affiliate interest agreements. Any other agreement between affiliated interests for sharing of services or employees will be separately filed with the Commission pursuant to Section 2102 of the Public Utility Code.

E. CONTINUED FINANCIAL COMMITMENTS

75. The Applicants fully recognize that the Commission will not allow Peoples Gas, as a division of Peoples Natural Gas, to use a capital structure for rate making purposes that is inconsistent with the capital structure of similarly-situated gas distribution companies. PNG Companies will continue to separately issue and maintain debt held by investors not affiliated with PNG Companies or its affiliates, unless the Commission authorizes to the contrary. Peoples Natural Gas will not request a capital structure for the Peoples Gas Division for ratemaking purposes that is outside the range of capital structures employed by comparable gas distribution companies, and all commitments concerning capital structure, financial matters and creditworthiness contained in the settlement of the Aqua Acquisition Proceeding will continue to be followed.

XI. OTHER REGULATORY APPROVALS

76. Peoples Natural Gas and Peoples Gas plan to complete the Proposed Merger as soon as possible after approval of this Application. No other regulatory approvals are required in order to close the Proposed Merger.

77. Following the close of the Proposed Merger, Peoples Gas as a division of Peoples will be subject to Peoples' affiliated interest agreements. Any other agreement between affiliated interests for sharing of services or employees will be separately filed with the Commission pursuant to Code Section 2102.

XII. ADDITIONAL SUPPORTING DATA

78. The following Appendices, containing additional information in support of this Application, are attached hereto:

- Appendix A: Merger Agreement.
- Appendix B: Map of Peoples Natural Gas' and Peoples Gas' service territories.
- Appendix C: The present corporate structure of Essential and its natural gas subsidiaries.
- Appendix D: The proposed corporate structure of Essential and its natural gas subsidiaries.
- Appendix E: Testimony of Mr. Michael Huwar.
- Appendix F: Testimony of Mr. Andrew Wachter.
- Appendix G: Testimony of Mr. Edward Palombo.
- Appendix H: Balance Sheets for the year ended September 30, 2021 for Peoples Natural Gas and Peoples Gas.
- Appendix I: Income Statements for the year ended September 30, 2021 for Peoples Natural Gas and Peoples Gas.
- Appendix J: Summary of LTIIP Spending.

79. All annual reports, tariffs, certificates of public convenience, applications, securities certificates, and similar documents previously filed by the Applicants are made a part hereof by reference.

XIII. CONCLUSION

WHEREFORE, for all the foregoing reasons, the Applicants respectfully request that the Pennsylvania Public Utility Commission approve and issue the necessary certificates of public convenience to:

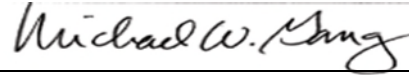
- (1) Authorize the merger of Peoples Gas Company LLC with and into Peoples Natural Gas Company LLC;
- (2) Authorize the merger of PGC rates and MFC and GPC charges of Peoples Natural Gas Company LLC and Peoples Gas Company LLC effective October 1, 2022 and approve the related pro forma tariff changes, as contained in Exhibit 5 to the Direct Testimony of Mr. Wachter, in the tariffs of Peoples Natural Gas Company LLC and Peoples Gas Company LLC that reflect the blended PGC, MFC and GPC charges to become effective October 1, 2022 and reflect the name change from Peoples Gas Company LLC to Peoples Gas Division of Peoples Natural Gas Company LLC, to become effective on one day's notice following the closing of the Proposed Merger; and;
- (3) Grant any other approvals or certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in this Application in a lawful manner.

Michael Turzai (ID # 51371)

Peoples Natural Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212-5861
Phone: 412-258-4473
Fax: 412-208-6575
E-mail: Michael.turzai@peoples-gas.com

Dated: December 1, 2021

Respectfully submitted,



Michael W. Gang (ID # 25670)
Michael W. Hassell (ID # 34851)

Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mgang@postschell.com
E-mail: mhassell@postschell.com
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Attorneys for Peoples Natural Gas Company LLC
and Peoples Gas Company LLC

APPENDIX A

**PLAN OF MERGER
OF
PEOPLES GAS COMPANY LLC
WITH AND INTO
PEOPLES NATURAL GAS COMPANY LLC**

This Plan of Merger is made and entered into as of _____, 2021, by and between (i) PEOPLES GAS COMPANY LLC, a Pennsylvania limited liability company ("PGC"), and (ii) PEOPLES NATURAL GAS COMPANY LLC, a Pennsylvania limited liability company ("PEOPLES") (each of PGC and PEOPLES is referred to herein as a "Constituent Company").

WHEREAS, the board of managers of each Constituent Company has adopted a resolution approving this Plan of Merger which provides for the merger of PGC with and into PEOPLES, with PEOPLES as the surviving limited liability company following the merger;

NOW, THEREFORE, in consideration of the foregoing premises and the covenants and agreements contained herein, and intending to be legally bound hereby, PGC and PEOPLES agree as follows:

1. Subject to the terms and conditions of this Plan of Merger and the Statement of Merger in such form as is required by the relevant provisions of the Pennsylvania Uniform Limited Liability Company Act of 2016 (the "2016 Pa LLC Act"), at the Effective Time (as defined below) PGC shall be merged with and into PEOPLES (the "Merger") with PEOPLES continuing as the surviving limited liability company (the "Surviving Company"). By virtue of the Merger, the limited liability company interests of PGC that are outstanding immediately prior to the Effective Time shall be cancelled and extinguished and no consideration shall be paid in respect of such cancellation and extinguishment, and the limited liability company interests of PEOPLES that are outstanding immediately prior to the Effective Time will continue to represent the limited liability company interests of the Surviving Company from and after the Effective Time. At the Effective Time, the separate existence of PGC shall cease, and PNG Companies LLC, a Delaware limited liability company ("PNG"), shall be the sole member of the Surviving Company.

2. The Merger shall become effective at such time as the Statement of Merger is filed with the Secretary of State of the Commonwealth of Pennsylvania (such time, the "Effective Time").

3. At and after the Effective Time, the Certificate of Organization of PEOPLES shall be the Certificate of Organization of the Surviving Company.

4. At and after the Effective Time, the Operating Agreement of PEOPLES shall be the Operating Agreement of the Surviving Company, until amended thereafter in accordance with applicable law.

5. At and after the Effective Time, each of managers and officers of PEOPLES immediately prior to the Effective Time shall be the managers and officers of the Surviving Company, each to hold office until his or her respective successor is duly elected and qualified or until the earlier death, resignation or removal, all in accordance with the Certificate of Organization and Operating Agreement of the Surviving Company and applicable law.

6. If, at any time after the Effective Time, the Surviving Company shall consider or be advised that any deeds, bills of sale, assignments or assurances or any other acts or things are necessary, desirable or proper (a) to vest, perfect or confirm, of record or otherwise, in the Surviving Company its right, title and interest in, to or under any of the rights, privileges, powers franchises, properties or assts of either of the Constituent Company, or (b) otherwise to carry out the purposes of this Plan of Merger, the Surviving Company and its managers and officers or their designees shall be authorized to execute and deliver, in the name and on behalf of either Constituent Company, all such deeds, bills of sale, assignments and assurances and to do, in the name and on behalf of either Constituent Company, all such other acts and things as may be necessary, desirable or proper to vest, perfect or confirm the Surviving Company's right, title and interest in, to and under any of the rights, privileges, powers, franchises, properties or assets of such Constituent Company and otherwise to carry out the purposes of this Plan of Merger.

7. This Plan of Merger shall be submitted to the members of the Constituent Companies for their adoption or rejection in the manner prescribed by the provisions of Section 325 of the 2016 PA LLC ACT (15 Pa.C.S.A. § 325).

8. In the event that this Plan of Merger is duly adopted by the members, the Constituent Companies shall cause to be executed and filed the Statement of Merger and any other documents prescribed by the provisions of the 2016 PA LLC ACT, and they shall cause to be performed all necessary acts therein and elsewhere to effectuate the Merger. Notwithstanding the foregoing, this Plan of Merger may be terminated, and the Merger abandoned, at any time prior to the Effective Time, including after receipt of all member approvals, by either Constituent Company acting through its board of managers.

9. Any provision of this Plan of Merger may be amended or waived if, and only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to the Plan of Merger, or in the case of a waiver, by the party against whom the waiver is to be effective; provided that, after adoption of this Plan of Merger by the members of the Constituent Companies, no amendment or waiver shall be made which by law requires further approval by such members without such further approval.

10. This Plan of Merger may be executed in counterparts, and either party may execute any such counterpart, both of which when executed and delivered shall be deemed to be and original and which counterparts taken together shall constitute but one and the same instrument. This Plan of Merger shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

IN WITNESS WHEREOF, PGC and PEOPLES have caused this Plan of Merger to be signed by their duly authorized officer as of the date first written above.

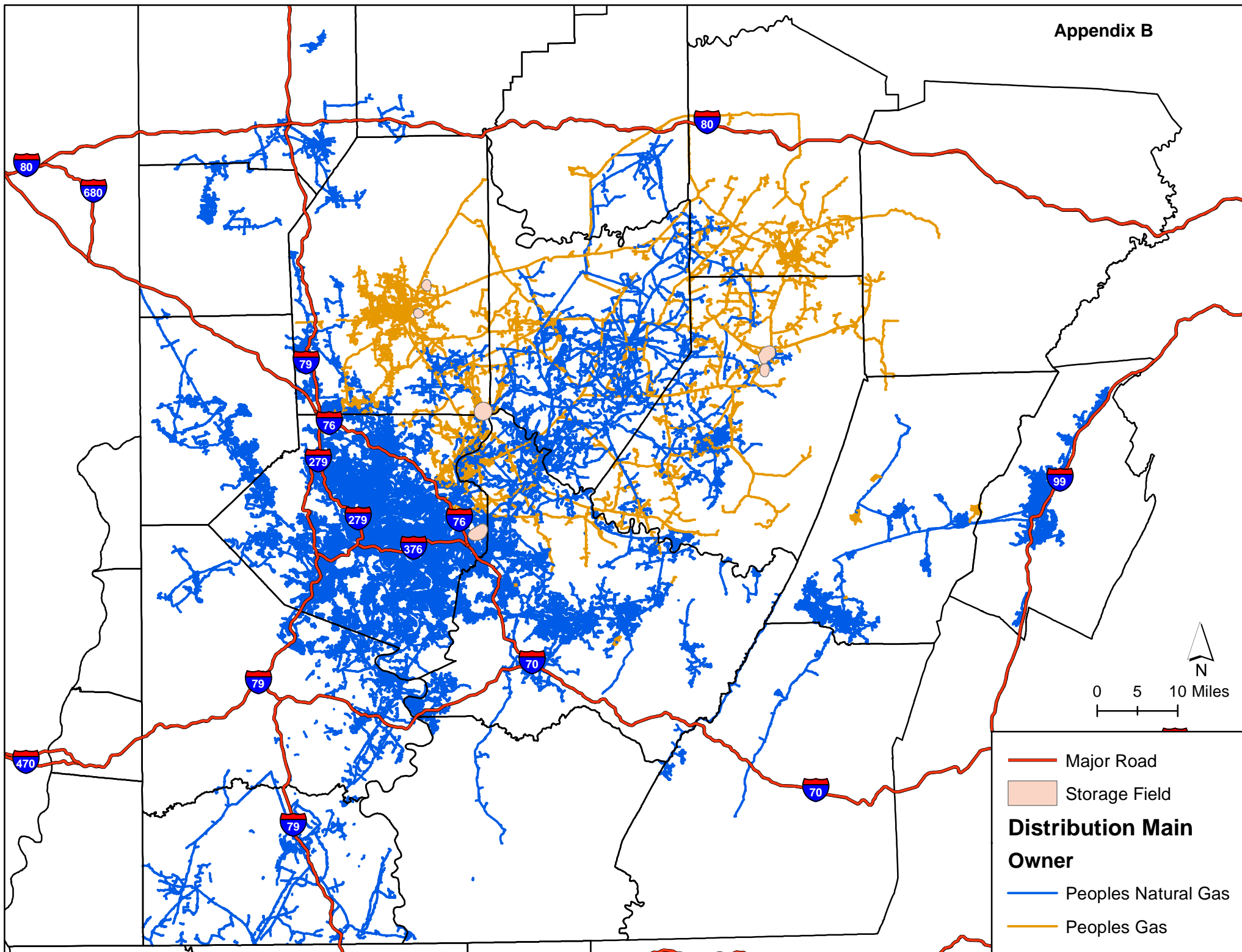
PEOPLES GAS COMPANY LLC
a Pennsylvania limited liability company

By: _____

PEOPLES NATURAL GAS COMPANY LLC
a Pennsylvania limited liability company

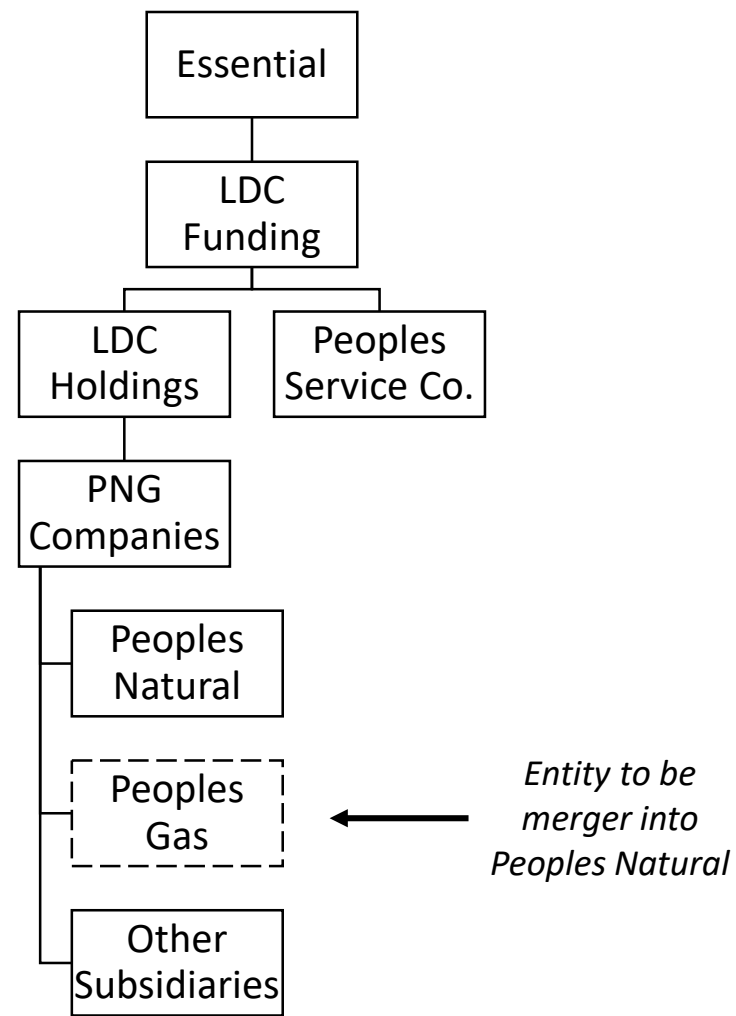
By: _____

APPENDIX B



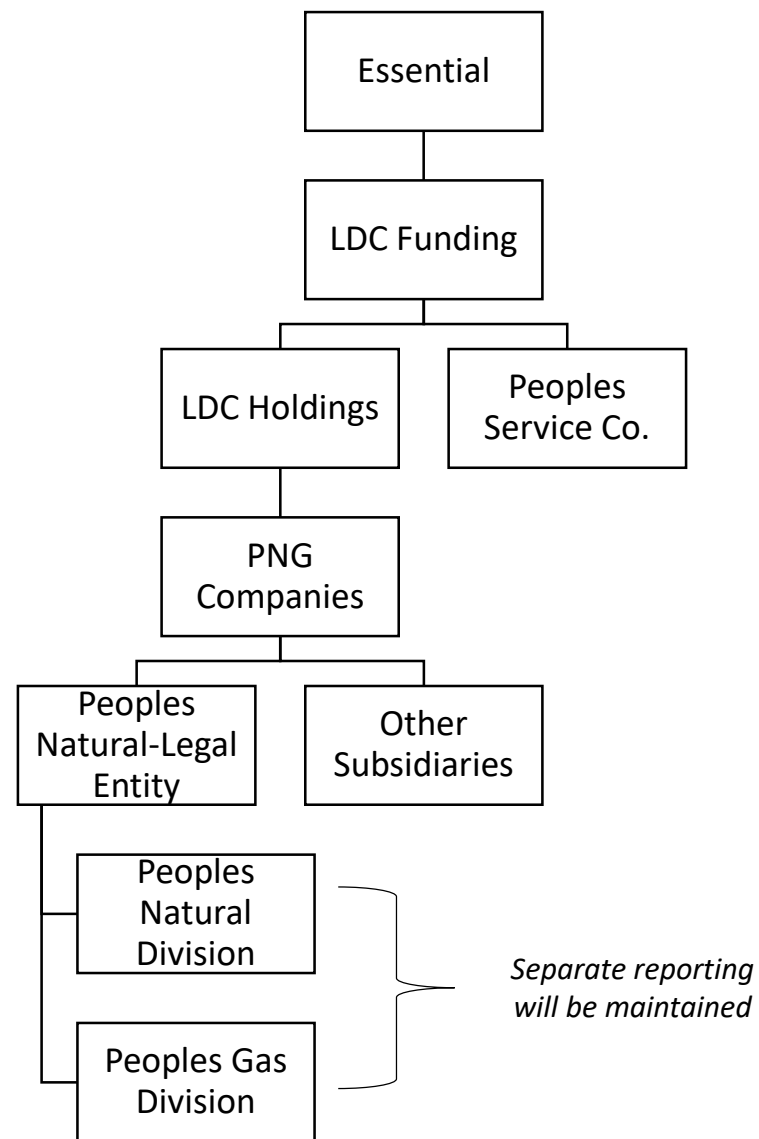
APPENDIX C

Before



APPENDIX D

After



APPENDIX E

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Peoples Natural Gas :
Company LLC and Peoples Gas :
Company LLC for All of the Authority : Docket No. A-2021-
and Necessary Certificates of Public :
Convenience to Merge Peoples Natural :
Gas Company LLC and Peoples Gas :
Company LLC

**PREPARED DIRECT TESTIMONY OF
MICHAEL HUWAR
PRESIDENT
PEOPLES NATURAL GAS COMPANY LLC**

DATE SERVED: _____
DATE ADMITTED: _____

Joint Applicants Statement No. 1

**PREPARED DIRECT TESTIMONY OF
MICHAEL HUWAR**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Michael Huwar and my business address is 375 North Shore Drive,
3 Pittsburgh, Pennsylvania, 15212.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by PNG Companies LLC (“PNG Companies” or “Company”) as
7 President, Peoples Natural Gas Company LLC.

8

9 **Q. WHAT ARE YOUR PRINCIPAL DUTIES AND RESPONSIBILITIES?**

10 A. As President I have overall responsibilities for the operations of Peoples Natural Gas
11 Company LLC.

12

13 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

14 A. I hold a bachelor’s degree from the University of Pittsburgh, and completed a leadership
15 development program at the University of Pennsylvania’s Wharton School. I held
16 various positions within the Columbia Gas system and its parent company, NiSource Inc.
17 (“NiSource”) from 1986 through 2015, including Vice President and General Operations
18 Manager for Columbia Gas of Virginia, where I oversaw employee safety, pipeline safety
19 and regulatory compliance initiatives. Prior to that, I served in a number of leadership
20 positions including Vice President of Sales, Vice President of Products and Services and
21 Director of Large Customer Relations throughout the Columbia companies. From 2015

1 through 2017, I served as Vice President of Marketing for Columbia Midstream, a
2 subsidiary of Columbia Pipeline Group and TransCanada, where I had overall
3 responsibility for building and advancing Columbia Midstream marketing capabilities,
4 as well as supporting business development efforts and processes across the company's
5 growing customer base. I also provided leadership for Columbia Midstream's
6 Canonsburg office. I was named President of Columbia Gas of Pennsylvania in February
7 2017. I assumed my current responsibilities when I was hired and named President in
8 August of 2020.

9
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
11 **PUBLIC UTILITY COMMISSION OR OTHER STATE COMMISSIONS?**

12 A. Yes. I have testified before the Pennsylvania Public Utility Commission several times
13 and I have also testified before the State Corporation Commission of Virginia.

14
15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. I will provide a description of the compelling reasons for and the substantial affirmative
17 benefits of the proposed merger of Peoples Gas Company LLC ("Peoples Gas") with
18 Peoples Natural Gas Company LLC ("Peoples Natural Gas") (hereinafter referred to as
19 the "Proposed Merger". Peoples Natural Gas and Peoples Gas ("Joint Applicants") are
20 affiliated, Commission-regulated public utilities providing natural gas service in western
21 Pennsylvania and currently sharing operational, management and administrative
22 employees and services. I will describe the proposed post-merger operation of Peoples
23 Natural Gas with Peoples Gas as an operating division. I will summarize the effect of

1 the Proposed Merger on the employees of Peoples Gas and Peoples Natural Gas. I also
2 will provide a summary to the testimony and exhibits filed by the Joint Applicants in
3 support of the proposed merger of Peoples Natural Gas and Peoples Gas.

4
5 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

6 A. Yes, I am sponsoring the Joint Application, which has been identified as Joint
7 Applicants' Exhibit No. 1.

8
9 **Q. PLEASE DESCRIBE THE TESTIMONY THAT HAS BEEN SUBMITTED IN**
10 **SUPPORT OF THE APPLICATION.**

11 A. The Joint Applicants have submitted three statements, including this one, in support of
12 the Joint Application. These Statements provide additional explanation of the matters
13 addressed in the Joint Application.

14 Joint Applicants Statement No. 1. Michael Huwar, President of Peoples Natural
15 Gas - providing a description of the proposed merger of Peoples Natural Gas
16 and Peoples Gas; describing the post merger operation of Peoples Natural Gas
17 with Peoples Gas as a division; addressing the impact on employees, and
18 describing the substantial affirmative benefits of the Proposed Merger for
19 customers and the communities in western Pennsylvania.

20
21 Joint Applicants Statement No. 2. Andrew P. Wachter, Director, Finance and
22 Regulation of PNG Companies - supporting the Joint Applicants' proposals to:
23 consolidate the purchased gas cost (PGC) rates of Peoples Natural Gas and
24 Peoples Gas; and consolidate non-delivery rate charges applicable to
25 transportation or "shopping" customers, such as balancing, gas retainage,
26 merchant function charge, gas procurement charge, and the effect of the proposed
27 transaction on retail competition and the creation of a single price to compare.

28
29 Joint Applicants Statement No. 3. Edward A. Palombo, Vice President,
30 Reliability of PNG Companies - explaining the gas supply and operational
31 benefits of combining Peoples Natural Gas and Peoples Gas into a single legal
32 entity.
33

1 **OVERVIEW OF THE PROPOSED MERGER**

2 **Q. PLEASE BRIEFLY DESCRIBE PEOPLES NATURAL GAS.**

3 A. Peoples Natural Gas is a limited liability company formed under the laws of the
4 Commonwealth of Pennsylvania for the purposes of providing natural gas transmission,
5 distribution, and supplier of last resort services subject to the Pennsylvania Public Utility
6 Commission’s (“Commission”) regulatory jurisdiction. Peoples Natural Gas is a “public
7 utility” and a “natural gas distribution company” as those terms are defined in Sections
8 102 and 2202 of the Public Utility Code, 66 Pa. C.S. §102, 2202. Peoples Natural Gas
9 provides natural gas transmission, distribution, and supplier of last resort service to
10 approximately 630,000 customers in all or portions of the following Pennsylvania
11 counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette,
12 Greene, Indiana, Jefferson, Lawrence, Mercer, Somerset, Venango, Washington and
13 Westmoreland.

14
15 **Q. PLEASE BRIEFLY DESCRIBE PEOPLES GAS.**

16 A. Peoples Gas is a limited liability company formed under the laws of the Commonwealth
17 of Pennsylvania for the purposes of providing natural gas transmission, distribution, and
18 supplier of last resort services subject to the Commission’s regulatory jurisdiction.
19 Peoples Gas is a “public utility” and a “natural gas distribution company” as those terms
20 are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa. C.S. § 102, 2202.
21 Peoples Gas provides natural gas transmission, distribution, and supplier of last resort
22 service to approximately 63,000 customers throughout its service territory, which

1 includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong,
2 Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland.

3
4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED MERGER FOR**
5 **WHICH APPROVAL IS BEING SOUGHT.**

6 A. Both Peoples Gas and Peoples Natural Gas are wholly-owned subsidiaries of PNG
7 Companies. PNG Companies is a wholly-owned, indirect subsidiary of Essential
8 Utilities, Inc. (“Essential”), f/k/a Aqua America, Inc. By Final Order entered January
9 24, 2020, at Docket No. A-2018-3006061, et. al, the Commission approved the transfer
10 of indirect ownership of Peoples Natural Gas and Peoples Gas to Aqua America, Inc.,
11 now Essential (the “Aqua Acquisition Proceeding”). The transfer was effective March
12 16, 2020.

13 Essential Utilities, Inc. owns the sole member interest of LDC Funding
14 LLC. LDC Holdings LLC owns the sole member interest of PNG Companies LLC
15 (“PNG Companies”). PNG Companies owns the sole member interest of Peoples
16 Natural Gas Company LLC (“Peoples Natural Gas”) and the sole member interest of
17 Peoples Gas Company LLC (“Peoples Gas”). Thus, PNG Companies is the parent
18 company of Peoples Natural Gas and the parent company of Peoples Gas. Peoples
19 Natural Gas and Peoples Gas are both subsidiaries of PNG Companies. PNG Companies
20 is assigning the ownership of the sole member interest in Peoples Gas to Peoples Natural
21 Gas. After that assignment, Peoples Natural Gas will own a single member interest in
22 Peoples Gas. Thus, after the assignment, Peoples Natural Gas will be the parent of
23 Peoples Gas and Peoples Gas will be a subsidiary of Peoples Natural Gas. Peoples Gas

1 will then merge into and with Peoples Natural Gas. After the merger, Peoples Gas will
2 no longer exist. Peoples Natural Gas will remain a subsidiary of PNG Companies. PNG
3 Companies will remain the parent of Peoples Natural Gas.” The current group structure
4 of Essential’s natural gas public utility operations is shown on Appendix C and the
5 proposed group structure after the Proposed Merger is shown on Appendix D of Joint
6 Applicants’ Exhibit 1.

7
8 **Q. PLEASE DESCRIBE THE RATIONALE FOR COMBINING PEOPLES**
9 **NATURAL GAS AND PEOPLES GAS.**

10 A. The Proposed Merger will combine two utility companies that naturally belong combined
11 as a single company because they provide the same type of service, maintain overlapping
12 facilities and territories, and already share common ownership. The combination will
13 allow these two companies to achieve the greatest possible economies of scale in serving
14 this region by avoiding the duplication and inefficiencies of having the two separate
15 utilities. I believe that, over time, facility and operating costs as a single company will be
16 lower than if the merger does not occur.

17
18 **Q. PLEASE SUMMARIZE THE BENEFITS OF THE PROPOSED MERGER OF**
19 **THE COMPANIES.**

20 A. The Proposed Merger will result in numerous affirmative benefits, including, but not
21 limited to: the legal unification of two natural gas distribution companies that have
22 significant overlap in their service territories, which historically caused redundant
23 expenditures and inefficiencies; the consolidation of the gas cost rates of Peoples Gas

1 and Peoples Natural Gas, effective October 1, 2022, which will permit more
2 interconnections between currently separate systems and produce gas cost efficiencies,
3 improved supply competition for customers by creating a single price to compare, a larger
4 retail market and consolidated retail supplier market policies over the combined
5 distribution system; the continuation of the combination of the capital requirements of
6 Peoples Natural Gas and Peoples Gas; and the improvement of operations and
7 maintenance efficiencies for Peoples Natural Gas and Peoples Gas.

8 As described in more detail by Mr. Palombo in his direct testimony, the Proposed
9 Merger will also enhance the overall operational reliability and efficiency of the systems;
10 provide the Company with more streamlined options to avoid duplicate pipeline
11 replacements, free up capital for other projects, and streamline the pipeline facility
12 planning and design process; eliminate the current administrative needs to track and
13 balance exchange volumes between the two systems; and generally support one of the
14 overall goals of the Peoples Gas and Equitable acquisitions, which was to fully merge the
15 operations and management of these three overlapping entities into a single operations
16 unit. Further, the proposed merger of the gas cost rates and the 1307(f) gas cost tracking
17 and recovery mechanisms will eliminate the need to maintain separate gas procurement
18 activities for Peoples Natural Gas and Peoples Gas and facilitate the joint use of the
19 Peoples Gas and Peoples Natural Gas gas supply assets with increased flexibility,
20 efficiency and overall gas supply reliability.

21
22 **Q. PLEASE EXPLAIN HOW PEOPLES GAS WILL BE OPERATED AFTER BEING**
23 **MERGED WITH PEOPLES NATURAL GAS.**

1 A. Peoples Natural Gas will initially operate Peoples Gas as a separate operating division of
2 Peoples Natural Gas for accounting purposes. Peoples Natural Gas will keep separate
3 sets of accounting records for both Peoples Natural Gas and Peoples Gas. Both sets of
4 accounting records will separately track all data necessary for preparation of separate
5 financial statements. This will facilitate the Commission's oversight of the two utilities'
6 operations, financial results, distribution rates, reports and records. Separate billings to
7 customers with the approved Commission tariff rates will be timely and accurately
8 produced and maintained. As I will explain in the next section of my testimony, while
9 the separate legal entities of Peoples Natural Gas and Peoples Gas will be combined to
10 produce significant benefits for customers, complete and accurate accounting records will
11 be maintained on the SAP financial system to ensure compliance with all Commission
12 requirements.

13
14 **Q. WILL THE OPERATIONS AND MANAGEMENT OF PEOPLES NATURAL**
15 **GAS AND PEOPLES GAS BE MERGED?**

16 A. The operations and management of Peoples Natural Gas and Peoples Gas have already
17 been substantially merged under PNG Companies through the use of approved affiliated
18 interest agreements. Upon closing of the Proposed Merger, PNG Companies will
19 continue to operate the merged operations, management and corporate governance of
20 Peoples Natural Gas and Peoples Gas.

21
22 **Q. WHEN DO THE PEOPLES COMPANIES REQUEST THAT THE COMMISSION**
23 **ACT UPON THIS APPLICATION?**

1 A. The Peoples Companies respectfully request that the Commission approve this
2 Application no later than June 30, 2022. As explained next, and in the direct testimonies
3 of Mr. Palombo and Mr. Wachter, a primary benefit of the merger is the consolidation of
4 gas purchases and gas purchasing practices of the two companies, and the establishment
5 of a single Price-to-Compare across the systems. To achieve those benefits, it is necessary
6 to consolidate the two companies' Purchased Gas Cost ("PGC") rates. Peoples Natural
7 Gas and Peoples Gas are on the same Section 1307(f) procedural schedules, with annual
8 PGC rates becoming effective October 1. In order to enable the two companies to merge
9 their PGC rates effective October 1, 2022, we respectfully request that the merger be
10 approved by June 30, 2022.

11
12 **PUBLIC BENEFITS OF THE PROPOSED MERGER**

13 **Q. PLEASE PROVIDE AN OVERVIEW OF THE OVERLAP OF PEOPLES GAS**
14 **AND PEOPLES NATURAL GAS OPERATIONS.**

15 A. Both companies provide gas distribution service in contiguous, and in many places,
16 overlapping service territories. Both companies rely on Pennsylvania gas to meet
17 customers' requirements and bring Pennsylvania gas directly to their distribution systems
18 for delivery to residential, commercial and significant industrial customers. Finally, both
19 companies are among the oldest distribution companies in the country and require
20 significant investment in their pipeline infrastructure. Many of the benefits of the
21 Proposed Merger relate directly to combining these two similar companies.

22
23 **Q. PLEASE EXPLAIN THE BENEFITS OF THE PROPOSED MERGER.**

1 A. The Proposed Merger provides an opportunity to improve operational and management
2 efficiencies; avoid capital and purchased gas costs; simplify the delivery and use of
3 Pennsylvania gas; improve retail supply competition; and expand development of
4 Pennsylvania natural gas and related infrastructure for the benefit of customers and the
5 communities in which they reside. These benefits primarily result from the consolidation
6 of gas costs and gas supply assets and additional interconnection of the systems.

7
8 **Q. HOW WILL THE PROPOSED MERGER RESULT IN AVOIDED CAPITAL**
9 **AND PURCHASED GAS COSTS?**

10 A. The service areas of Peoples Natural Gas and Peoples Gas largely overlap in western
11 Pennsylvania. Peoples Gas and Peoples Natural Gas have worked to coordinate capital
12 expenditures so that their infrastructure is replaced or retired in an efficient manner,
13 especially where existing pipelines overlap. The Proposed Merger and consolidation of
14 gas cost rates will further this work by removing the metering, recordkeeping and
15 accounting requirements implicit in separate ownership and operations that entail
16 requirements which currently impede the further interconnection of the systems. More
17 freedom to interconnect the systems will allow Peoples Natural Gas to replace and retire
18 pipelines across the two Divisions in the most efficient manner. The Proposed Merger
19 will also permit Peoples Natural Gas and Peoples Gas to consolidate the operation of
20 these systems and avoid the significant measurement costs that are incurred when the
21 systems are operated separately. These benefits are more fully explained in the Direct
22 Testimony of Mr. Palombo.

1 Further, the consolidation of gas cost rates will allow the jointly held gas supply
2 assets to be shared between the two Divisions which, together with the ability to create
3 more interconnections, will improve efficiencies in using acquired gas supplies and
4 assets to serve customers for the two Divisions. Mr. Palombo discusses in his Direct
5 Testimony the decline in shallow, local production that is occurring in our service
6 territories and how the free flow of gas between Divisions and the sharing of gas supply
7 assets will allow for more efficient utilization of those assets and help to attract more
8 direct-feed local production. This will help avoid purchased gas costs by reducing the
9 need to add pipeline capacity to replace the declining amounts of shallow, local
10 production.

11 In addition, the combination also will permit us to optimize design of future capital
12 projects to operate in the most efficient way possible.
13

14 **Q. PLEASE EXPLAIN HOW THE PROPOSED MERGER WILL ELIMINATE**
15 **EXISTING REDUNDANCIES AND INEFFICIENCIES.**

16 A. Even though Peoples Natural Gas and Peoples Gas currently share senior management
17 and administrative personnel, they operate as separate companies. As a result, they
18 manage, for example, separate and different service agreements for their end use
19 customers and separate and different agreements for purchases of local gas and upstream
20 pipeline services. They track and account for flows of gas from one company's system
21 to the other as required by existing exchange agreements. These are examples of
22 inefficiencies that could be eliminated after the merger.
23

1 **Q. PLEASE EXPLAIN HOW THE PROPOSED MERGER WILL SUPPORT**
2 **EFFORTS TO IMPROVE PROCESSES AND ACHIEVE OPERATIONAL**
3 **EFFICIENCIES.**

4 A. Operational efficiencies will continue to be achieved by the already consolidated field
5 operations and offices throughout the overlapping territories, further consolidating and
6 standardizing operational processes, using the larger scale of the new company to lower
7 contractor costs, and continued implementation of state-of-the-art IT solutions across all
8 operating districts.

9 The Proposed Merger will also support the Company's overarching goal of
10 positively impacting our customers through our customer service. One leg of this
11 initiative is to achieve the most efficient operational organization and processes which,
12 to date, includes: implementation of the latest IT upgrades to improve work
13 management, compliance, GIS mapping, inspection monitoring, leak management and
14 other processes; the reorganization of the Operations Departments of Peoples Gas and
15 Peoples Natural Gas from a geographic based department structure to a process based
16 department structure that will include separate departments to handle O&M work,
17 compliance activities, field customer service, and construction/restoration activities;
18 consolidation of field operations shops; and a centralized Operations Center in
19 Pittsburgh that includes dispatch and gas control.

20 The Proposed Merger also will allow Peoples Natural Gas and Peoples Gas to
21 leverage their total combined infrastructure and construction needs to attempt to reduce
22 manufacturer and operating costs for pipeline renewals and extensions, service
23 installations, restoration and paving, and vehicle and equipment purchases. In areas with

parallel pipelines, the companies will be able to avoid duplicative operating costs for routine tasks by dispatching one crew to complete the tasks for both division.

Q. PLEASE SUMMARIZE HOW THE PROPOSED MERGER WILL INCREASE THE PRODUCTION OF PENNSYLVANIA GAS AND IMPROVE RETAIL COMPETITION.

A. As explained in the Direct Testimony of Mr. Palombo, Joint Applicants' Statement No. 3, the Proposed Merger will create the opportunity for interconnects among Peoples Natural Gas and Peoples Gas, that will create a smooth transition to purchasing and transporting gas across both systems. These interconnections will provide Peoples Natural Gas and Peoples Gas with the potential for greater purchases of Pennsylvania gas, including unconventional gas, to serve customers.

As explained in the Direct Testimony of Mr. Wachter, Joint Applicants Statement No. 2, the combination of Peoples Natural Gas and Peoples Gas as separate operating divisions with consistent and improved transportation program operating rules and a single price to compare should make retail competition more attractive to natural gas suppliers ("NGSs"). Currently, Peoples Gas has limited retail competition for smaller customer classes. With the implementation of the proposed merger, NGSs can simplify their operations on a larger, unified system and thereby help develop additional retail supplier participation and competition on Peoples Gas' distribution system. Further, additional interconnects between the Peoples Gas and Peoples Natural Gas system will allow more flexibility to NGSs regarding delivery of gas supplies, and increase the market potential for NGSs who rely upon local gas supplies to serve their

1 customers. Over the long-term, greater production of Pennsylvania gas, improved
2 opportunities to access such gas, and improved ability to move gas in one combined
3 market will improve retail competition.

4
5 **Q. PLEASE EXPLAIN THE EFFECT OF THE PROPOSED MERGER ON**
6 **PEOPLES GAS' EMPLOYEES.**

7 A. There will no impact on Peoples Gas' employees. The Joint Applicants are committed to
8 local management and local staff. As discussed further in Joint Applicants' Statement No.
9 2, the Direct Testimony of Mr. Wachter, Peoples Gas does not currently have any
10 employees. Rather, the field employees are employed by Peoples Natural Gas and provide
11 services to Peoples Gas under a PUC-approved Operational Services Agreement. Further,
12 all administrative services are provided by PNG Companies to Peoples Gas and Peoples
13 Natural Gas via a PUC-approved Affiliated Administrative and Management Services
14 Agreement.

15
16 **Q. WILL THE PROPOSED MERGER PRODUCE SUBSTANTIAL, AFFIRMATIVE**
17 **BENEFITS FOR THE CUSTOMERS AND THE COMMUNITIES SERVED BY**
18 **PEOPLES NATURAL GAS AND PEOPLES GAS?**

19 A. Yes. As explained above and in the supporting testimony of the Joint Applicants, the
20 Proposed Merger will result in numerous substantial affirmative benefits, including, but
21 not limited to: the further unification of two natural gas distribution companies that have
22 overlap in their service territories, which historically has caused redundant expenditures
23 and inefficiencies; blending of gas costs and the associated ability to create more

1 interconnections among Peoples Natural Gas and Peoples Gas will create the potential to
2 reduce purchased gas costs and produce capital and rate base savings resulting from
3 avoidance of duplicative pipeline replacements and installation of unnecessary
4 measurement equipment; and improving supply competition for customers by creating a
5 single price-to-compare, a larger retail market and instituting uniform retail market
6 policies on the combined distribution system. The Proposed Merger also will encourage
7 greater production of Pennsylvania gas. This will result in more Pennsylvania
8 employment and multiple beneficial effects for western Pennsylvania communities by
9 increasing the use of Pennsylvania gas by the utilities and creating opportunities for
10 Pennsylvania gas to reach the interstate market.

11 12 **STANDARDS FOR APPROVAL OF THE PROPOSED MERGER**

13 **Q. WHAT IS YOUR UNDERSTANDING OF THE STANDARD BY WHICH THE** 14 **COMMISSION WILL EVALUATE THE PROPOSED MERGER?**

15 A. I have been advised by counsel that Peoples Natural Gas and PNG Companies must
16 demonstrate their financial, technical, and legal fitness to own and operate the merged
17 company. Also, the Joint Applicants must demonstrate that the Proposed Merger will
18 affirmatively promote the service, accommodation, convenience or safety of the public
19 in some substantial way. The Commission will not necessarily require legally binding
20 commitments in specific areas to assure public benefits or require the quantification of
21 benefits where it may be impractical; rather, it will assess the reasonably expected “net
22 benefits” of the overall transaction. It will determine whether the overall transaction is
23 good for the public, which includes patrons of the utilities as well as the larger

1 community. I have also been advised by counsel that the Pennsylvania Natural Gas
2 Choice and Competition Act requires the Commission to consider whether the Proposed
3 Merger will result in anticompetitive or discriminatory conduct to the detriment of retail
4 supply competition.

5
6 **Q. DO YOU BELIEVE THAT THE JOINT APPLICANTS HAVE SATISFIED**
7 **THESE STANDARDS?**

8 A. Yes, I do. First, Peoples Natural Gas, PNG Companies and ultimately Essential and its
9 management team have shown that they can successfully merge and operate a combined
10 natural gas utility. Second, the Joint Applicants' testimony and exhibits in this case show
11 that the Proposed Merger, when viewed as a whole, will produce substantial affirmative
12 benefits for the public. Third, the testimony and exhibits also show that the Proposed
13 Merger is designed to enhance retail competition.

14
15 **FINANCIAL, TECHNICAL, AND LEGAL FITNESS**

16 **Q. DOES PEOPLES NATURAL GAS HAVE THE FINANCIAL FITNESS**
17 **NECESSARY TO OWN AND OPERATE PEOPLES GAS?**

18 A. Yes. Peoples Natural Gas' financial fitness is shown in Joint Applicants Exhibits H and
19 I, which show Peoples Natural Gas' most recent balance sheet and income statement.
20 Since 2010, Peoples Natural Gas has maintained a capital structure in line with other
21 Pennsylvania utilities and has made significant reinvestments in its business. Similarly,
22 since its acquisition in 2011, Peoples Gas has also maintained a similar capital structure,
23 has pursued a conservative dividend payout policy, and has made significant

1 reinvestments in its business. Refer to Appendix J for incremental LTIIP investments
2 committed to by Essential as part of its acquisition of the Peoples Companies. Peoples
3 Natural Gas intends to continue these same practices as a consolidated company after the
4 Proposed Merger, at the same time acknowledging that it will operate the former Peoples
5 Gas as a separate division of Peoples Natural Gas, with separate books and records for
6 ratemaking purposes, until ordered otherwise by the Commission. Peoples Natural Gas'
7 capital structure will continue to be managed through refinancings, retaining earnings,
8 investing equity, and obtaining debt in a manner that maintains the same overall capital
9 structure.

10
11 **Q. DOES PEOPLES NATURAL GAS' MANAGEMENT TEAM HAVE THE**
12 **TECHNICAL EXPERTISE NECESSARY TO OPERATE PEOPLES GAS AS**
13 **PART OF PEOPLES NATURAL GAS?**

14 A. Yes. Oversight and management are not expected to significantly change as a result of
15 the Proposed Merger. As previously mentioned, field employees are employed by
16 Peoples Natural Gas and provide services to Peoples Gas under a PUC-approved
17 Operational Services Agreement and all administrative services are provided by PNG
18 Companies to Peoples Gas and Peoples Natural Gas via a PUC-approved Affiliated
19 Administrative and Management Services Interest Agreement. This effectively results in
20 the management and oversight being combined today.

21
22 **Q. IS PEOPLES NATURAL GAS LEGALLY FIT TO OPERATE PEOPLES GAS AS**
23 **A MERGED ENTITY?**

1 A. Yes. Peoples Natural has not experienced any significant legal or compliance issues.
2 These companies are in compliance with the Pennsylvania Public Utility Code and the
3 Commission's regulations and orders. They are also in compliance with all other
4 applicable state and federal laws.

5 These companies utilize both company employees and outside experts to identify
6 compliance obligations and to establish and operate compliance programs over a broad
7 range of activities. All employees are required to submit annual responses to a
8 compliance survey that is designed to identify any known illegal or non-compliance
9 situations. Training programs for operations and customer service personnel include
10 compliance components.

11
12 **AFFIRMATIVE BENEFITS**

13 **Q. WILL THE PROPOSED MERGER PRODUCE SUBSTANTIAL AFFIRMATIVE**
14 **BENEFITS?**

15 A. Yes. These include reduction of redundant expenditures and inefficiencies; gas cost
16 savings; improved supply competition for customers by creating a simple price to
17 compare, a larger retail market and consolidated retail supplier market policies over the
18 combined distribution system, and the improvement of operations and maintenance
19 efficiencies for Peoples Natural Gas and Peoples Gas.

20
21 **OTHER CONSIDERATIONS**

22 **Q. ARE THERE OTHER CONSIDERATIONS THAT MAY BE RELEVANT TO**
23 **THE COMMISSION'S REVIEW OF THIS APPLICATION?**

1 A. Yes, there are several other matters that the Commission may want to consider in
2 deciding whether to approve the Proposed Merger. The first concerns access to capital.
3 As recognized in the Aqua Acquisition Proceeding, Essential has significant experience
4 and success in accessing capital and financial markets. The access to significant capital
5 resources through Essential and PNG Companies will continue to enhance Peoples
6 Natural Gas' ability to improve customer satisfaction, service provided to customers, and
7 pipeline infrastructure, while maintaining reasonable and competitive rates. In addition,
8 as discussed in more detail in the testimony of Mr. Palombo, Joint Applicants' Statement
9 No. 3, the Proposed Merger will result in avoided capital that would otherwise be needed
10 to replace duplicative facilities on the Peoples Natural Gas and Peoples Gas systems.
11 The Proposed Merger will continue Essential's commitment to a cost-effective program
12 of reinvestment with best available technologies and organizational practices.

13 Second, Essential is a publicly-owned company. As such, it is subject to
14 Sarbanes-Oxley reporting requirements, and those requirements will not change as a
15 result of the Proposed Merger.

16 Third, Essential made substantial commitments to annual charitable contributions
17 in the settlement that was approved in the Aqua Acquisition Proceeding. Those
18 commitments will be maintained following the Proposed Merger.

19 Fourth, following the close of the Proposed Merger, Peoples Gas as a division of
20 Peoples Natural Gas will continue to use the allocations of costs under the current Peoples
21 Natural Gas'/Peoples Gas affiliated interest agreements solely for cost allocation
22 purposes among the Divisions. The provisions of the existing affiliated interest
23 agreements between Peoples Natural Gas and Peoples Gas will be used. Services

1 provided by PNG Companies or other affiliated interests will be provided pursuant to
2 existing, Commission-approved affiliate interest agreements. Any other agreement
3 between affiliated interests for sharing of services or employees will be separately filed
4 with the Commission pursuant to Section 2102 of the Public Utility Code.

5 Fifth, in the settlement of the Aqua Acquisition Proceeding, numerous
6 commitments were made regarding capital structure, financial matters, ring-fencing and
7 creditworthiness. All of the commitments from that proceeding will continue to be
8 followed.

9
10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A. Yes, it does. However, I reserve the right to file such additional testimony as be
12 necessary or appropriate.

APPENDIX F

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Peoples Natural Gas :
Company LLC and Peoples Gas Company :
LLC for All of the Authority and : Docket No. A-2021-
Necessary Certificates of Public :
Convenience to Merge Peoples Natural :
Gas Company LLC and Peoples Gas :
Company LLC :

**PREPARED DIRECT TESTIMONY OF
ANDREW P. WACHTER
DIRECTOR, FINANCE AND REGULATION
PNG COMPANIES LLC**

DATE SERVED: _____
ADMITTED: _____

Joint Applicants Statement No. 2

**PREPARED DIRECT TESTIMONY OF
ANDREW P. WACHTER**

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Andrew P. Wachter, and my business address is 375 North Shore Drive, Pittsburgh, Pennsylvania 15212.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Director, Finance and Regulation for PNG Companies LLC (“PNG Companies”). I provide services to Peoples Natural Gas Company LLC (“Peoples Natural Gas” or the “Company”) and Peoples Gas Company LLC (“Peoples Gas” or the “Company”) collectively the “Peoples Companies”. As Director, Finance and Regulation, I oversee the Rates and Regulatory and Financial, Planning and Analysis groups at PNG Companies and its affiliates.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND EMPLOYMENT EXPERIENCE.

A. I graduated from Duquesne University in 2000 with a Bachelor of Science Degree in Accounting. I also obtained a Masters in Business Administration from Duquesne University in 2001. After graduation, I was employed as an Auditor with Deloitte and Touche LLP. In September 2004, I joined T. W. Phillips Gas and Oil Co., the predecessor to Peoples Gas, as the Assistant Controller and was ultimately promoted to the Vice President of Finance and Rates. In June 2012, I assumed the position of Manager, Rates and Regulatory as the result of a post-acquisition reorganization. After

1 that I held multiple roles until I was named Director, Finance in February 2016. In
2 2018, I assumed regulatory responsibilities again in addition to my financial
3 responsibilities and my title was changed to Director, Finance and Regulation. I am a
4 Certified Public Accountant, having obtained my certificate in Pennsylvania in 2004.

5
6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
7 **PUBLIC UTILITY COMMISSION (THE “COMMISSION”)?**

8 **A.** Yes. I have submitted Testimony in various base rate cases, purchased gas cost cases
9 and other proceedings on behalf of Peoples Natural Gas and Peoples Gas.

10
11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

12 **A.** I am the witness with responsibility for explaining the effect of the proposed merger
13 transaction on the rates of Peoples Natural Gas and Peoples Gas. Specifically, I will
14 address:

- 15 i. Peoples Natural Gas’ proposal to consolidate the purchased gas cost (“PGC”)
16 rates of Peoples Natural Gas and Peoples Gas and describe the consolidation
17 proposal, discuss the background of the proposal, explain the current
18 relationship of the gas cost rates of the two companies, discuss their respective
19 gas supply portfolios, and explain the advantages of consolidation of the PGC
20 rates; and
- 21 ii. Proposals regarding the consolidation of charges for transportation or
22 “shopping” customers such as balancing, gas retainage, merchant function
23 (“MFC”), and gas procurement (“GPC”) charges and I will discuss the effect of

1 the proposed transaction on retail competition and the creation of a single price
2 to compare and how that will encourage enhanced retail competition.
3

4 **Q. PLEASE IDENTIFY THE EXHIBITS THAT YOU WILL BE SUPPORTING AS**
5 **A WITNESS.**

6 A. I am supporting the following Joint Applicants Exhibits:

- 7 • Joint Applicants Exhibit No. 2;
 - 8 • Joint Applicants Exhibit No. 3;
 - 9 • Joint Applicants Exhibit No. 4;
 - 10 • Joint Applicants Exhibit No. 5; and
 - 11 • Joint Applicants Exhibit No. 6
- 12

13 **Q. PLEASE EXPLAIN JOINT APPLICANTS EXHIBIT NO. 2.**

14 A. **Joint Applicants Exhibit No. 2** is a two-page exhibit that shows the calculation of the
15 1307(f) purchased gas cost rates for Peoples Natural Gas and Peoples Gas as approved
16 in the April 1, 2021 annual gas cost proceeding with two changes, 1) a projection of
17 commodity rates for the period October 2022 through September 2023 based on
18 NYMEX and basis pricing effective October 1, 2022 and 2) the elimination of the E-
19 Factors. The company believes these changes provide a better comparison as the
20 projected commodity prices eliminate the current volatility in market prices and as the
21 E-factor is a year-to-year timing difference in the recovery of gas costs.
22

23 **Q. PLEASE EXPLAIN JOINT APPLICANTS EXHIBIT NO. 3.**

1 A. **Joint Applicants Exhibit No. 3** is a three-page exhibit addressing the projected
2 combined 1307(f) sales rates of Peoples Natural Gas and Peoples Gas. Page 1 is a
3 schedule that displays the pro forma calculation of the merged 1307(f) sales rates of the
4 separate companies including the combined total purchased gas costs and rate design
5 volumes. Page 2 of this exhibit shows the calculation of the merged MFC and GPC.
6 Page 3 is a summary of the separate and consolidated 1307(f) sales rate components,
7 MFC, GPC and Price-to-Compare and shows the projected average bill impacts of the
8 consolidated 1307(f) sales rates. The consolidated information is pro forma, using
9 currently-effective and projected PGC data. As explained later in my testimony, the
10 Peoples Companies propose that the consolidation be implemented with an October 1,
11 2022 effective date of new PGC rates resulting from the next 1307(f) proceeding.

12
13 **Q. PLEASE EXPLAIN JOINT APPLICANTS EXHIBIT NO. 4.**

14 A. **Joint Applicants Exhibit No. 4** is a four-page exhibit that addresses the combined
15 Company's 1307(f) transportation related charges. Pages 1 and 2 display the
16 calculations of the separate 1307(f) balancing rates of Peoples Natural Gas and Peoples
17 Gas as-filed in the April 1, 2021 annual gas cost proceeding. Page 3 contains the
18 calculation of the blended balancing charges. Page 4 of this exhibit provides a
19 summary and comparison of the projected consolidated 1307(f) transportation unit
20 rates.

21
22 **Q. PLEASE EXPLAIN JOINT APPLICANTS EXHIBIT NO. 5.**

1 A. **Joint Applicants Exhibit No. 5** contains pro forma tariff pages reflecting the combined
2 MFC and GPC, and proposed changes to Peoples Gas Rider MFC. The changes made
3 are shown in redline format.

4
5 **Q. PLEASE EXPLAIN JOINT APPLICANTS EXHIBIT NO. 6.**

6 A. **Joint Applicants Exhibit No. 6** provides Peoples Natural Gas and Peoples Gas
7 responses to the Commission's filing requirements at 52 Pa. Code § 53.52 (a) – (c) in
8 support of the proposals to merge the MFC and GPC of Peoples Natural Gas and
9 Peoples Gas.

10
11 **Q. ARE THE JOINT APPLICANTS PROPOSING TO FULLY MERGE THE**
12 **TARIFFS AND NON-GAS RATES OF PEOPLES AND PEOPLES GAS?**

13 A. No. Not at this time. Under the proposal, from a legal perspective, Peoples Gas would
14 be merged into Peoples Natural Gas with Peoples Natural Gas being the surviving legal
15 entity. Following closing of the proposed merger, Peoples Natural Gas will continue to
16 operate Peoples Gas as a separate operating Division for accounting purposes and
17 maintain separate tariffs. This will facilitate the Commission's oversight of the tariff
18 rules, financial results, reports and records of both divisions. As a separate operating
19 Division, the existing Peoples Gas separate non-gas base rates and tariff in effect at the
20 time of the proposed merger is consummated will remain in full force and effect. Other
21 than the proposed changes to the gas costs recovery rates, MFC and GPC, as described
22 in my testimony, the existing Peoples Gas base tariff rates and tariff provisions will be
23 maintained following the proposed merger.

1
2 **Q. PRIOR TO THIS APPLICATION WHAT HAS BEEN DONE TO BRING**
3 **TOGETHER THE BUSINESSES AND OTHER ASPECTS OF PEOPLES**
4 **NATURAL GAS AND PEOPLES GAS?**

5
6 A. The Peoples Companies have been working toward the consolidation of business
7 operations through a multi-year transitional process. It began soon after Commission
8 approval of the acquisition of T. W. Phillips by LDC Holdings II, an indirect subsidiary
9 of SteelRiver Infrastructure Fund of North America LP, when much of the back office
10 administrative functions and operations management of Peoples Natural Gas and
11 Peoples Gas were brought together into a single management unit. These unified
12 functions were made possible by the establishment of the Peoples Service Company,
13 LLC (“PSC”) and the execution of the Service Agreement between Peoples Natural Gas
14 and PSC¹, the Service Agreement between Peoples Gas and PSC², and the Operations
15 Service Agreement between Peoples Natural Gas and Peoples Gas³. As explained in
16 the Direct Testimony of Witness Mr. Palombo (Joint Applicants’ Statement No. 3), a
17 single gas supply department employed at PNG Companies has administered separate
18 pipeline services agreements, gas supply agreements and gas purchases for both Peoples
19 Natural Gas and Peoples Gas. Similarly, a single rate department employed at PNG
20 Companies has administered separate rate filings for both companies.

¹ Affiliated Interest Agreement approved by the Commission on June 6, 2012 at Docket No. G-2012-2290014.

² Affiliated Interest Agreement approved by the Commission on June 5, 2012 at Docket No. G-2012-2291735.

³ Affiliated Interest Agreement approved by the Commission on September 5, 2012 at Docket No. G-2012-2290018.

1 In January 2014, Peoples Gas customers were converted to Peoples Natural Gas’
2 new state-of-the-art customer service and billing system. In March 2014, Peoples Gas
3 undertook efforts to standardize the form of local gas purchase agreements and as a
4 result, the standard price for local gas purchased by both Peoples Natural Gas and
5 Peoples Gas are now based on the same market-based index – Eastern Gas
6 Transmission and Storage (“EGTS”) South Point. Further, various aspects of the
7 universal service programs for Peoples Natural Gas and Peoples Gas have been merged
8 through a series of approved and proposed regulatory filings. Also, through an Energy
9 Choice best-practices collaborative, designed to improve retail shopping, many of the
10 Peoples Gas transportation program rules and parameters were modified in early 2014
11 and 2016 to set up enhanced program rules for Peoples Gas that are consistent with the
12 rules of Peoples Natural Gas.

13 In 2015, the companies negotiated with the various unions representing field and
14 customer service employees of Peoples Natural Gas and Peoples Gas to enable all field
15 operations, field work locations, and customer service functions to be brought together.
16 This enabled the customers of both Peoples Natural Gas and Peoples Gas to be serviced
17 in the most efficient and effective manner.

18 In 2017 Peoples Gas made various filings to consolidate debt at PNG
19 Companies and to simplify the ultimate corporate structure. On September 13, 2017,
20 Peoples Gas filed an application for all of the authority and any necessary certificates of
21 Public Convenience to Transfer All of the Membership Interests in Peoples Gas and
22 LDC Holdings II LLC to PNG Companies at Docket No. A-2017-2624578. This was
23 done to consolidate the two-chain ownership structure of Peoples Natural Gas and

1 Peoples Gas into a single chain of ownership. On November 8, 2017, the PUC approved
2 the application. On December 29, 2017, Peoples Gas filed with the PUC that the
3 reorganization had taken place at Docket No. A-2017-2624578.

4 As part of this simplification of ownership effort certain debt agreements were
5 modified. On October 13, 2017, Peoples Gas filed for approval of an Intercompany
6 Demand note with PNG Companies to provide a \$100 million line of credit to Peoples
7 Gas resulting from the transfer of memberships filing at Docket No. A-2017-2624578
8 previously mentioned. The purpose of this demand note was to replace the existing
9 Peoples Gas \$100 million external revolving credit agreement, which had been
10 registered by the PUC on July 12, 2017 at Docket No. S-2017-2605583. This agreement
11 was approved on November 9, 2017. Further, on October 13, 2017, Peoples Gas filed a
12 Securities Certificate Registration and Affiliated Interest Agreement Filing for the
13 Authorization to issue an Intercompany Promissory Note to PNG Companies in the
14 Aggregate Principal Amount of not more than \$71,909,111 at Docket No. G-2017-
15 2629437. The funds from the Intercompany Promissory Note were to be used to
16 extinguish the privately-placed debt of Peoples Gas. This resulted from an internal
17 reorganization under which Peoples Gas became a direct subsidiary of PNG Companies
18 LLC (see Docket No. A-2017-2624578 discussion above). This was approved on
19 November 8, 2017. On December 20, 2017 the Peoples Gas privately-placed debt was
20 paid off (\$69 million outstanding debt balance) and a \$69 million Intercompany
21 Promissory Note to PNG Companies was issued to PNG Companies.

22 Also, at the end of 2017, many employees, including those employed in the call
23 center, moved from Peoples Service Company to PNG Companies. In addition, all

1 Peoples Gas field employees moved to Peoples Natural Gas. These movements
2 triggered the following two affiliated interest agreements filed in 2018. (G-2018-
3 3000126, G-2018-3000130). This also triggered a revision to the existing agreement at
4 G-2012-2290018. All are explained in more detail below.

5 On February 20, 2018, Peoples Gas filed an Affiliated Interest Agreement with
6 PNG Companies for the provision of various administrative and management services
7 by PNG Companies to Peoples Gas at Docket No. G-2018-3000130. Peoples Gas
8 requested retroactive approval of this change to January 1, 2018. This agreement was
9 filed to replace the agreement between Peoples Gas and Peoples Service Company as
10 mentioned above. This agreement removed service providers from the utilities and
11 housed them in a single entity, PNG Companies.

12 On February 23, 2018, a Second Amended Operational Service Agreement
13 (“OSA”) among Peoples Natural Gas, Peoples Gas, PNG Gathering LLC, and Peoples
14 Gas WV LLC was filed at Docket No. G-2012-2290018. This Second Amended OSA
15 provided for all operational services to be provided to both of the Peoples Companies
16 by Peoples Natural Gas, as a result of the consolidation of the Peoples Natural Gas and
17 Peoples Gas operational field employees into Peoples Natural Gas. In addition, Peoples
18 Gas WV was added to the OSA. All services are provided at cost and directly billed to
19 the receiving company. This agreement was approved on October 15, 2018.

20 If this application is approved, the likely final step in the consolidation process
21 would be the consolidation of the non-gas rates and tariff provisions into a single
22 combined tariff, which would be presented in Peoples Natural Gas’ next base rate case
23 filing.

1
2 **I. GAS COST RATE AND PTC CONSOLIDATION PROPOSAL**
3

4 **Q. CAN PEOPLES NATURAL GAS AND PEOPLES GAS CONSOLIDATE THEIR**
5 **GAS COST RATES IF THE COMPANIES DO NOT OBTAIN COMMISSION**
6 **APPROVAL TO MERGE THE TWO COMPANIES?**

7 A. No, pursuant to the settlement of the Peoples Gas acquisition proceeding at Docket No.
8 A-2010-2210326, the Peoples Companies may not blend or consolidate their PGC rates
9 unless they first obtain a certificate of public convenience to merge the two companies.
10

11 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED GAS COST RATE**
12 **CONSOLIDATION.**

13 A. In the Joint Application, the applicants are proposing to merge the PGC rates of Peoples
14 Natural Gas and Peoples Gas so that, effective October 1, 2022, Peoples Natural Gas
15 and Peoples Gas, with the exception of the Allegheny Valley Connector (“AVC”)
16 capacity charge, would charge the same PGC rate components, balancing charges and
17 retainage rates to their respective customers.

18 The Companies are proposing that based on approvals received in this
19 application the gas cost rate consolidation will become effective on October 1, 2022. In
20 support of the consolidated gas cost rate proposal, I am presenting evidence later in my
21 testimony that demonstrates that the rate blending, based on current and projected gas
22 cost information, will not have a substantial detrimental ratepayer impact. Witness
23 Palombo explains the meaningful gas supply and operational benefits that are expected

1 to occur as a result of the gas cost rate blending proposal. Further, absent approval of
2 the proposed merger prior to March 1, 2022, the Joint Applicants plan to submit
3 separate annual 1307(f) filings for Peoples Natural Gas and Peoples Gas 1307(f) on
4 April 1, 2022. Consistent with past historic practice, those two PGC filings will be
5 consolidated. In those filings, the Peoples Companies will provide updated information
6 on the impacts of our gas cost rate blending proposal using updated projected volume
7 and cost data for Peoples Natural Gas and Peoples Gas. In the 2022 1307(f) filings, the
8 Peoples Companies will submit revised tariff pages for each of the Divisions showing
9 the new consolidated 1307(f) rates and associated changes including blended MFC and
10 GPC charges. Following approval, in this application case, to merge Peoples Gas into
11 Peoples Natural Gas and consolidate the gas cost rates, the consolidated gas cost rates
12 would then become effective on October 1, 2022. If the merger and gas cost rate
13 consolidations are approved by the Commission, Peoples Natural Gas and Peoples Gas
14 would make a single annual 1307(f) filing, beginning in April of 2023, that would cover
15 the combined gas procurement plans and purchased gas costs for the combined Peoples
16 Natural Gas and Peoples Gas Divisions. Effective October 1, 2022, gas supplies under
17 gas purchase agreements would be purchased for the combined use and benefit of
18 customers of the Peoples Natural Gas Divisions, as would pipeline services under
19 interstate pipeline service agreements. In short, for both 1307(f) ratemaking and gas
20 supply acquisition purposes, the Divisions would be treated as one. As explained by Mr.
21 Palombo, this will allow the existing pipeline systems of the Divisions to be
22 interconnected in a more robust and meaningful way and gas supplies and interstate

1 pipeline services under current gas purchase agreements, other than the AVC contract,
2 would be purchased for the joint use and benefit of all customers.

3
4 **Q. THE PEOPLES NATURAL GAS 1307(F) MECHANISM ALSO INCLUDES**
5 **CHARGES FOR AVC (ALLEGHENY VALLEY CONNECTOR) SYSTEM.**
6 **ARE YOU PROPOSING TO ALSO BLEND THOSE RATES?**

7 A. No. For ratemaking purposes, although the AVC costs are reflected as gas cost in the
8 PGC, they are recovered via a separate surcharge applicable to all Peoples Natural Gas
9 customers⁴. How, and whether, that surcharge should be applied to former Peoples Gas
10 customers presents complicated issues that should be addressed in a future rate
11 proceeding. For that reason, the consolidated gas cost and transportation (balancing)
12 rate proposals that are described immediately below do not include any of the AVC
13 rates and costs. The AVC costs will continue to be recovered only from Peoples
14 Natural Gas customers through the separate AVC capacity rate. The AVC capacity is
15 not included in the PTC because it is charged to all of Peoples Natural Gas' customers
16 and therefore its exclusion from the 1307(f) rate blending proposal will not affect the
17 ability to establish a single consolidated PTC, which is set forth later in my testimony.

18
19 **Q. HOW DO THE PGC SALES RATES OF PEOPLES NATURAL GAS AND**
20 **PEOPLES GAS COMPARE?**

21 A. For comparison purposes, the Peoples Companies are using the gas cost rates effective
22 October 1, 2021 as approved in the Companies' respective 1307(f)-2021 proceedings,

⁴ Prior to the acquisition of Equitable, the AVC assets were owned and operated by Peoples Natural Gas and were recovered through Peoples Natural Gas' base rates.

1 with the aforementioned changes related to projected commodity costs for the period
2 October 2022 through September 2023 and the elimination of the E-Factors. The
3 projected 1307(f) rate levels for Peoples Natural Gas and Peoples Gas, which are shown
4 in **Joint Applicants Exhibit No. 2** are comparable. The projected 1307(f) rate for
5 Peoples Natural Gas is \$4.5378 per Mcf. As shown on page 1 of **Joint Applicants**
6 **Exhibit No. 2**, this rate includes separate demand and commodity components and is
7 applicable to sales customers within all rate classes. However, this comparative rate
8 excludes the AVC cost component because Peoples Natural Gas is excluding AVC
9 costs from the blending proposal.

10 The projected 1307(f) rate for Peoples Gas is \$4.2313 per Mcf. As shown on
11 Page 2 of **Joint Applicants Exhibit No. 2**, these rates include demand and commodity
12 rate components that are applicable across all rate classes.

13 In the upcoming 1307(f) filings to be submitted in April 2022, we will provide
14 updated 1307(f) rate comparison and blended gas cost information that will reflect
15 updated projections for October 1, 2022 through September 30, 2023 -- and an updated
16 estimate of over/under balances of both Peoples Natural Gas and Peoples Gas.

17
18 **Q. THE PRICE TO COMPARE (“PTC”) FOR PEOPLES NATURAL GAS AND**
19 **PEOPLES GAS ALSO INCLUDES A MERCHANT FUNCTION CHARGE**
20 **(“MFC”) AND A GAS PROCUREMENT CHARGE (“GPC”). HOW DOES THE**
21 **MFC AND GPC FOR EACH COMPANY COMPARE?**

22 **A.** The charges compare well with each other. The estimated combined Peoples Natural
23 Gas’ percentage-based MFC charge, as applied to the projected purchased gas cost

1 rates, is \$0.1130 per Mcf for residential customers and \$0.0095 per Mcf for business
2 customers. Peoples Gas' percentage-based MFC charge, as applied to the projected
3 purchased gas cost rates, is \$0.0846 per Mcf for residential customers and \$0.0174 per
4 Mcf for business customers. The Peoples Natural Gas GPC charge is \$0.0801 per Mcf
5 and the Peoples Gas GPC charge is \$0.1400 per Mcf.

6
7 **Q. IF YOUR RECOMMENDATION TO FULLY MERGE THE EXISTING 1307(F),**
8 **MFC AND GPC RATES IS APPROVED, WHAT WOULD THE PROJECTED**
9 **RATES BE?**

10 **A.** Page 1 of **Joint Applicants Exhibit No. 3** displays the pro forma calculation of the
11 1307(f) capacity and commodity rate components on a combined basis. The total costs
12 and volumes for the Peoples Natural Gas' 1307(f) components were added to the total
13 costs and volumes for the Peoples Gas' 1307(f) components to derive consolidated
14 capacity and commodity rates. Page 2 displays the calculation of the MFC and GPC
15 components on a combined basis. Page 3 provides a summary of the projected blended
16 rates that would be applicable to sales customers of Peoples and Peoples Gas. The
17 projected blended rates are summarized below:

- 18 • Capacity - \$1.0338 per Mcf;
- 19 • Commodity - \$3.4725 per Mcf
- 20 • MFC - \$0.1102 and \$0.0095 per Mcf; and
- 21 • GPC - \$0.0867 per Mcf

1 **Q. CAN YOU BRIEFLY EXPLAIN HOW THE MFC AND GPC RATES WERE**
2 **BLENDED?**

3 A. Yes. The calculation of the blending of these charges is shown on page 2 of 3 of **Joint**
4 **Applicants Exhibit No. 3**. The combined MFC rate utilizes expected throughput
5 presented in the companies' 1307(f)-2021 proceedings to calculate the new combined
6 rate on a revenue neutral basis. With respect to the application of the MFC to Peoples
7 Gas customers, the Company is proposing to expand the application to the Rate MGS
8 and LGS customers, similar to the application of the MFC to Peoples Natural Gas
9 customers. It will continue to be applied on a percentage basis to the combined
10 Commodity Charge, Capacity Charge, and Gas Cost Adjustment Charge.

11 The combined GPC rate reflects a weighted average blended rate that was
12 developed by using the individual Companies' GPC rates and GPC sales volumes
13 previously approved by the Commission. The blended rate is designed to be revenue
14 neutral.

15
16 **Q. HOW DOES THE COMBINED PTC RATE COMPARE TO THE PRESENT**
17 **RATES FOR EACH COMPANY?**

18 A. As shown on page 3 of **Joint Applicants Exhibit No. 3**, the blended PTC (which does
19 not include the Gas Cost Adjustment Charge) is projected to be \$3.6441 per Mcf. The
20 blended PTC reflects a slight decrease over Peoples Natural Gas' projected PTC
21 (without GCA) of \$3.6573 per Mcf and a slight increase over Peoples Gas' projected
22 PTC (without GCA) of \$3.5359 per Mcf. The benefits of a single PTC for all of the

Peoples Natural Gas' companies outweigh these slight changes to the existing stand-alone PTCs.

Q. WHAT ARE THE BENEFITS OF A SINGLE PTC FOR THE PEOPLES COMPANIES?

A. A single PTC for all of the Peoples companies will improve the efficiency of Choice programs in the overlapping Peoples Natural Gas and Peoples Gas territories and reduce customer confusion regarding which PTC to use. The change will also allow natural gas suppliers on the Peoples Natural Gas and Peoples Gas systems to compete using the same PTC and create a uniform message to the Company's shopping customers.

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE COMPARISONS BETWEEN THE STAND-ALONE AND BLENDED RATES?

A. As shown on Page 3 of **Joint Applicants Exhibit No. 3**, the Peoples Companies proposal to fully blend the existing 1307(f) rate components along with the MFC and GPC rates of the separate Companies into single capacity, commodity, gas cost adjustment, MFC and GPC rates would result in relatively minor impacts for the 1307(f) ratepayers. Page 3 of this exhibit also shows the impact that the proposed rate consolidation would have on the monthly bills for the average customer within each rate class. It demonstrates that the average monthly bill for the average residential customers of both Companies is only impacted slightly, with the average monthly bill for Peoples Natural Gas residential customers decreasing by only \$0.20 per month and the average monthly bill for Peoples Gas residential customers increasing by only \$1.79

1 per month. The monthly bill impacts for the average customers for the other rate
2 classes reflect similar changes and are reasonable given the long-term benefits of
3 merging these rates explained by Mr. Palombo and the benefits of improvement to
4 supply competition described later in my testimony.

5
6 **Q. WHAT IS THE COMPANY'S FULL RECOMMENDATION REGARDING THE**
7 **MERGER OF 1307(f) RATES?**

8 A. Given the absence of any material negative ratepayer impacts and the presence of
9 substantial benefits (described below and in the testimony of Peoples Natural Gas'
10 witnesses Mr. Huwar and Mr. Palombo), Peoples recommends that effective October 1,
11 2022, the 1307(f) rates, excluding the AVC charges, for Peoples Natural Gas and
12 Peoples Gas be fully merged such that the same capacity, commodity, and gas cost
13 adjustment (over and under-recovery), MFC and GPC rates will be applicable to the
14 sales customers. The Company also recommends that beginning October 1, 2022 the
15 Company will calculate and submit a single quarterly gas cost adjustment filing that
16 reflects: combined actual and projected gas costs; combined actual and projected gas
17 cost revenues; combined over/under recoveries; and combined 1307(f) unit rates.
18 Also, the separate MFC and GPC of Peoples Gas and Peoples Natural Gas would be
19 merged so that a single PTC would become effective on October 1, 2022. In addition,
20 upon merger of the 1307(f) sales rates, gas supplies under gas purchase agreements
21 would then be purchased for the joint use and benefit of customers of both Peoples Gas
22 and Peoples Natural Gas, as would pipeline services under interstate pipeline service
23 agreements. Finally, the Company recommends that at this time it still maintain

1 separate tariffs for the Divisions but the same, combined gas cost sales rates be set forth
2 in tariffs for each Division.

3
4 **Q. THE COMPARISON PROVIDED ON PAGE 3 OF JOINT APPLICANTS**
5 **EXHIBIT NO. 3, SHOWS THAT THE ADJUSTED 1307(F) GAS COST RATES**
6 **ARE VERY SIMILAR. WHY IS THAT?**

7 A. It's a function of the similarities of the underlying gas supply portfolios for the
8 respective Companies. Given the geographic location of both systems, much of the gas
9 purchased and delivered to the Peoples Natural Gas and Peoples Gas systems are
10 transported and stored under capacity contracts with Equitrans, L.P. ("Equitrans") and
11 EGTS. The gas moved under these pipeline contracts are purchased at the same market
12 index – EGTS South Point. In the case of Peoples Gas, more than 85% of all interstate
13 gas purchases are made at EGTS South Point market prices and are delivered to the
14 system by either Equitrans or EGTS. For Peoples Natural Gas, about 90% of all
15 interstate gas purchases are made at EGTS South Point market prices and are delivered
16 to the system by either Equitrans or EGTS.

17 Approximately half of the gas that Peoples Gas purchases annually is acquired
18 from local gas wells connected to the system. In 2014 and 2015, a process was
19 completed to align the pricing provisions of the local gas supply contracts at Peoples
20 Gas with those at Peoples Natural Gas. This process involved the incorporation into the
21 Peoples Gas local gas contracts the same standard EGTS Appalachian market-based
22 pricing terms contained in Peoples Natural Gas' local gas contracts.

1 Q. A VERY SIGNIFICANT PORTION OF THE GAS COMMODITY SUPPLIES
2 ACQUIRED FOR PEOPLES NATURAL GAS AND PEOPLES GAS WILL BE
3 PURCHASED UNDER THE SAME MARKET PRICE INDEX – EGTS SOUTH
4 POINT. DOES THE EGTS SOUTH POINT INDEX REPRESENT A
5 REASONABLE PRICE, AND HOW DOES IT COMPARE TO OTHER
6 MARKET PRICE INDICES?

7 A. The EGTS Appalachian market is one of the most liquid natural gas markets in our
8 geographic area. As a result, the index price for that market reasonably reflects the
9 market price for natural gas. The abundant natural gas supplies supported by shale
10 production have resulted in natural gas market prices in our region that have been
11 among the lowest in the country. Natural gas prices at Appalachian trading hubs
12 generally, and particularly at EGTS South Point, have consistently been trading well
13 below the national benchmark spot price at the Henry Hub in Louisiana. Projections for
14 natural gas prices for 2022 continue to show EGTS South Point as one of the lowest
15 priced markets nationally.

16
17 Q. WILL THERE BE NON-RATE BENEFITS FROM COMBINING THE
18 SEPARATE GAS COST RATES FOR THE TWO DIVISIONS?

19 A. Yes. There will be various operational, gas supply and transportation program
20 (Customer Choice) benefits that will arise from the merging of gas cost rates.

21
22 Q. CAN YOU DESCRIBE THESE BENEFITS?

1 A. Peoples' witness Edward Palombo will address the specific gas supply and operational
2 benefits, but I believe that the ability to merge gas cost rates will lead to the
3 construction of more physical interconnections between the Peoples Gas and the
4 Peoples Natural Gas systems that will enhance the overall operational reliability and
5 efficiency of the systems. It will provide the Company with many more pipeline
6 replacement options, free up capital for other projects, and streamline the pipeline
7 facility planning and design process. Further, it would eliminate the current
8 administrative needs to track and balance volumes between the systems and generally
9 support one of the overall goals of the Peoples Gas acquisition - to fully merge the
10 operations and management of Peoples Natural Gas and Peoples Gas into a single
11 operations unit. If the proposal to merge the gas cost rates and the 1307(f) gas cost
12 tracking and recovery mechanisms is approved, the need to maintain separate gas
13 procurement activities for Peoples Natural Gas and Peoples Gas would be eliminated
14 and, as discussed by witness Palombo, Peoples also could then jointly use the Peoples
15 Gas and Peoples Natural Gas natural gas supply assets with increased flexibility,
16 efficiency and overall gas supply reliability.

17
18 **Q. DOES THE ABILITY TO MERGE GAS COST RATES, INTERCONNECT THE**
19 **SYSTEMS, AND SHARE GAS SUPPLY ASSETS PROVIDE ANY BENEFITS**
20 **TO NATURAL GAS SUPPLIERS AND THE OVERALL RETAIL NATURAL**
21 **GAS SHOPPING MARKET ON PEOPLES?**

22 A. Yes. Peoples Gas and Peoples Natural Gas have already been taking steps to improve
23 the retail shopping market on the systems. With consistent transportation programs

1 structures in place, the merging of gas cost rates -- which will lead to enhanced cross-
2 division interconnections and sharing of gas supply assets -- will provide natural gas
3 suppliers with more interstate pipeline delivery points and increased access to local gas
4 supplies. A greater diversity of supply improves market liquidity and could lower
5 prices for customers who shop for gas supply. Merged gas cost rates would also create
6 a standard "price-to-compare" rate for the Divisions. This will reduce NGS and
7 customer confusion and streamline the gas commodity price offerings made by
8 suppliers. Further, it is proposed that beginning April 1, 2023, natural gas suppliers that
9 currently operate a separate pool on each of the Divisions, for nomination purposes, be
10 permitted to merge their gas supply delivery pools into a single pool that serves the
11 combined shopping customers of the Divisions. However, the proposed ability to
12 merge pools is limited only to the pools serving the same type of customers. For
13 instance, the ability to merge a P-1 Choice pool with a pool that serves NP-1 non-choice
14 customers will not be permitted. This approach will provide Choice NGSs on the two
15 Divisions with more interstate pipeline delivery points and options. This would likely
16 attract more suppliers to the Peoples Companies since it would reduce the supplier's
17 administrative burden of managing multiple supply pools and create a larger combined
18 pool of potential customers. This should be particularly beneficial for the residential
19 and small business customers of Peoples Gas. Due to the small customer base of
20 Peoples Gas, NGSs currently have less incentive to market to these customers. With an
21 expanded customer base of the combined companies, and a single PTC, NGSs can more
22 efficiently market their services to the Peoples Gas customers.

1 **II. TRANSPORTATION GAS COST RATE CONSOLIDATION**

2

3 **Q. YOU HAVE DESCRIBED THE IMPACT OF MERGING THE 1307(f) RATES**
4 **FOR PEOPLES GAS AND PEOPLES NATURAL GAS SALES CUSTOMERS.**
5 **DO YOU ALSO HAVE A PROPOSAL REGARDING THE MERGING OF**
6 **TRANSPORTATION RELATED 1307(F) CHARGES?**

7 A. Yes. The proposal involves the blending of three types of transportation related 1307(f)
8 charges. They are: 1) “choice” P-1 customer capacity charges; 2) “non-choice” NP-1
9 customer balancing charges; and 3) gas retainage charges. I will discuss each of these
10 separately.

11

12 **Q. WHAT IS YOUR PROPOSAL REGARDING THE FIRST TYPE, THE**
13 **BLENDING OF P-1 CUSTOMER CAPACITY CHARGES?**

14 A. Earlier in my testimony I discussed the consolidation of the 1307(f) rate components.
15 As part of that recommended consolidation the P-1 “choice” shopping customers of
16 Peoples Gas would pay the same merged capacity rate as the P-1 shopping customers of
17 Peoples Natural Gas. The proposed consolidation of capacity charges for the P-1
18 shopping customers in this case is made possible by the tariff changes implemented on
19 January 1, 2014 in the Peoples Gas 2013 rate case. In that case, Peoples Gas proposed
20 and received approval to adopt a small choice customer capacity rate mechanism that
21 allowed Peoples Gas to recover firm pipeline and gas supply related demand costs
22 directly from P-1 shopping customers. Consistent with this method, any Peoples Gas
23 supplier serving P-1 shopping customers will receive a proportional assignment and

1 release (at zero cost) of pipeline assets used to serve their customers. This rate
2 mechanism is consistent with the method in place at Peoples Natural Gas under which
3 demand related gas supply assets are assessed to all sales and P-1 shopping customers.
4 With consistent P-1 assignment and recovery of pipeline capacity costs in place at
5 Peoples Gas and the Peoples Natural Gas, the merging of capacity charges (paid by
6 retail sales and all P-1 shopping customers) is possible.

7
8 **Q. UNDER YOUR PROPOSAL TO BLEND PIPELINE CAPACITY CHARGES**
9 **AND MAKE THE COMBINED UPSTREAM PIPELINE CAPACITY**
10 **AVAILABLE TO SERVE CUSTOMERS OF THE TWO DIVISIONS, HOW**
11 **WILL THE COMPANY PROPOSE TO ASSIGN CAPACITY TO SUPPLIERS**
12 **UNDER THE P-1 CHOICE PROGRAMS?**

13 A. The Joint Applicants propose that it will make available to all customer choice suppliers
14 on the future Peoples Gas and Peoples Natural Gas Divisions, through the capacity
15 assignment and release provisions of the existing tariffs, an allocated share of the
16 combined pipeline assets of both Divisions. The Joint Applicants propose that access to
17 the combined assets will begin on April 1, 2023. This future date is necessary because
18 access to the new combined pipeline asset portfolio must coincide with the start of the
19 storage injection season.

20
21 **Q. THE SECOND TYPE OF CHARGE INVOLVES THE BLENDING OF THE**
22 **TRANSPORTATION BALANCING CHARGES APPLICABLE TO NP-1**

1 **CUSTOMERS. WHAT IS YOUR PROPOSAL REGARDING THE BLENDING**
2 **OF THE BALANCING CHARGES FOR THE NP-1 CUSTOMERS?**

3 A. I recommend that the separate balancing rate calculations for Peoples Natural Gas and
4 Peoples Gas be combined into a single rate calculation that reflects the combined costs
5 and joint use of the individual balancing assets.

6 As a result of the recent 1307(f) filings, both Peoples Natural Gas and Peoples
7 Gas now apply a consistent methodology to develop cost-based charges that are applied
8 to their larger non-choice shopping customers (NP1) customers for monthly balancing
9 services. Further, both companies' balancing calculations reflect the costs of the
10 respective storage assets that are used to provide balancing services for NP1 suppliers.
11 The calculation of the separate currently effective balancing charges for Peoples Natural
12 Gas and Peoples Gas are shown on pages 1 and 2 of **Joint Applicants Exhibit No. 4**.

13 The results of my recommendation to combine the separate balancing charges
14 into a single balancing calculation are set forth on Page 3 of **Joint Applicants Exhibit**
15 **No. 4**. This calculation uses the combined portions of storage capacity costs of the two
16 Divisions that were allocated to balancing services in the most recent 1307(f) cases.
17 Consistent with the existing Peoples Natural Gas balancing rate class structure, separate
18 cost-based balancing rates were then derived for the SGS/MGS class and LGS class
19 based on the peak day balancing requirements and annual throughput for all NP-1
20 transportation customers of the two Divisions. In the Peoples Natural Gas and Peoples
21 Gas 2022 1307(f) cases to be filed next year, the Companies will provide separate and
22 combined balancing charge calculations that will reflect updated storage capacity costs,

1 peak day balancing requirements and annual throughput for all NP-1 transportation
2 customers of the two Divisions.

3
4 **Q. HOW DO THE VARIOUS TRANSPORTATION CUSTOMER GAS COST**
5 **RATES AS CALCULATED FOR EACH SEPARATE DIVISION COMPARE**
6 **WITH YOUR RECOMMENDED BLENDED TRANSPORTATION RATES?**

7 A. The comparison of the stand-alone and consolidated 1307(f) rates applicable to
8 transportation customers is set forth on Page 4 of **Joint Applicants Exhibit No. 4.**

9
10 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE THIRD TYPE OF**
11 **TRANSPORTATION RELATED 1307(F) CHARGE – GAS RETAINAGE?**

12 A. The retainage rate approved in the 1307(f)-2021 proceeding for Peoples Natural Gas’
13 transportation customers is 5.6% applicable to all customer classes. The retainage rate
14 approved in the 1307(f)-2021 proceeding for Peoples Gas is 7.4%, applicable to all
15 customer classes. Additionally, Peoples Natural Gas and Peoples Gas have producer
16 retainage rates of 2.3% and 3.4%, respectively. Due to the complex nature of these
17 calculations, the Company is proposing to leave these rates separate until a
18 methodology for a combined rate can be determined in the next 1307(f) proceeding.

19
20 **III. OTHER IMPLICATIONS**

21
22 **Q. ARE THERE ANY OTHER IMPLICATIONS OF THE PROPOSED MERGER?**

1 **A.** Yes. The Company's tax accounting methodologies will be merged. Specifically,
2 Peoples Gas will adopt Peoples Natural Gas' methodologies including defining its unit
3 of property under the IRS's tangible property regulations, which allow the Company to
4 prospectively deduct, as an operating expense on its income tax returns, the costs of
5 certain asset improvements that otherwise would be capitalized and depreciated for tax
6 purposes. Peoples Gas does not propose any immediate changes. However, the
7 Company commits to addressing this in the next base rate case, which for Peoples
8 Natural Gas will be filed no later than December 31, 2023. If the Proposed Merger is
9 approved Peoples Gas will be part of this case.

10
11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 **A.** Yes. I reserve the right to supplement my testimony as additional issues arise during the
13 course of this proceeding.

Peoples Natural Gas Company LLC
QUARTERLY 1307(f) Rate Calculation

PROJECTED: October 1, 2022

Line No.		Costs and Volumes	\$/Mcf Rates
1	DC = Projected Annual Capacity Costs (excluding AVC Capacity)	\$74,539,794	
2	MINUS: Projected Balancing Revenue Credits	<u>\$8,331,204</u>	
3	Projected Annual "Current" Period Capacity Costs (line 1 - line 2)	\$66,208,590	
4	S + SBAC = Projected Annual Sales and Standby Volumes - October 2021 through September 2022 (Mcf)	<u>63,209,279</u>	
5	Projected "Current" Period Capacity Costs per Mcf (line 3 / line 4)		\$1.0475
6	Capacity Over/(Under) "E-Factor" Collection)		
7	S + SBAC = Projected Annual Sales and Standby Volumes - October 2021 through September 2022 (Mcf)	<u>63,209,279</u>	
8	Capacity "E-Factor" Cost per Mcf (line 5 / line 6)		<u>\$0.0000</u>
9	Projected Total Capacity Cost of Gas per Mcf (line 5 - line 8)		\$1.0475
10	CC = Projected Commodity Costs	\$177,577,695	
11	S = Projected Sales Volumes October 2021 through September 2022 (Mcf)	<u>50,876,900</u>	
12	Projected Commodity Cost of Gas per Mcf (line 10 / line 11)		\$3.4903
13	MINUS: Current Commodity Over/(Under) Collection	\$0	
14	S = Projected Annual Sales Volumes (Mcf)	<u>50,876,900</u>	
15	Current Commodity Over/(Under) Collection Commodity Cost of Gas per Mcf (line 13 / line 14)		<u>\$0.0000</u>
16	Projected Commodity Cost of Gas per Mcf (line 12 - line 15)		\$3.4903
17	Total Projected Cost of Gas per Mcf (line 9 + line 16)		<u>\$4.5378</u>
18	Total Prior Period Over/(Under) Collection Balance		
19	S = Projected Annual Sales Volumes (Mcf)	<u>50,876,900</u>	
20	MINUS: E = Prior Period Over/(Under) Collection Rate per Mcf		<u>\$0.0000</u>
21	Overall Gas Cost Rate per Mcf (line 17 - line 20)		\$4.5378

Peoples Gas Company LLC
QUARTERLY 1307(f) Rate Calculation
Projected: October 1, 2022

Line <u>No.</u>		Costs and <u>Volumes</u>	<u>\$/Mcf Rates</u>
1	Projected Annual Capacity Costs	\$7,383,879	
2	MINUS: Projected Balancing Revenue Credits	\$1,463,559	
3	MINUS: Current Capacity Over/(Under) Collection	<u>\$0</u>	
4	Net Projected Annual Capacity Costs (line 1- line 2 - line 3)	\$5,920,320	
5	Projected Annual Sales & Standby Volumes - October 2021 through September 2022 (Mcf)	6,563,191	
6	Projected Demand Cost of Gas per Mcf (line 4 / line 5)		\$0.9020
7	Projected Commodity Costs	\$21,149,027	
8	Projected Sales Volumes - October 2021 through September 2022 (Mcf)	<u>6,352,437</u>	
9	Projected Commodity Cost of Gas per Mcf (line 7 / line 8)		\$3.3293
10	MINUS: Current Commodity Over/(Under) Collection	\$0	
11	Projected Annual Sales Volumes October 2021 through September 2022 (Mcf)	<u>6,352,437</u>	
12	Current Commodity Over/(Under) Collection Commodity Cost of Gas per Mcf		<u>\$0.0000</u>
13	Projected Commodity Cost of Gas per Mcf (line 9 - line 12)		\$3.3293
14	Total Projected Cost of Gas per Mcf (line 6 + line 13)		<u>\$4.2313</u>
15	E = Total Prior Period Over/(Under) Collection Amount		
16	Projected Annual Sales Volumes (Mcf)	<u>6,352,437</u>	
17	MINUS: E = Prior Period Over/(Under) Collection Rate per Mcf (line 15 / line 16)		<u>\$0.0000</u>
18	Overall Gas Cost Rate per Mcf (line 6 + line 13 - line 17)		\$4.2313

Peoples Natural Gas Company LLC
QUARTERLY 1307(f) Rate Calculation - COMBINED
Effective:

Line No.		Costs and Volumes	\$/Mcf Rates
1	DC = Projected Annual Capacity Costs (excluding AVC Capacity)	\$81,923,673	
2	MINUS: Projected Balancing Revenue Credits	<u>\$9,794,763</u>	
3	Projected Annual "Current" Period Capacity Costs (line 1 - line 2)	\$72,128,910	
4	S + SBAC = Projected Annual Sales and Standby Volumes - October 2021 through September 2022 (Mcf)	<u>69,772,470</u>	
5	Projected "Current" Period Capacity Costs per Mcf (line 3 / line 4)		\$1.0338
6	Capacity Over/(Under) "E-Factor" Collection		
7	S + SBAC = Projected Annual Sales and Standby Volumes - October 2021 through September 2022 (Mcf)	<u>69,772,470</u>	
8	Capacity "E-Factor" Cost per Mcf (line 5 / line 6)		<u>\$0.0000</u>
9	Projected Total Capacity Cost of Gas per Mcf (line 5 - line 8)		\$1.0338
10	CC = Projected Commodity Costs	\$198,726,722	
11	S = Projected Sales Volumes October 2021 through September 2022 (Mcf)	<u>57,229,337</u>	
12	Projected Commodity Cost of Gas per Mcf (line 10 / line 11)		\$3.4725
13	MINUS: Current Commodity Over/(Under) Collection	\$0	
14	S = Projected Annual Sales Volumes (Mcf)	<u>57,229,337</u>	
15	Current Commodity Over/(Under) Collection Commodity Cost of Gas per Mcf (line 13 / line 14)		<u>\$0.0000</u>
16	Projected Commodity Cost of Gas per Mcf (line 12 - line 15)		\$3.4725
17	Total Projected Cost of Gas per Mcf (line 9 + line 16)		<u>\$4.5063</u>
18	Total Prior Period Over/(Under) Collection Balance		
19	S = Projected Annual Sales Volumes (Mcf)	<u>57,229,337</u>	
20	MINUS: E = Prior Period Over/(Under) Collection Rate per Mcf		<u>\$0.0000</u>
21	Overall Gas Cost Rate per Mcf (line 17 - line 20)		\$4.5063

**Blending of Merchant Function Charge 1/
for Peoples Natural Gas and Peoples Gas**

Projected October 2022 Residential Rates

	<u>MFC%</u>	<u>Mcf</u>	<u>Capacity</u>	<u>Commodity</u>	<u>GCA</u>	Total <u>Gas Cost Revenue</u>	<u>MFC Revenue</u>
PNG-Sales	2.490%	42,110,253	1.0475	3.4903	0.00	\$ 191,087,906	\$ 4,758,089
PG-Sales	2.000%	4,966,651	0.9020	3.3293	0.00	\$ 21,015,390	\$ 420,308
PNG-Tport	2.490%	9,506,553	1.0475	0.00	0.00	\$ 9,958,114	\$ 247,957
PG-Tport	2.000%	50,190	0.9020	0.00	0.00	\$ 45,271	\$ 905
Total Revenue						\$ 222,061,411	\$ 5,426,354

Proposed Residential Rates

	<u>Mcf</u>	<u>Capacity</u>	<u>Commodity</u>	<u>GCA</u>	Total <u>Gas Cost Revenue</u>	<u>Requirement</u>
Blended Sales	47,076,904	1.0338	3.4725	0.00	\$ 212,142,652	
Blended Tport	9,556,743	1.0338	0.00	0.00	\$ 9,879,761	
Total Revenue					\$ 222,022,413	\$ 5,426,354
Rate						2.444%

Projected C&I Rates

	<u>MFC%</u>	<u>Mcf</u>	<u>Capacity</u>	<u>Commodity</u>	<u>GCA</u>	Total <u>Gas Cost Revenue</u>	<u>MFC Revenue</u>
PNG-Sales	0.210%	8,766,647	1.0475	3.4903	0.00	\$ 39,781,291	\$ 83,541
PG Sales 2/	0.410%	731,012	0.9020	3.3293	0.00	\$ 3,093,131	\$ 12,682
Total Revenue						\$ 42,874,422	\$ 96,223

Proposed C&I Rates

	<u>Mcf</u>	<u>Capacity</u>	<u>Commodity</u>	<u>GCA</u>	Total <u>Gas Cost Revenue</u>	<u>Requirement</u>
Blended 2/ Rate	10,152,433	1.0338	3.4725	0.00	\$ 45,749,909	\$ 96,223
						0.210%

1/ Capacity and Commodity rates shown are from Joint Applicants Exhibit No. 3, page 3 of 3.

2/ The MFC is currently only applied to SGS customers (731,012 Mcf); under the blended rate proposal, the MFC will be applied to all classes (SGS, MGS and LGS - 10,152,433 Mcf)

**Blending of Gas Procurement Charge
for Peoples Natural Gas and Peoples Gas**

	<u>GPC Rate</u>	<u>Sales Mcf</u>	<u>Revenue</u>
Peoples Natural Gas	\$ 0.0801	50,876,900	\$ 4,075,240
Peoples Gas	\$ 0.1400	6,352,437	\$ 889,341
Total		57,229,337	\$ 4,964,581

Proposed Blended Rate

	<u>Sales Mcf</u>	<u>Revenue Requirement</u>	<u>Blended Rate</u>
Blended	57,229,337	\$ 4,964,581	\$ 0.0867

Peoples Natural Gas and Peoples Gas

w/October 1, 2022 Projected Commodity Rates

1307(f) Gas Cost Rate/MFC/GPC Blending Proposal - Sales Customers

	Peoples Natural				Peoples Gas			
1307(f) Sales Rates	RS	SGS	MGS	LGS	RS	SGS	MGS	LGS
		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf
Capacity	\$ 1.0475	\$ 1.0475	\$ 1.0475	\$ 1.0475	\$ 0.9020	\$ 0.9020	\$ 0.9020	\$ 0.9020
Commodity	\$ 3.4903	\$ 3.4903	\$ 3.4903	\$ 3.4903	\$ 3.3293	\$ 3.3293	\$ 3.3293	\$ 3.3293
MFC	\$ 0.1130	\$ 0.0095	\$ 0.0095	\$ 0.0095	\$ 0.0846	\$ 0.0174	\$ -	\$ -
GPC	\$ 0.0801	\$ 0.0801	\$ 0.0801	\$ 0.0801	\$ 0.1400	\$ 0.1400	\$ 0.1400	\$ 0.1400
GCA 1/ Total Rate	\$ 4.7309	\$ 4.6274	\$ 4.6274	\$ 4.6274	\$ 4.4560	\$ 4.3887	\$ 4.3713	\$ 4.3713
Average Monthly Bill 2/ RS PTC	\$ 83.50	\$ 206.54	\$ 1,130.34	\$ 15,764.79	\$ 96.29	\$ 256.25	\$ 1,316.37	\$ 17,241.75
	\$ 3.6573				\$ 3.5359			
Blended Sales Rates	RS	SGS	MGS	LGS	RS	SGS	MGS	LGS
		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf
Capacity	\$ 1.0338	\$ 1.0338	\$ 1.0338	\$ 1.0338	\$ 1.0338	\$ 1.0338	\$ 1.0338	\$ 1.0338
Commodity	\$ 3.4725	\$ 3.4725	\$ 3.4725	\$ 3.4725	\$ 3.4725	\$ 3.4725	\$ 3.4725	\$ 3.4725
MFC	\$ 0.1102	\$ 0.0095	\$ 0.0095	\$ 0.0095	\$ 0.1102	\$ 0.0095	\$ 0.0095	\$ 0.0095
GPC	\$ 0.0867	\$ 0.0867	\$ 0.0867	\$ 0.0867	\$ 0.0867	\$ 0.0867	\$ 0.0867	\$ 0.0867
GCA 1/ Total Rate	\$ 4.7032	\$ 4.6024	\$ 4.6024	\$ 4.6024	\$ 4.7032	\$ 4.6024	\$ 4.6024	\$ 4.6024
Average Monthly Bill 2/ RS PTC	\$ 83.30	\$ 205.94	\$ 1,126.88	\$ 15,712.92	\$ 98.08	\$ 261.43	\$ 1,348.51	\$ 17,723.42
	\$ 3.6441				\$ 3.6441			
Impact of Blending Change - Sales Rates	RS	SGS	MGS	LGS	RS	SGS	MGS	LGS
		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf		0-999 Mcf	1000-24999 Mcf	> 25000 Mcf
Capacity	\$ (0.0137)	\$ (0.0137)	\$ (0.0137)	\$ (0.0137)	\$ 0.1317	\$ 0.1317	\$ 0.1317	\$ 0.1317
Commodity	\$ (0.0179)	\$ (0.0179)	\$ (0.0179)	\$ (0.0179)	\$ 0.1432	\$ 0.1432	\$ 0.1432	\$ 0.1432
MFC	\$ (0.0028)	\$ (0.0001)	\$ (0.0001)	\$ (0.0001)	\$ 0.0256	\$ (0.0079)	\$ 0.0095	\$ 0.0095
GPC	\$ 0.0066	\$ 0.0066	\$ 0.0066	\$ 0.0066	\$ (0.0533)	\$ (0.0533)	\$ (0.0533)	\$ (0.0533)
GCA 1/ Total Rate	\$ (0.0277)	\$ (0.0250)	\$ (0.0250)	\$ (0.0250)	\$ 0.2472	\$ 0.2137	\$ 0.2311	\$ 0.2311
Change in Average Monthly Bill	\$ (0.20)	\$ (0.60)	\$ (3.46)	\$ (51.88)	\$ 1.79	\$ 5.18	\$ 32.14	\$ 481.67
Percent Change	-0.2%	-0.3%	-0.3%	-0.3%	1.9%	2.0%	2.4%	2.8%

1/ The GCA will be addressed in the April 1, 2022 1307(f) proceeding.

2/ Average monthly bill based on annual usage of:

RS @ 87 Mcf/yr
SGS @ 291 Mcf/yr
MGS @ 1,668 Mcf/yr
LGS @ 25,000 Mcf/yr

Peoples Natural Gas Company LLC			
Calculation Of Balancing Charge			
I. Balancing Recoverable Costs			
<u>A. Total Storage Costs</u>	Annual Amount		
DTI GSS	\$6,976,166		
DTI FTNN	\$4,135,589		
NFG ESS & EFT	\$1,678,537		
EQT 60SS/115SS	\$7,928,047		
EQT FSS	\$9,673,326		
EQT NOFT	\$7,484,135		
AVC GSS Variable Charges	\$243,288		
Total	\$38,119,088		
Annualized Storage Demand (Mcf)	4,109,988		
Average Storage Charge (\$/Mcf)	\$9.2747		
<u>B. PNG & PED System Storage/Contract Storage Split</u>	MDWQ Volumes (Mcf)	Percent To Total	
PNG System Storage - Dice	32,000	5.65%	
AVC Storage	191,939	33.89%	
DTI GSS Storage	38,388	6.78%	
National Fuel ESS Storage	9,398	1.66%	
Equitrans 60SS	131,488	23.21%	
Equitrans NOFT	76,339	13.48%	
Equitrans 115SS	48,499	8.56%	
DTI GSS	38,388	6.78%	
Total	<u>566,438</u>	<u>100.00%</u>	
<u>C. Balancing Recovery Of Contract Storage Costs</u>			
Balancing Peak Day Requirements (Mcf)		123,800	
Contract Storage Percentage		<u>60.47%</u>	
Contract Storage Related Balancing Requirements (Mcf)		74,856	
Average Storage Charge (\$/Mcf)		<u>\$9.2747</u>	
Monthly Balancing Storage Cost Recovery		\$694,267	
Annual Balancing Storage Cost Recovery		<u>\$8,331,204</u>	
II. Balancing Peak Day Requirements/Balancing Charge Development			
	Volumes (Mcf)		
<u>A. Balancing Peak Day Requirements</u>	Balancing	Banking/ Advancing	Total
SGS & MGS	81,400	0	81,400
LGS	<u>42,400</u>	<u>0</u>	<u>42,400</u>
Total Balancing Peak Day Requirements	<u>123,800</u>	<u>0</u>	<u>123,800</u>
<u>B. Balancing Peak Day Requirements Allocated To Customer Classes</u>			
<u>NGS Supplied Customer Class</u>	Balancing Requirements (Mcf)	Percent To Total	
SGS & MGS	81,400	65.75%	
LGS	<u>42,400</u>	<u>34.25%</u>	
Total	<u>123,800</u>	<u>100.00%</u>	
<u>C. Balancing Charge Development</u>	Contract Storage Costs	NGS Supplied Volumes (Mcf)	Balancing Unit Rate (\$/Mcf)
SGS & MGS	\$5,477,138	14,430,978	\$0.3795
LGS	<u>\$2,832,117</u>	<u>23,102,434</u>	<u>\$0.1226</u>
Total	<u>\$8,309,255</u>	<u>37,533,413</u>	<u>\$0.2214</u>

PEOPLES GAS COMPANY LLC

Calculation of Balancing Charge

				LGS	
	Total	RS	SGS	MGS	Non-Neg. Negotiated
1 <u>NP Transportation Balancing - Mcf</u>					
2 Projected January 2022 Peak Day Usage - Mcf	62,205	-	1,254	8,991	26,264 25,695
3 Projected January 2022 Avg. Daily Usage - Mcf	37,461	-	633	4,752	14,457 17,619
4 Peak Day Balancing Requirements- Mcf	24,743	-	621	4,239	11,807 8,076
5 Peak Day Banking and Advancing - Mcf	-	-	-	-	-
6 Total NP Balancing Peak Day Usage - Mcf	24,743	-	621	4,239	11,807 8,076
7 <u>Storage Assets - Peak Day Supply</u>					
8 On-System Storage - Mcf/Day	23,300	21.45%			
9 Pipeline Storage Capacity - Mcf/Day	85,300	78.55%			
10 Total Storage Capacity	108,600	100.00%			
11 <u>NP Balancing Charge Calculation</u>					
12 Total Pipeline Reservation Storage and INJ/WD Costs	\$ 6,423,625				
13 Pipeline Storage Capacity - Mcf/Day	85,300	Line 9			
14 Pipeline Storage Capacity - Annual	1,023,600	Line 13 x 12 Mos.			
15 Annualized Storage Charge - \$/Mcf	\$ 6.2755	Line 12 / Line 14			
16 Total NP Balancing Peak Day Usage - Mcf	24,743	Line 6			
17 Pipeline Storage - %	78.55%	Line 9			
18 NP Balancing Supported by Pipeline Storage - Mcf	19,435	Line 16 x Line 17			
19 FS Storage Costs - NP Transportation	\$ 1,463,559	Line 18 x Line 15 x 12 Mos.			
20 NP Balancing Peak Day Non-Negotiated - Mcf	16,667	Line 6			
21 FS Storage Cost Charged to Non-Negotiated NP Customers	\$ 985,868	Line 20 x Line 17 x Line 15 x 12 Mos.			
22 FS Storage Cost Recovered from Negotiated NP Customers	\$ 164,575				
23 FS Storage Recovery Shortfall	\$ 313,116	Line 19 - Line 21 - Line 22			
24 Full Tariff NP Transport Mcf	4,453,765				
25 FS Recovery Shortfall - \$/Mcf	\$ 0.0703	Line 23 / Line 24			
26 <u>FS Allocation to NP1 Transportation Non-Neg. Customers</u>			SGS	MGS	LGS
27 NP Allocation	\$ 985,868	Line 21			
28 Allocation - Based on Balancing Requirements	100.00%		3.73%	25.43%	70.84%
29 NP Transportation Cost Allocation			\$ 36,752	\$ 250,745	\$ 698,371
30 NP Non-Neg Transportation Volumes - Mcf	5,269,170		86,219	729,186	4,453,765
31 NP1 Non-Neg FS Transportation Rate			\$ 0.4263	\$ 0.3439	\$ 0.1568
32 FS Recovery Shortfall - \$/Mcf			\$ -	\$ -	\$ 0.0703
33 NP-1 Transportation Balancing Charge			\$ 0.4263	\$ 0.3439	\$ 0.2271
34 Revenues Collected from Tariff Balancing Rate Customers			\$ 36,752	\$ 250,745	\$ 1,011,487
35 Revenues Collected from Negotiated Balancing Rate Customers					\$ 164,575
36 Total Balancing Rate Revenues	\$ 1,463,559		\$ 36,752	\$ 250,745	\$ 1,176,062

Calculation Of Banking/Balancing/Advancing Charge (BB&A)

BLENDED - Peoples Natural and Peoples Gas

I. BB&A Asset Costs

Peoples Gas Costs	\$1,463,559
Peoples Natural Costs	<u>\$8,331,204</u>
Annual BB&A Storage Cost Recovery	<u>\$9,794,763</u>

II. BB&A Peak Day Requirements/BB&A Charge Development

	Volumes (Mcf)		Total
	Balancing	Banking/ Advancing	
<u>A. BB&A Peak Day Requirements</u>			
SGS & MGS	86,260	0	86,260
LGS	<u>62,283</u>	<u>0</u>	<u>62,283</u>
Total BB&A Peak Day Requirements	<u>148,543</u>	<u>0</u>	<u>148,543</u>

B. BB&A Peak Day Requirements Allocated To Customer Classes

	BB&A Requirements (Mcf)	Percent To Total
<u>NGS Supplied Customer Class</u>		
SGS & MGS	86,260	58.07%
LGS	<u>62,283</u>	<u>41.93%</u>
Total	<u>148,543</u>	<u>100.00%</u>

	Contract Storage Costs	NGS Supplied Volumes (Mcf)	BB&A Unit Rate (\$/Mcf)
<u>C. BB&A Charge Development</u>			
<u>NGS Supplied Customer Class</u>			
SGS & MGS	\$5,687,160	15,246,383	\$0.3731
LGS	<u>\$3,921,079</u>	<u>27,556,199</u>	<u>\$0.1423</u>
Total	<u>\$9,608,239</u>	<u>42,802,582</u>	<u>\$0.2245</u>

Peoples Natural and Peoples Gas

1307(f) Gas Cost Rate Blending Proposal - Transportation Customers

	Peoples Natural				Peoples Gas			
<u>1307(f) Transport Rates</u> (Projected 10/1/21)	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf
Capacity - Choice Customers	\$ 1.0475	\$ -	\$ -	\$ -	\$ 0.9020	\$ -	\$ -	\$ -
Balancing - Non-Choice	\$ -	\$ 0.3795	\$ 0.3795	\$ 0.1226	\$ -	\$ 0.4263	\$ 0.3439	\$ 0.2271
Total	\$ 1.0475	\$ 0.3795	\$ 0.3795	\$ 0.1226	\$ 0.9020	\$ 0.4263	\$ 0.3439	\$ 0.2271
<hr/>								
<u>Blended Transport Rates</u> (Projected 10/1/21)	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf
Capacity - Choice Customers	\$ 1.0338	\$ -	\$ -	\$ -	\$ 1.0338	\$ -	\$ -	\$ -
Balancing - Non-Choice	\$ -	\$ 0.3731	\$ 0.3731	\$ 0.1423	\$ -	\$ 0.3731	\$ 0.3731	\$ 0.1423
Total	\$ 1.0338	\$ 0.3731	\$ 0.3731	\$ 0.1423	\$ 1.0338	\$ 0.3731	\$ 0.3731	\$ 0.1423
<hr/>								
<u>Change - Transport Rates</u>	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf	<u>RS</u>	<u>SGS</u> 0-999 Mcf	<u>MGS</u> 1000-24999 Mcf	<u>LGS</u> > 25000 Mcf
Capacity - Choice Customers	\$ (0.0137)	\$ -	\$ -	\$ -	\$ 0.1317	\$ -	\$ -	\$ -
AVC - All Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balancing - Non-Choice	\$ -	\$ (0.0064)	\$ (0.0064)	\$ 0.0197	\$ -	\$ (0.0532)	\$ 0.0292	\$ (0.0848)
Total	\$ (0.0137)	\$ (0.0064)	\$ (0.0064)	\$ 0.0197	\$ 0.1317	\$ (0.0532)	\$ 0.0292	\$ (0.0848)

**PRO FORMA
GAS — PA PUC No. 47**

PEOPLES NATURAL GAS COMPANY LLC

RATES AND RULES GOVERNING THE FURNISHING OF NATURAL GAS SERVICE TO RETAIL GAS CUSTOMERS

**MERGER APPLICATION OF PEOPLES GAS COMPANY LLC
AND
PEOPLES NATURAL GAS COMPANY LLC**

ISSUED: _____

EFFECTIVE: _____

**BY: Michael Huwar
President
375 North Shore Drive
Pittsburgh, PA 15212**

NOTICE

PEOPLES NATURAL GAS COMPANY LLC

PRO FORMA TO GAS—PA PUC NO. 47

CANCELLING _____ PAGE NO. 67

CANCELLING _____ PAGE NO. 67

RIDER
MERCHANT FUNCTION CHARGE (MFC)

The Merchant Function Charge (MFC) shall be added to the gas cost charges applicable under rate schedules Rate RS, Rate SGS, Rate MGS, LGS and GS-T. The gas costs charges include the Capacity Charge, Gas Cost Adjustment Charge and Commodity Charge.

The MFC shall be updated quarterly effective with each 1307(f) rate change. The write-off factor used to calculate the quarterly MCF shall only be determined in a base rate case filing.

For residential customers receiving service under Rate RS and Rate GS-T, the MFC shall equal the write-off factor of 2.4449% times the gas cost charges as set forth in Peoples' Rider Purchase Gas Cost. The current MFC (C) applicable to Rate RS customers is:

Capacity Charge per Mcf	\$0.0253
Gas Cost Adjustment Charge per Mcf	\$0.0000
Commodity Charge per Mcf	<u>\$0.0849</u>
Total MFC per Mcf	\$0.1102

For Small, Medium, and Large General Service customers receiving service under Rate SGS, MGS, LGS and Rate GS-T, the MFC shall equal the write-off factor of 0.21% times the gas cost charges as set forth in Peoples' Rider Purchase Gas Cost. The current MFC applicable to these customers is:

SGS, MGS, LGS

Capacity Charge per Mcf	\$0.0022
Gas Cost Adjustment Charge per Mcf	\$0.0000
Commodity Charge per Mcf	<u>\$0.0073</u>
Total MFC per Mcf	\$0.0095

(C) Indicates Change, (D) Indicates Decrease, (I) Indicates Increase

ISSUED: _____

EFFECTIVE: _____

PEOPLES NATURAL GAS COMPANY LLC

PRO FORMA TO GAS—PA PUC NO. 47

CANCELLING _____ PAGE NO. 69
PAGE NO. 69

RIDER
GAS PROCUREMENT CHARGE

For bill presentment purposes, the Gas Procurement Charge (GPC) shall be added to the Commodity Gas Cost Charge applicable to sales rate schedules Rate RS, Rate SGS, Rate MGS, Rate LGS and any other applicable sales service rate schedule under this tariff.

Recoverable Costs

The GPC shall include gas procurement costs incurred by the Company solely on behalf of its sales service customers. The GPC shall exclude any costs recovered through Rider Purchased Gas Cost - 1307(f) gas cost recovery mechanism. The GPC shall exclude any gas procurement costs incurred by the Company in support of transportation or shopping customers or programs.

Recalculation of the GPC

The costs to be included in the GPC shall be calculated in accordance with Commission regulations and shall be determined and updated in each base rate case filed by the Company. The GPC shall not be subject to reconciliation for any prior-period or over-or-under collections.

GPC Charge per Mcf \$0.0867/Mcf

ISSUED: _____

EFFECTIVE: _____

PRO FORMA
TO
TARIFF GAS - PA PUC NO. 8

PEOPLES GAS COMPANY LLC

RATES, RULES AND REGULATIONS
FOR NATURAL GAS SERVICE
IN TERRITORY DESCRIBED HEREIN

ISSUED: _____

EFFECTIVE: _____

MERGER APPLICATION OF PEOPLES GAS COMPANY LLC
AND
PEOPLES NATURAL GAS COMPANY LLC

ISSUED BY:

MICHAEL HUWAR
PRESIDENT
PEOPLES GAS COMPANY LLC
205 NORTH MAIN STREET
BUTLER, PENNSYLVANIA 16001

PEOPLES GAS COMPANY LLC

PRO FORMA

TO

TARIFF GAS – PA PUC NO. 8

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RIDER MFC – MERCHANT FUNCTION CHARGE

APPLICABILITY (C)

This Rider shall be applied to rates for each Mcf of gas supplied under Rate Schedules RS, ~~and~~ SGS, MGS and LGS of this Tariff, and shall be reflected in the Price to Compare. The Rider is equal to the fixed percentage, established by the Commission in Company's last general base rate proceeding and blended with the Merchant Function Charge of Peoples Natural Gas, of purchased gas costs which are expected to be uncollectible, and shall not be reconciled to reflect actual results. Rider MFC is intended to make Company' Price to Compare more comparable to the gas supply service prices offered by Natural Gas Suppliers that presumably reflect anticipated uncollectible expenses.

RIDER MFC CHARGE (C)

Rider MFC charges shall be equal to 2.0444% for Residential PGC Customers and 0.241% for SGS, MGS and LGS PGC Customers multiplied by the sum of Rider PGC charges. The currently effective rate is shown on Tariff Page No. 12. (C)

(C) Indicates Change

ISSUED: _____

EFFECTIVE: _____

PEOPLES GAS COMPANY LLC

PRO FORMA
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RIDER GPC – GAS PROCUREMENT CHARGE

APPLICABILITY (C)

For bill presentment purposes, the Gas Procurement Charge (GPC) shall be added to the Commodity Gas Cost Charge applicable to sales rate schedules Rate RS, ~~RUS~~, SGS, MGS, LGS and any other applicable sales service rate schedule under this tariff.

RECOVERABLE COSTS

The GPC shall include gas procurement costs incurred by the Company solely on behalf of its sales service customers. The GPC shall exclude any costs recovered through Rider PGC – 1307(f) gas cost recovery mechanism. The GPC shall exclude any gas procurement costs incurred by the Company in support of transportation or shopping customers or programs.

RECALCULATION OF THE GPC

The costs to be included in the GPC shall be calculated in accordance with Commission regulations and shall be determined and updated in each base rate case filed by the Company. The GPC shall not be subject to reconciliation for any prior-period or over-or-under collections

RIDER GPC CHARGE

The currently effective rate is shown on Tariff Page No. 12.

(C)

SPECIAL PROVISION

This rider shall not apply to Customers receiving discounted retail service.

(C) Indicates Change

ISSUED: _____

EFFECTIVE: _____

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples Natural Gas and Peoples Gas
Filing Requirements**

§53.52(a)(1) The specific reasons for each change.

The tariff changes set forth in this supplement are consistent with the Companies' proposal to merge Peoples Natural Gas and Peoples Gas, blend purchased gas costs, and establish a uniform Price to Compare (PTC) for the proposed Peoples Natural Gas and Peoples Gas Divisions of Peoples Natural Gas Company LLC. The Company expects that a uniform PTC will reduce customer confusion and promote retail supply competition by allowing NGSs to compete against a single PTC for both divisions. This is a necessary step for facilitating the reduction of supply pools into a single pool for both divisions. Each specific proposed tariff change is described on the "List of Changes" shown on page 2 of the tariff.

There are two changes to customer rates that are being proposed. They are described immediately below:

- The Company is proposing a single Merchant Function Charge (MFC) for both Peoples Natural Gas and Peoples Gas Divisions. The combined rate utilizes expected throughput presented in the Company's 1307(f)-2021 proceeding along with projected gas cost rates for October 1, 2022 to calculate the new combined rate on a revenue neutral basis.

The Company is proposing a slight design change in the MFC calculation in order to facilitate the blending of the MFC rates. The current Peoples Gas MFC is applicable to residential sales customers served under Rate RS and small commercial and industrial sales customers under Rate SGS. It is not currently applied to all other commercial and industrial sales customers served under the MGS and LGS rate schedules. In contrast, the current Peoples Natural Gas MFC is applicable to all sales customers – including larger commercial and industrial sales customers served under Rates MGS and LGS. So that a proper blending of the MFC can occur, the Company is proposing that the MFC now be applicable to Peoples Gas Rate MGS and LGS customers. The calculation of the proposed blended MFC is designed to be revenue neutral while ensuring recovery of MFC charges from all sales customers of Peoples Natural Gas and Peoples Gas. The blended MFC will continue to be applied on a percentage basis to the Commodity Charge, Capacity Charge, and Gas Cost Adjustment.

- The Company is also proposing a single Gas Procurement Charge (GPC) for both Peoples Natural Gas and Peoples Gas Divisions. The combined rate is developed by using the individual divisions' previously submitted calculations. The costs from these previous submissions are combined and divided by the combined throughput submitted in those original calculations. The result is also revenue neutral to the PNG companies.

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples Natural Gas and Peoples Gas
Filing Requirements**

§53.52(a)(2) The total number of customers served by the utility.

Number of customers as of September 30, 2021:

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS –	581,944	58,196
SGS –	44,416	3,930
MGS –	4,965	387
LGS -	241	34

§53.52(a)(3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
<u>SALES</u>		
RS –	492,527	57,761
SGS –	31,776	3,647
MGS –	1,492	231
LGS -	19	1
<u>TRANSPORT</u>		
RS –	89,417	435
SGS –	12,640	283
MGS –	3,473	156
LGS -	222	33

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples Natural Gas and Peoples Gas
Filing Requirements**

§53.52(a)(4) The effect of the change on the utility's customers.

The proposed change will improve the efficiency of Choice Programs in the Peoples Natural Gas and Peoples Gas service territories and reduce customer confusion regarding which PTC to use. The change will also allow Natural Gas Suppliers on the proposed Peoples Natural Gas and Peoples Gas Divisions to compete using the same PTC and create a uniform message to the Company's shopping customers.

§53.52(a)(5) The direct or indirect effect of the proposed change on the utility's revenues and expenses.

The changes proposed are not expected to have an impact on the merged Company's revenues or expenses.

§53.52(a)(6) The effect of the change on the service rendered by the utility.

Refer to the information provided in response to §53.52(a)(1).

§53.52(a)(7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. §1308.

Peoples has been making changes to both Peoples Natural Gas and Peoples Gas practices to bring the two divisions into closer alignment. A uniform PTC is a necessary step to merging the end user transportation pools of the two systems. Blending of the MFCs and GPCs, along with the blending of the currently separate purchase gas cost rates of Peoples Natural Gas and Peoples Gas, are required steps to achieve a uniform PTC. Please refer to the application and associated testimony for further discussion.

§53.52(a)(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. §1308.

No studies were conducted.

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples Natural Gas and Peoples Gas
Filing Requirements**

§53.52(a)(9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

Customer polls were not conducted.

§53.52(a)(10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

The Company plans to implement the rate changes on October 1, 2022, at the same time that changed purchased gas cost rates are implemented pursuant to the annual 1307(f) procedure. Following the filing of this application, the Company will provide notice through bill inserts to current Peoples Natural Gas and Peoples Gas ratepayers consistent with the requirements of Pa. Code § 53.45(d).

§53.52(a)(11) FCC, FERC or Commission orders or rulings applicable to the filing.

The Company is not aware of any orders or rulings pertinent to this filing.

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas**

53.52(b)(1)

(1) The specific reasons for each increase or decrease.

Refer to 53.52(a)(1)

- (2) The operating income statement of the utility for a 12-month period, the end of which shall not be more than 120 days prior to such filing.

Peoples Natural Gas Company LLC
Statement of Income
For the Period Ending September 30, 2021

Operating Revenues

Total Operating Revenues \$ 669,087,846

Operating Expenses

Total Operating Expenses \$ 478,946,244

Net Utility Operating Income \$ 190,141,602

Total Other Income and Deductions \$ (7,220,877)

Interest Charges \$ 33,768,449

Income Before Extraordinary Items \$ 149,152,276

Peoples Gas Company LLC
Statement of Income
For the Period Ending September 30, 2021

Operating Revenues

Total Operating Revenues \$ 79,121,820

Operating Expenses

Total Operating Expenses \$ 58,943,815

Net Utility Operating Income \$ 20,178,005

Total Other Income and Deductions \$ (1,082,589)

Interest Charges \$ 3,126,472

Income Before Extraordinary Items \$ 15,968,944

- (3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

Sales Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS		57,761
SGS		3,647
MGS		231
LGS		1
Total	<u>-</u>	<u>61,640</u>

Transport Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS		435
SGS		
MGS		156
LGS	222	
Total	<u>222</u>	<u>591</u>

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

Joint Applicants Exhibit No. 6

53.52(b)(4)

- (4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.

Sales Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS		\$ 1,227,756
SGS		\$ 156,217
MGS		\$ 151,308
LGS		\$ 11
Total	\$ -	\$ 1,535,292

Transport Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS		\$ 6,610
SGS		
MGS		\$ 21,705
LGS	\$ 763,143	
Total	\$ 763,143	\$ 28,315

- (5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

Sales Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS	492,527	
SGS	31,776	
MGS	1,492	
LGS	19	
Total	<u>525,814</u>	<u>-</u>

Transport Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS	89,417	
SGS	12,640	91,626
MGS	3,473	
LGS		33
Total	<u>105,530</u>	<u>91,659</u>

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

53.52(b)(6)

- (6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

Sales Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS	\$ (1,166,454)	
SGS	\$ (141,458)	
MGS	\$ (75,097)	
LGS	\$ (2,611)	
Total	\$ (1,385,620)	\$ -

Transport Customers as of September 30, 2021

	<u>Peoples Natural</u>	<u>Peoples Gas</u>
RS	\$ (130,240)	
SGS	\$ (25,999)	\$ (4,875)
MGS	\$ (83,548)	
LGS		\$ (800,474)
Total	\$ (239,787)	\$ (805,349)

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

53.52(c)(1)

- (1) A statement showing the utility's calculation of the rate of return or operating ratio (if the utility qualifies to use an operating ratio under § 53.54 (relating to small water and wastewater utilities)) earned in the 12-month period referred to in subsection (b)(2), and the anticipated rate of return or operating ratio to be earned when the tariff, revision or supplement becomes effective. The rate base used in this calculation shall be supported by summaries of original cost for the rate of return calculation. When an operating ratio is used in this calculation, it shall be supported by studies of margin above operation and maintenance expense plus depreciation as referred to in § 53.54(b)(2)(B).

Peoples Natural Gas
(Thousands of Dollars)

	June 30, 2021	Anticipated
Operating Revenues	\$ 665,661	\$ 665,661
Operating Expenses		
Operation & Maintenance	\$ 395,376	\$ 395,376
Annual Depreciation	\$ 85,299	\$ 85,299
Taxes - Other than Income	\$ 9,962	\$ 9,962
Income Taxes	\$ (6,120)	\$ (6,120)
Total Operating Expenses	\$ 484,517	\$ 484,517
Income Available for Return	\$ 181,144	\$ 181,144
Rate Base	\$ 2,111,556	\$ 2,111,556
Overall Rate of Return	8.58%	8.58%

- 1/ As reported in the Public Utility Earnings Report as Adjusted Results for the twelve months ended June 30, 2021, Pursuant to 52 PA Code, Chapter 71. The Public Utility Earnings Report for the twelve months ended September 30, 2021 is not yet available.

Peoples Gas
(Thousands of Dollars)

	June 30, 2021	Anticipated
Operating Revenues	\$ 78,845	\$ 78,845
Operating Expenses		
Operation & Maintenance	\$ 40,792	\$ 40,792
Annual Depreciation	\$ 11,305	\$ 11,305
Taxes - Other than Income	\$ 1,399	\$ 1,399
Income Taxes	\$ 6,680	\$ 6,680
Total Operating Expenses	\$ 60,176	\$ 60,176
Income Available for Return	\$ 18,669	\$ 18,669
Rate Base	\$ 250,690	\$ 250,690
Overall Rate of Return	7.45%	7.45%

- 1/ As reported in the Public Utility Earnings Report as Adjusted Results for the twelve months ended June 30, 2021, Pursuant to 52 PA Code, Chapter 71. The Public Utility Earnings Report for the twelve months ended September 30, 2021 is not yet available.

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

53.52(c)(2)

- (2) A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)(2).

Peoples Natural Gas Company LLC
Balance Sheet
(Dollars in Thousands)

Description	September 30, 2021	
ASSETS & OTHER DEBITS		
TOTAL UTILITY PLANT	\$	2,415,532 1/
TOTAL OTHER PROPERTY & INVESTMENTS	\$	13,168
TOTAL CURRENT & ACCRUED ASSETS	\$	167,202
TOTAL DEFERRED DEBITS	\$	544,042
TOTAL ASSETS & OTHER DEBITS	\$	3,139,944
LIABILITIES & OTHER CREDITS		
TOTAL PROPRIETARY CAPITAL	\$	1,209,387
TOTAL LONG-TERM DEBT	\$	702,031
TOTAL OTHER NON-CURRENT LIABILITIES	\$	69,053
TOTAL CURRENT & ACCRUED LIABILITIES	\$	465,870
TOTAL DEFERRED CREDITS	\$	693,603
TOTAL LIABILITIES & OTHER CREDITS	\$	3,139,944

1/ Includes CWIP and Plant Acquisition Adjustments.

Peoples Gas Company LLC
Balance Sheet
(Dollars in Thousands)

Description	September 30, 2021	
ASSETS & OTHER DEBITS		
TOTAL UTILITY PLANT	\$	278,817 1/
TOTAL OTHER PROPERTY & INVESTMENTS	\$	19
TOTAL CURRENT & ACCRUED ASSETS	\$	18,615
TOTAL DEFERRED DEBITS	\$	18,958
TOTAL ASSETS & OTHER DEBITS	\$	316,409
LIABILITIES & OTHER CREDITS		
TOTAL PROPRIETARY CAPITAL	\$	140,301
TOTAL LONG-TERM DEBT	\$	33,182
TOTAL OTHER NON-CURRENT LIABILITIES	\$	1,760
TOTAL CURRENT & ACCRUED LIABILITIES	\$	99,611
TOTAL DEFERRED CREDITS	\$	41,555
TOTAL LIABILITIES & OTHER CREDITS	\$	316,409

1/ Includes CWIP and Plant Acquisition Adjustments.

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

53.52(c)(3)

- (3) A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).

Refer to attached.

<u>SAP G/L</u>	<u>SAP G/L DESCRIPTION</u>	<u>FERC</u>	PEOPLES GAS SEP 2021 <u>PP&E (GROSS)</u>	PEOPLES GAS SEP 2021 <u>ACCUM DEPR</u>
1311020	Intangible Assets	3010	ORGANIZATION COST	\$0.00
1311020	Intangible Assets	3020	FRANCHISES & CONSENTS	\$0.00
1311020	Intangible Assets	3030	MISC. INTANGIBLE PLANT	(\$13,737,226.87)
			TOTAL INTANGIBLE ASSETS	(\$13,737,226.87)
1311030	Land & Easements	3251	PRODUCING LANDS	\$0.00
1311030	Land & Easements	3252	PRODUCING LEASEHOLDS	\$0.00
1311030	Land & Easements	3254	RIGHTS OF WAY	\$0.00
1311030	Land & Easements	3255	OTHER LAND & LAND RIGHTS	\$0.00
1311030	Land & Easements	3255	OTHER LAND & LAND RIGHTS	\$0.00
1311030	Land & Easements	3501	LAND	\$0.00
1311030	Land & Easements	3502	RIGHTS-OF-WAY	(\$11,713.19)
1311030	Land & Easements	3521	STORAGE LEASEHOLDS & RIGHTS	(\$192,457.66)
1311030	Land & Easements	3651	LAND & LAND RIGHTS	\$0.00
1311030	Land & Easements	3652	RIGHTS-OF-WAY	(\$1,057,403.98)
1311030	Land & Easements	3740	LAND & LAND RIGHTS	(\$488,080.03)
1311030	Land & Easements	3890	LAND & LAND RIGHTS	\$0.00
			TOTAL LAND & EASEMENTS	(\$1,749,654.86)
1311040	Buildings	3900	STRUCTURES & IMPROVEMENTS	(\$3,101,645.81)
			TOTAL BUILDINGS	(\$3,101,645.81)
1311050	Generation, Production & Gathering Plant	3253	GAS RIGHTS	\$0.00
1311050	Generation, Production & Gathering Plant	3255	OTHER LAND & LAND RIGHTS	\$0.00
1311050	Generation, Production & Gathering Plant	3270	FIELD COMP STATION STRUCTURES	\$0.00
1311050	Generation, Production & Gathering Plant	3280	FLD M&R STATION STRUCTURES	\$0.00
1311050	Generation, Production & Gathering Plant	3290	OTHER STRUCTURES	\$0.00
1311050	Generation, Production & Gathering Plant	3300	PROD GAS WELL CONSTRUCTION	\$0.00
1311050	Generation, Production & Gathering Plant	3310	PROD GAS WELL EQUIPMENT	\$0.00
1311050	Generation, Production & Gathering Plant	3320	FIELD LINES	\$0.00
1311050	Generation, Production & Gathering Plant	3330	FIELD COMPRESSOR STAT EQUIP	\$0.00
1311050	Generation, Production & Gathering Plant	3340	FIELD M & R STATION EQUIPMENT	\$0.00
1311050	Generation, Production & Gathering Plant	3370	OTHER EQUIPMENT	\$0.00
1311050	Generation, Production & Gathering Plant	3501	LAND	\$0.00
			TOTAL PRODUCTION & GATHERING	\$0.00
1311052	Underground Storage Plant	3510	STRUCTURES & IMPROVEMENTS	(\$258,175.88)
1311052	Underground Storage Plant	3520	WELLS	(\$684,282.15)
1311052	Underground Storage Plant	3522	RESERVOIRS	\$0.00
1311052	Underground Storage Plant	3523	NONRECOVERABLE NATURAL GAS	\$0.00
1311052	Underground Storage Plant	3530	LINES	(\$674,091.88)
1311052	Underground Storage Plant	3540	COMPRESSOR STATION EQUIP	(\$1,459,389.04)
1311052	Underground Storage Plant	3550	M & R EQUIPMENT	(\$465,494.79)
1311052	Underground Storage Plant	3560	PURIFICATION EQUIPMENT	\$0.00
1311052	Underground Storage Plant	3570	OTHER EQUIPMENT	\$0.00
			TOTAL UNDERGROUND STORAGE	(\$3,541,433.74)
1311060	Transmission Plant	3651	LAND & LAND RIGHTS	\$0.00
1311060	Transmission Plant	3652	RIGHTS-OF-WAY	\$0.00
1311060	Transmission Plant	3660	STRUCTURES & IMPROVEMENTS	(\$340,669.93)
1311060	Transmission Plant	3670	MAINS	(\$31,237,994.90)
1311060	Transmission Plant	3680	COMPRESSOR STATION EQUIPMENT	(\$1,619,189.03)
1311060	Transmission Plant	3690	M & R STATION EQUIPMENT	(\$3,907,129.82)
1311060	Transmission Plant	3710	OTHER EQUIPMENT	\$0.00
			TOTAL TRANSMISSION	(\$37,104,983.68)
1311070	Distribution Plant	3740	LAND & LAND RIGHTS	\$0.00
1311070	Distribution Plant	3750	STRUCTURES & IMPROVEMENTS	(\$507,446.93)
1311070	Distribution Plant	3760	MAINS	(\$46,033,154.57)
1311070	Distribution Plant	3780	M & R STATION EQUIPMENT	(\$3,281,297.15)
1311070	Distribution Plant	3790	M & R CITY GATE EQUIPMENT	\$0.00
1311070	Distribution Plant	3800	SERVICES	(\$17,067,435.89)
1311070	Distribution Plant	3810	METERS	(\$8,451,134.97)
1311070	Distribution Plant	3820	METER INSTALLATIONS	(\$1,784,547.65)
1311070	Distribution Plant	3830	HOUSE REGULATORS	\$0.00
1311070	Distribution Plant	3850	INDUSTRIAL M & R STATION EQUIP	\$0.00
1311070	Distribution Plant	3860	OTHER PROP ON CUST'S PREMISES	\$0.00
1311070	Distribution Plant	3870	OTHER EQUIPMENT	\$0.00
1311070	Distribution Plant	3900	STRUCTURES & IMPROVEMENTS	\$0.00
			TOTAL DISTRIBUTION	(\$77,125,017.16)
1311080	Transportation Equipment	3920	TRANSPORTATION EQUIPMENT	(\$3,165,412.00)
1311080	Transportation Equipment	3960	POWER OPERATED EQUIPMENT	(\$1,387,829.39)
			TOTAL TRANSPORTATION EQUIPMENT	(\$4,553,241.39)
1311090	General Plant & Equipment	3030	MISC. INTANGIBLE PLANT	\$0.00
1311090	General Plant & Equipment	3900	STRUCTURES & IMPROVEMENTS	\$0.00
1311090	General Plant & Equipment	3910	OFFICE FURNITURE & EQUIPMENT	(\$220,548.44)

<u>SAP G/L</u>	<u>SAP G/L DESCRIPTION</u>	<u>FERC</u>	PEOPLES GAS SEP 2021 <u>PP&E (GROSS)</u>	PEOPLES GAS SEP 2021 <u>ACCUM DEPR</u>
1311090	General Plant & Equipment	3912	OFF FURN & EQUIP-COMP HARDWARE	\$0.00
1311090	General Plant & Equipment	3930	STORES EQUIPMENT	\$16,454.27
1311090	General Plant & Equipment	3940	TOOLS, SHOP & GARAGE EQUIP	\$2,056,278.89
1311090	General Plant & Equipment	3950	LABORATORY EQUIPMENT	\$0.00
1311090	General Plant & Equipment	3970	COMMUNICATION EQUIPMENT	\$2,348,978.81
1311090	General Plant & Equipment	3980	MISC EQUIPMENT	\$0.00
1311090	General Plant & Equipment	3990	Other Tangible Plant	\$0.00
			TOTAL GENERAL	\$4,748,379.79
1311100	Prop Held Under CL	3910	OFFICE FURNITURE & EQUIPMENT	\$0.00
1311100	Prop Held Under CL	3912	OFF FURN & EQUIP-COMP HARDWARE	\$0.00
1311100	Prop Held Under CL	3920	TRANSPORTATION EQUIPMENT	\$0.00
			TOTAL PROPERTY HELD UNDER	\$0.00
1311105	Leasehold Improvements	3900	STRUCTURES & IMPROVEMENTS	\$0.00
			TOTAL LEASEHOLD IMPROVEMENTS	\$0.00
1311110	Plant Held for Future Use	3251	PRODUCING LANDS	\$0.00
1311110	Plant Held for Future Use	3252	PRODUCING LEASEHOLDS	\$0.00
			TOTAL PLANT HELD FOR FUTURE USE	\$0.00
1311191	Asset Retirement Cost - Manual posting			\$0.00
1311910	Util PP&E Clearing Acct for Data Conversion			\$0.00
1319999	Asset Sale-Clearing			\$0.00
1321230	Gas Stored in Reservoirs and Pipelines		\$51,833.00	\$0.00
1331800	Accum Depreciation-Salvage		\$0.00	(\$363,827.58)
1242202	Reg Asset Cost of Removal		\$0.00	\$2,264,138.58
			TOTAL OTHER ACCOUNTS	\$51,833.00
	PROPERTY UNDER CAPITAL LEASES			
1293100	PV of Leased Assets		\$0.00	\$0.00
	TOTAL PROPERTY UNDER CAPITAL LEASES		TOTAL PROPERTY UNDER CAPITAL LEASES	\$0.00
	CWIP			
1311010	Construction Work In Progress - Utility		\$5,871,587.14	\$0.00
1311018	Construction Work In Progress - Intangibles		\$1,793,343.23	\$0.00
1311900	CWIP Clearing Acct for Data Conversion/Direct Pstg		\$1,319.00	\$0.00
	TOTAL CWIP		TOTAL CWIP	\$7,666,249.37
	TOTAL UTILITY PROP PLANT & EQUIP		TOTAL UTILITY PROP PLANT & EQUIP	\$420,759,556.79
				(\$141,942,817.60)
	RECONCILE TO FERC:			
	9101000 PLANT IN SERVICE		\$413,041,474.42	\$0.00
	9105000 PLANT HELD FOR FUTURE USE		\$0.00	\$0.00
	9107000 CONSTRUCTION WORK IN PROGRESS		\$7,666,249.37	\$0.00
	9108000 ACCUM DEPR - UTILITY PLANT		\$0.00	(\$128,013,133.07)
	9111000 ACCUM AMORT - UTILITY PLANT		\$0.00	(\$13,929,684.53)
	9117300 GAS STORED IN RESERVOIRS AND PIPELIN		\$51,833.00	\$0.00
			\$420,759,556.79	(\$141,942,817.60)

SAP G/L		SAP G/L DESCRIPTION		FERC	PEOPLES NATURAL GAS SEP 2021 PP&E (GROSS)	PEOPLES NATURAL GAS SEP 2021 ACCUM DEPR
1311020	Intangible Assets	3010	ORGANIZATION COST		\$49,770.42	\$0.00
1311020	Intangible Assets	3020	FRANCHISES & CONSENTS		\$0.00	\$0.00
1311020	Intangible Assets	3030	MISC. INTANGIBLE PLANT		\$120,048,849.31	(\$74,550,093.42)
				TOTAL INTANGIBLE ASSETS	\$120,098,619.73	(\$74,550,093.42)
1311030	Land & Easements	3251	PRODUCING LANDS		\$138,965.30	(\$75,599.81)
1311030	Land & Easements	3252	PRODUCING LEASEHOLDS		\$10,015.91	(\$10,015.91)
1311030	Land & Easements	3254	RIGHTS OF WAY		\$1,629,003.44	(\$954,866.64)
1311030	Land & Easements	3255	OTHER LAND & LAND RIGHTS		\$47,094.57	(\$2,031.00)
1311030	Land & Easements	3255	OTHER LAND & LAND RIGHTS		\$0.00	\$0.00
1311030	Land & Easements	3501	LAND		\$16,823.84	\$14,213.87
1311030	Land & Easements	3502	RIGHTS-OF-WAY		\$46,800.39	(\$24,374.80)
1311030	Land & Easements	3521	STORAGE LEASEHOLDS & RIGHTS		\$182,670.75	(\$182,670.75)
1311030	Land & Easements	3651	LAND & LAND RIGHTS		\$261,389.12	\$0.00
1311030	Land & Easements	3652	RIGHTS-OF-WAY		\$2,775,265.81	(\$1,609,292.60)
1311030	Land & Easements	3740	LAND & LAND RIGHTS		\$6,782,922.76	(\$2,440,720.57)
1311030	Land & Easements	3890	LAND & LAND RIGHTS		\$312,211.74	(\$37,120.56)
				TOTAL LAND & EASEMENTS	\$12,203,163.63	(\$5,322,478.77)
1311040	Buildings	3900	STRUCTURES & IMPROVEMENTS		\$5,102,837.94	(\$1,407,696.93)
				TOTAL BUILDINGS	\$5,102,837.94	(\$1,407,696.93)
1311050	Generation, Production & Gathering Plant	3253	GAS RIGHTS		\$20,984.28	(\$12,932.28)
1311050	Generation, Production & Gathering Plant	3255	OTHER LAND & LAND RIGHTS		\$0.00	\$0.00
1311050	Generation, Production & Gathering Plant	3270	FIELD COMP STATION STRUCTURES		\$11,357,223.59	(\$4,111,797.15)
1311050	Generation, Production & Gathering Plant	3280	FLD M&R STATION STRUCTURES		\$62,777.57	(\$62,133.24)
1311050	Generation, Production & Gathering Plant	3290	OTHER STRUCTURES		\$1,926,213.73	(\$920,367.86)
1311050	Generation, Production & Gathering Plant	3300	PROD GAS WELL CONSTRUCTION		\$9,221.39	\$60,086.32
1311050	Generation, Production & Gathering Plant	3310	PROD GAS WELL EQUIPMENT		\$2,984.12	\$26,483.05
1311050	Generation, Production & Gathering Plant	3320	FIELD LINES		\$66,772,137.43	(\$29,778,157.99)
1311050	Generation, Production & Gathering Plant	3330	FIELD COMPRESSOR STAT EQUIP		\$35,817,125.74	(\$15,311,669.16)
1311050	Generation, Production & Gathering Plant	3340	FIELD M & R STATION EQUIPMENT		\$3,058,598.58	(\$2,351,546.65)
1311050	Generation, Production & Gathering Plant	3370	OTHER EQUIPMENT		\$104,774.68	(\$68,423.71)
1311050	Generation, Production & Gathering Plant	3501	LAND		\$0.00	\$0.00
				TOTAL PRODUCTION & GATHERING	\$119,132,041.11	(\$52,530,458.67)
1311052	Underground Storage Plant	3510	STRUCTURES & IMPROVEMENTS		\$1,800,679.17	(\$1,048,268.07)
1311052	Underground Storage Plant	3520	WELLS		\$1,061,622.67	(\$1,011,654.09)
1311052	Underground Storage Plant	3522	RESERVOIRS		\$433,138.50	(\$156,125.17)
1311052	Underground Storage Plant	3523	NONRECOVERABLE NATURAL GAS		\$205,250.77	(\$205,250.77)
1311052	Underground Storage Plant	3530	LINES		\$2,139,392.79	(\$1,282,588.98)
1311052	Underground Storage Plant	3540	COMPRESSOR STATION EQUIP		\$7,574,440.99	(\$2,124,279.64)
1311052	Underground Storage Plant	3550	M & R EQUIPMENT		\$75,749.16	(\$75,749.16)
1311052	Underground Storage Plant	3560	PURIFICATION EQUIPMENT		\$0.00	\$0.00
1311052	Underground Storage Plant	3570	OTHER EQUIPMENT		\$30,183.87	(\$30,183.87)
				TOTAL UNDERGROUND STORAGE	\$13,320,457.92	(\$5,934,099.75)
1311060	Transmission Plant	3651	LAND & LAND RIGHTS		\$0.00	\$0.00
1311060	Transmission Plant	3652	RIGHTS-OF-WAY		\$0.00	\$0.00
1311060	Transmission Plant	3660	STRUCTURES & IMPROVEMENTS		\$2,938,969.39	(\$1,811,235.35)
1311060	Transmission Plant	3670	MAINS		\$149,779,947.98	(\$55,331,212.57)
1311060	Transmission Plant	3680	COMPRESSOR STATION EQUIPMENT		\$11,454,824.65	(\$5,458,005.02)
1311060	Transmission Plant	3690	M & R STATION EQUIPMENT		\$31,334,727.07	(\$11,368,095.26)
1311060	Transmission Plant	3710	OTHER EQUIPMENT		\$2,487,712.54	(\$888,219.48)
				TOTAL TRANSMISSION	\$197,996,181.63	(\$74,856,767.68)
1311070	Distribution Plant	3740	LAND & LAND RIGHTS		\$0.00	\$0.00
1311070	Distribution Plant	3750	STRUCTURES & IMPROVEMENTS		\$28,801,122.60	(\$18,399,340.96)
1311070	Distribution Plant	3760	MAINS		\$1,760,799,755.38	(\$430,235,132.18)
1311070	Distribution Plant	3780	M & R STATION EQUIPMENT		\$64,958,124.06	(\$27,829,506.91)
1311070	Distribution Plant	3790	M & R CITY GATE EQUIPMENT		\$0.00	\$0.00
1311070	Distribution Plant	3800	SERVICES		\$656,112,391.10	(\$262,098,909.58)
1311070	Distribution Plant	3810	METERS		\$109,415,242.15	(\$35,389,933.96)
1311070	Distribution Plant	3820	METER INSTALLATIONS		\$89,322,620.92	(\$38,138,575.72)
1311070	Distribution Plant	3830	HOUSE REGULATORS		\$0.00	\$0.00
1311070	Distribution Plant	3850	INDUSTRIAL M & R STATION EQUIP		\$11,399,166.64	(\$5,075,392.79)
1311070	Distribution Plant	3860	OTHER PROP ON CUST'S PREMISES		\$14,644,532.28	(\$14,277,268.49)
1311070	Distribution Plant	3870	OTHER EQUIPMENT		\$10,906,752.99	(\$2,162,108.50)
1311070	Distribution Plant	3900	STRUCTURES & IMPROVEMENTS		\$110,402.49	(\$179.91)
				TOTAL DISTRIBUTION	\$2,746,470,110.61	(\$833,606,349.00)
1311080	Transportation Equipment	3920	TRANSPORTATION EQUIPMENT		\$59,503,199.48	(\$18,292,839.52)
1311080	Transportation Equipment	3960	POWER OPERATED EQUIPMENT		\$13,209,059.23	(\$6,162,146.34)
				TOTAL TRANSPORTATION EQUIPMENT	\$72,712,258.71	(\$24,454,985.86)

			PEOPLES NATURAL GAS SEP 2021 PP&E (GROSS)	PEOPLES NATURAL GAS SEP 2021 ACCUM DEPR	
SAP G/L	SAP G/L DESCRIPTION	FERC			
1311090	General Plant & Equipment	3030	MISC. INTANGIBLE PLANT	\$0.00	\$0.00
1311090	General Plant & Equipment	3900	STRUCTURES & IMPROVEMENTS	\$0.00	\$0.00
1311090	General Plant & Equipment	3910	OFFICE FURNITURE & EQUIPMENT	\$3,323,701.12	(\$1,771,347.09)
1311090	General Plant & Equipment	3912	OFF FURN & EQUIP-COMP HARDWARE	\$15,424,271.45	(\$7,692,608.54)
1311090	General Plant & Equipment	3930	STORES EQUIPMENT	\$0.00	\$0.00
1311090	General Plant & Equipment	3940	TOOLS, SHOP & GARAGE EQUIP	\$5,664,472.97	(\$3,112,405.84)
1311090	General Plant & Equipment	3950	LABORATORY EQUIPMENT	\$0.00	\$0.00
1311090	General Plant & Equipment	3970	COMMUNICATION EQUIPMENT	\$36,370,655.69	(\$12,688,984.25)
1311090	General Plant & Equipment	3980	MISC EQUIPMENT	\$63,558.35	(\$36,860.84)
1311090	General Plant & Equipment	3990	Other Tangible Plant	\$0.00	\$0.00
			TOTAL GENERAL	\$60,846,659.58	(\$25,302,206.56)
1311100	Prop Held Under CL	3910	OFFICE FURNITURE & EQUIPMENT	\$0.00	\$0.00
1311100	Prop Held Under CL	3912	OFF FURN & EQUIP-COMP HARDWARE	\$0.00	\$0.00
1311100	Prop Held Under CL	3920	TRANSPORTATION EQUIPMENT	\$0.00	\$0.00
			TOTAL PROPERTY HELD UNDER	\$0.00	\$0.00
1311105	Leasehold Improvements	3900	STRUCTURES & IMPROVEMENTS	\$10,401,634.22	(\$6,538,137.96)
			TOTAL LEASEHOLD IMPROVEMENTS	\$10,401,634.22	(\$6,538,137.96)
1311110	Plant Held for Future Use	3251	PRODUCING LANDS	\$474.91	\$0.00
1311110	Plant Held for Future Use	3252	PRODUCING LEASEHOLDS	\$4,464.77	\$0.00
			TOTAL PLANT HELD FOR FUTURE USE	\$4,939.68	\$0.00
1311191	Asset Retirement Cost - Manual posting			\$52,257.60	(\$52,257.60)
1311910	Util PP&E Clearing Acct for Data Conversion			\$0.00	\$0.00
1319999	Asset Sale-Clearing			(\$16,723.66)	\$0.00
1331800	Accum Depreciation-Salvage			\$0.00	(\$2,964,827.09)
1242202	Reg Asset Cost of Removal			\$0.00	\$31,551,459.90
			TOTAL OTHER ACCOUNTS	\$35,533.94	\$28,534,375.21
PROPERTY UNDER CAPITAL LEASES					
1293100	PV of Leased Assets			\$43,398,445.06	\$0.00
TOTAL PROPERTY UNDER CAPITAL LEASES				\$43,398,445.06	\$0.00
CWIP					
1311010	Construction Work In Progress - Utility			\$70,760,925.91	\$0.00
1311018	Construction Work In Progress - Intangibles			\$17,907,381.64	\$0.00
1311900	CWIP Clearing Acct for Data Conversion/Direct Pstg			\$1,109,238.63	\$0.00
TOTAL CWIP			TOTAL CWIP	\$89,777,546.18	\$0.00
TOTAL UTILITY PROP PLANT & EQUIP			TOTAL UTILITY PROP PLANT & EQUIP	\$3,491,500,429.94	(\$1,075,968,899.39)
			RECONCILE TO FERC:		
			9101000 PLANT IN SERVICE	\$3,358,319,499.02	\$0.00
			9101100 PROPERTY UNDER CAPITAL LEASES	\$43,398,445.06	\$0.00
			9105000 PLANT HELD FOR FUTURE USE	\$4,939.68	\$0.00
			9107000 CONSTRUCTION WORK IN PROGRESS	\$89,777,546.18	\$0.00
			9108000 ACCUM DEPR - UTILITY PLANT	\$0.00	(\$994,594,335.97)
			9111000 ACCUM AMORT - UTILITY PLANT	\$0.00	(\$81,374,563.42)
				\$3,491,500,429.94	(\$1,075,968,899.39)

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

- (4) A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).

Refer to the attachment to 53.52(c)(3).

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

53.52(c)(5)

- (5) A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the date of the balance sheet required by paragraph (2).

Refer to 53.52(b)(2).

**Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas**

53.52(c)(6)

- (6) A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision or supplement. As used in this paragraph, a major change is one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1)-(5).

None.

APPENDIX G

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of Peoples Natural Gas :
Company LLC and Peoples Gas :
Company LLC for All of the Authority : Docket No. A-2021-
and Necessary Certificates of Public :
Convenience to Merge Peoples Natural :
Gas Company LLC and Peoples Gas :
Company LLC :

**PREPARED DIRECT TESTIMONY OF
EDWARD A. PALOMBO,
VICE PRESIDENT, RELIABILITY
PNG COMPANIES LLC**

DATE SERVED: _____
ADMITTED: _____

Joint Applicants Statement No. 3

**PREPARED DIRECT TESTIMONY OF
EDWARD A. PALOMBO**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Edward A. Palombo. My business address is 375 North Shore Drive,
3 Pittsburgh, PA 15212.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by PNG Companies LLC (“PNG”) as Vice President, Reliability. I am
7 responsible for all Gas Supply functions and Gas Control, as well as Compliance/
8 Pipeline Safety, System Planning & GIS, and Safety and Technical Training for
9 Peoples Natural Gas Company LLC (“Peoples Natural Gas”) and Peoples Gas
10 Company LLC (“Peoples Gas”) (collectively, the “Joint Applicants” or the “Peoples
11 Companies”).

12

13 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**
14 **EXPERIENCE.**

15 A. I earned a BS in Petroleum and Natural Gas Engineering from The Pennsylvania State
16 University in 1983, and have worked in the natural gas industry since. I have an
17 extensive background in natural gas engineering, operations, and construction, in
18 addition to DOT pipeline compliance, OSHA safety, gas supply and gas transportation.
19 I have had direct operations and pipeline compliance responsibilities in conjunction
20 with meeting the requirements of state agencies in Pennsylvania, West Virginia,

1 Kentucky, Ohio, Virginia, Maryland, and federal agencies in Washington DC. I am on
2 several AGA and Energy Association of PA executive committees.

3

4 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN ANY REGULATORY**
5 **PROCEEDINGS?**

6 A. No. This is my first direct testimony.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

9 A. I will address the proposal to merge the gas costs rates and the resulting benefits of
10 combining the gas procurement processes and gas supply assets of Peoples Natural Gas
11 Company LLC (“Peoples Natural Gas”) and Peoples Gas Company LLC (“Peoples
12 Gas”) (collectively the “Peoples Companies”).

13

14 **Q. PLEASE DESCRIBE GENERALLY THE GAS PROCUREMENT POLICY FOR**
15 **PEOPLES NATURAL GAS AND PEOPLES GAS.**

16 A. It is the Peoples Companies’ long-standing policy to secure long term reliable capacity
17 and supply and to manage gas procurement so that they incur low overall gas costs. This
18 policy is pursued within the limitations of each company’s existing facilities and existing
19 contracts. The Peoples Companies also pursue this policy with the recognition that the
20 goals of least cost and long-term reliable supply must be balanced.

21

22 **Q. PLEASE DESCRIBE THE GAS SUPPLY ASSETS OF PEOPLES NATURAL**
23 **GAS AND PEOPLES GAS.**

1 A. Peoples Natural Gas utilizes a combination of local and interstate assets and supplies. The
2 local assets are Peoples Natural Gas' on-system storage facilities and a gathering system,
3 which have allowed Peoples Natural Gas to enhance the deliverability of local natural gas
4 supplies produced in Pennsylvania and purchased by Peoples Natural Gas from
5 Pennsylvania producers. Through the sale of assets to Equitrans L.P. ("Equitrans") and
6 entering into long-term contracts with Equitrans, Peoples Natural Gas has converted some
7 of its pipeline assets into interstate contracts and will continue to utilize the same storage
8 facilities and access the same local gas supplies by means of storage and transportation
9 services from Equitrans. Peoples Natural Gas' interstate assets are comprised of a
10 portfolio of transportation and storage services that Peoples Natural Gas has contracted
11 for with various Federal Energy Regulatory Commission ("FERC") regulated pipelines,
12 including Eastern Gas Transmission and Storage LLC ("EGTS"), Texas Eastern
13 Transmission LP ("TETCO"), Equitrans, and National Fuel Gas Supply Corporation
14 ("NFG"). Those assets give Peoples Natural Gas access to a variety of locations at which
15 it can receive gas supplies that are produced upstream of the Peoples Natural Gas system.
16 Peoples Natural Gas' interstate sourced supplies are primarily EQT Energy and other
17 Appalachian produced gas that it purchases from suppliers upstream of the Peoples
18 Natural Gas system for delivery into various receipt points of Equitrans and EGTS.
19 Peoples Natural Gas also purchases on a delivered-to-the-city gate basis off of the
20 Tennessee Gas Pipeline and Texas Eastern Transmission system as needed.

21 The interstate storage assets allow Peoples Natural Gas to use its upstream assets
22 more efficiently, mitigate the effects of price swings in the natural gas market and enhance

1 the deliverability of Peoples Natural Gas’ interstate natural gas supplies during periods of
2 peak demand.

3 Peoples Gas also utilizes a combination of local and interstate capacity assets and
4 supply. The local assets consist of gas purchase agreements for local Pennsylvania gas
5 produced directly into the company’s pipeline system and company owned on-system
6 storage fields. The local gas represents a significant portion of the annual supply needs
7 of the system, while the on-system storage has limited supply capacity and is, therefore,
8 utilized more for meeting the system’s short-term peak requirements. On the other hand,
9 Peoples Gas’ interstate assets are comprised of a portfolio of storage and associated
10 transportation services for which Peoples Gas has contracted with various FERC-
11 regulated pipelines. They include EGTS, Columbia Gas Transmission, LLC (“TCO”),
12 Equitrans, and TETCO. Peoples Gas also has an interconnection with Tennessee Gas
13 Pipeline Company, LLC (“TGP”). Peoples Gas relies upon on-system storage and
14 interstate pipeline storage services during the heating season period from November
15 through March to help satisfy both the general system requirements over the entire heating
16 season and, perhaps more importantly, the design peak day requirement – the highest,
17 single-day, projected demand on the Peoples Gas system for which it plans to serve.
18 Peoples Gas manages its storage assets to meet both peak day and seasonal requirements.

19

20 **Q. PLEASE DESCRIBE HOW THE GAS SUPPLY DEPARTMENT MANAGES**
21 **THE GAS SUPPLY FUNCTION FOR PEOPLES NATURAL GAS AND**
22 **PEOPLES GAS.**

1 A. A single gas supply department employed at PNG Companies was established to manage
2 the ongoing gas supply needs of Peoples Natural Gas and Peoples Gas. The gas supply
3 and capacity portfolio activities include planning of capacity and supply requirements and
4 selection of supply and capacity contracts, commodity purchasing, pipeline scheduling,
5 invoice processing, payment, and gas supply reporting. This unified gas management
6 approach together with an efficient gas supply portfolio that provides access to low cost
7 commodity supplies has resulted in meaningful benefits for our ratepayers.

8

9 Q. **JOINT APPLICANTS WITNESS ANDREW WACHTER DISCUSSES THE**
10 **PROPOSAL TO MERGE THE GAS COST RATES OF PEOPLES NATURAL**
11 **GAS AND PEOPLES GAS FOLLOWING THE MERGER OF THE TWO**
12 **COMPANIES. WHAT DO YOU SEE AS THE BENEFITS OF SUCH A MERGER**
13 **OF GAS COST RATES?**

14 A. I believe that the consolidation of gas cost rates will lead to meaningful gas supply and
15 operational benefits. Let me start by describing the gas supply benefits.

16 Even though a single Gas Supply Department manages the ongoing gas supply
17 needs of Peoples Natural Gas and Peoples Gas, the gas supply and capacity portfolio
18 activities must be managed and reported separately for each entity. This separation results
19 from the need to maintain and manage distinct gas supply portfolios of the separate
20 companies. If Commission approval is granted to merge Peoples Gas into Peoples Natural
21 Gas and to merge the gas cost rates and the currently separate 1307(f) cost tracking and
22 recovery mechanisms of the companies, the need to maintain separate gas procurement
23 activities for Peoples Natural Gas and Peoples Gas would be eliminated. With a combined

1 gas cost rate structure and the associated development of additional physical
2 interconnections between what are currently two separate Peoples entities, which I discuss
3 later in this testimony, a more diverse and cost-effective gas supply portfolio would be
4 available to serve the needs of both Peoples Natural Gas' and Peoples Gas' customers.
5 The existing pipeline capacities available to the Peoples Natural Gas and Peoples Gas
6 systems, when combined, would result in the more efficient and cost-effective use of the
7 supply portfolios.

8 One example would be the ability to utilize a combined gas supply portfolio to
9 offset recent declines in local gas produced from conventional shallow wells. A
10 significant portion of the annual gas supplies delivered to Peoples Natural Gas and Peoples
11 Gas consists of local gas supplies from conventional shallow natural gas wells that are
12 directly attached to their systems. Over the past three years, the volumes of this locally
13 produced gas have shown declines of 2.5% to 8.8% per year. This decline is attributed to
14 reduced shallow well drilling activity that, in turn, is a result of historically low market
15 prices for natural gas. As existing shallow wells play-out and with no new shallow wells
16 being added, the volumes of this local production has fallen. Because end user demand
17 on the systems is not showing similar declines, the shallow production supply declines
18 have generally been replaced with supplies delivered from interstate pipelines. In theory,
19 while unconventional shale wells are producing throughout our service territories and
20 could be viewed as a direct feed replacement for shallow production, that gas generally
21 lands in the midstream and interstate pipeline markets due to the large incremental
22 volumes available from each unconventional well, the high pressure at which the

1 unconventional gas is produced, and the lack of a year-round market on our systems for
2 that gas.

3 Our ability to utilize a combined gas supply portfolio and interconnect the systems
4 of Peoples Natural Gas and Peoples Gas may help alleviate the need to acquire additional
5 interstate pipeline capacity to replace lost production from shallow wells. The merger
6 would also create ability to use existing compression on the systems and interconnect the
7 existing transmission and high pressure distribution pipeline networks of Peoples Natural
8 Gas and Peoples Gas at strategic locations. Connecting these high-pressure systems
9 would create incremental capacity that would allow the merged company to gather and
10 attract unconventional production directly to the systems. Individually, the two
11 companies are limited on transmission capabilities but combined they can more
12 effectively attract and move unconventional production to our markets.

13 Further, by sharing interstate pipeline portfolios, there will be other opportunities
14 to reduce gas costs. One example is the potential to jointly use the contract storage
15 services of Peoples Natural Gas and Peoples Gas to optimize storage utilization to meet
16 the peak day requirements of the combined systems. Peoples Natural Gas and Peoples
17 Gas have different storage contracts with one or more of Equitrans, EGTS, NFGS and
18 TCO with different levels of service. Some services are no-notice which enables the
19 company to use that service without scheduling. Some services have different
20 deliverability characteristics, and in particular, different withdrawal ratchets that reduce
21 maximum daily withdrawal levels as storage inventory is drawn down. This has the effect
22 of either limiting the pipeline storage customer's withdrawals early in the season to
23 preserve deliverability on the peak day, or, if the customer were to choose not to limit

1 early withdrawals, forcing the customer to operate with reduced storage deliverability
2 during periods when a peak day is most likely to occur. These storage services also require
3 customers to meet minimum withdrawal requirements over the withdrawal season so that
4 storage inventories are reduced to 25-35% by April or be subject to penalties. The Gas
5 Supply department must manage each storage service to balance peak day deliverability
6 and inventory reduction requirements. In doing so, some storage service is better suited
7 for satisfying base load winter supply while other services are better suited for providing
8 peaking service. Currently, the management of storage services must be done based upon
9 the contracts and requirements of each separate company. Operating these storage
10 services as a single utility will make us more efficient and improve our utilization of the
11 assets to meet reliability, must turn requirements and avoid pipeline penalties.

12 Moreover, merged gas costs rates would also provide an opportunity to
13 interconnect utility pipeline systems at various major pipeline supply feeds to enhance the
14 current supply options and improve overall gas supply reliability. The systems of Peoples
15 Natural Gas and Peoples Gas are either currently connected to, or are in very close
16 proximity to, the Tennessee system at Bradford Woods, PA; the TETCO system at
17 Delmont, PA; and the EGTS system at Mars-Crider, PA. Absent the need to maintain
18 separate gas supply portfolios for each company, the combined utility will be able to
19 interconnect the distribution systems of Peoples Natural Gas and Peoples Gas at these
20 major pipeline delivery points without the need to install meters to separately measure,
21 track and balance the supply volumes. The ability to use these pipeline supply feeds to
22 serve both systems would improve overall supply reliability and also present an

1 opportunity to take increased advantage of pricing opportunities that may arise from being
2 able to access multiple upstream wholesale markets.

3

4 **Q. ARE THERE OTHER EXPECTED BENEFITS?**

5 A. Yes. The merger of Peoples Gas into Peoples Natural Gas and the consolidation of gas
6 costs rates would provide meaningful system operational benefits as well. Today, the two
7 companies are operated as separate and distinct systems. Each company receives gas
8 supplies at its own unique interconnections with interstate pipelines and local gas receipt
9 points. Those supplies are then moved through each company's separate pipeline network
10 and delivered to customers served from the pipelines of the respective companies.

11 There are currently two situations where gas supplies can physically flow between
12 Peoples Natural Gas and Peoples Gas. The first one involves interconnections that were
13 established under an approved Affiliated Interest Agreement (G-2011-2265150). Under
14 this agreement, the Commission authorized Peoples Natural Gas and Peoples Gas to
15 establish a limited number of interconnections and to exchange gas to allow for more
16 efficient operations of the systems, improve service reliability and to support ongoing
17 pipeline replacement plans in order to avoid the costly or time consuming replacement of
18 existing duplicate distribution pipelines. There are fourteen specific Peoples Natural Gas
19 receipt points and nine specific Peoples Gas receipt points under this agreement. The
20 volumes of gas at these points are tracked and, as nearly as practicable, are kept in balance
21 on a daily basis.

22 The second situation where gas supplies can flow between the Companies
23 involves the creation of pipeline system interconnections made in support of the

1 replacement of duplicative higher-risk pipelines with single pipelines in the overlapping
2 areas of both companies as outlined in the Peoples Companies' Combined Long Term
3 Infrastructure Improvement Plan and the Peoples Companies' UFG Mitigation Plan. In
4 these situations, in order to avoid the replacement of duplicative pipelines, the customer(s)
5 of one company would receive gas supplies from the pipeline facilities of the other. The
6 recorded gas measured at the customer's premise is used to track and balance the volumes.

7 In the instances where these interconnections do exist, Peoples Natural Gas and
8 Peoples Gas are required to measure, track, and balance the gas supply volumes in order
9 to support separate gas cost recovery mechanisms for each company. There is a potential
10 to achieve significant operating efficiencies and reliability improvements and further
11 reduce duplicative distribution pipelines by further interconnecting the pipeline systems.
12 However, the need to measure (by installing costly metering systems in most cases) and
13 separately account for gas supplies flowing through the interconnections creates
14 impediments and costs that offset the benefits from the interconnections. Therefore, an
15 important step in order to unlock these opportunities is to be able to merge the companies
16 and merge the gas cost rates.

17 The merging of gas cost rates for Peoples Natural Gas and Peoples Gas will
18 eliminate the need to separately measure, track and daily balance the gas supply volumes
19 that can be moved between the companies. The need to install measurement and track
20 and balance the gas supply volumes creates a significant impediment to operating the
21 systems in the most efficient and reliable manner. We have identified various points
22 where installation of interconnections would improve the overall efficiency of the pipeline
23 systems and increase overall system reliability through improved physical gas flows or

1 added back-up feeds. However, due to the added cost for measurement at these points to
2 maintain separate Company gas supply accounting, which is about \$50,000 to \$75,000
3 each, very few of these interconnections are planned. Further, there are many more
4 opportunities to improve the overall reliability and efficiency of the systems through the
5 interconnection of distribution and gathering pipelines, but the installation of
6 measurement on these systems is generally not feasible because it requires relatively large
7 meters that have large space needs. Further, some distribution systems have multiple
8 supply feeds, so using customer measurement is not feasible to separate supply sources.
9 Unfortunately, because the distribution pipelines are typically located in the streets of the
10 urban areas of the systems, space for the required measurement facilities is very limited
11 or prohibitively expensive.

12 Merged gas cost rates would eliminate the need to separately measure, track and
13 balance the gas supply volumes that can be moved between the Companies which, in turn,
14 would allow for more interconnections, improve the overall reliability and efficiency of
15 the systems, increase pipeline replacement options, free up capital for other projects, and
16 streamline the pipeline facility planning and design process. It also would eliminate the
17 current administrative needs to track and balance volumes between the systems and
18 generally supports one of our overall goals to merge the operations and management of
19 Peoples Natural Gas and Peoples Gas into a single operations unit.

20

21 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

22 A. Yes. I reserve the right to supplement my testimony as additional issues arise during
23 the course of the proceeding. Thank you.

APPENDIX H

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

Peoples Natural Gas Company LLC
Balance Sheet
(Dollars in Thousands)

Description	September 30, 2021	
ASSETS & OTHER DEBITS		
TOTAL UTILITY PLANT	\$	2,415,532 1/
TOTAL OTHER PROPERTY & INVESTMENTS	\$	13,168
TOTAL CURRENT & ACCRUED ASSETS	\$	167,202
TOTAL DEFERRED DEBITS	\$	544,042
TOTAL ASSETS & OTHER DEBITS	\$	3,139,944
LIABILITIES & OTHER CREDITS		
TOTAL PROPRIETARY CAPITAL	\$	1,209,387
TOTAL LONG-TERM DEBT	\$	702,031
TOTAL OTHER NON-CURRENT LIABILITIES	\$	69,053
TOTAL CURRENT & ACCRUED LIABILITIES	\$	465,870
TOTAL DEFERRED CREDITS	\$	693,603
TOTAL LIABILITIES & OTHER CREDITS	\$	3,139,944

1/ Includes CWIP and Plant Acquisition Adjustments.

Peoples Gas Company LLC
Balance Sheet
(Dollars in Thousands)

Description	September 30, 2021	
ASSETS & OTHER DEBITS		
TOTAL UTILITY PLANT	\$	278,817 1/
TOTAL OTHER PROPERTY & INVESTMENTS	\$	19
TOTAL CURRENT & ACCRUED ASSETS	\$	18,615
TOTAL DEFERRED DEBITS	\$	18,958
TOTAL ASSETS & OTHER DEBITS	\$	316,409
LIABILITIES & OTHER CREDITS		
TOTAL PROPRIETARY CAPITAL	\$	140,301
TOTAL LONG-TERM DEBT	\$	33,182
TOTAL OTHER NON-CURRENT LIABILITIES	\$	1,760
TOTAL CURRENT & ACCRUED LIABILITIES	\$	99,611
TOTAL DEFERRED CREDITS	\$	41,555
TOTAL LIABILITIES & OTHER CREDITS	\$	316,409

1/ Includes CWIP and Plant Acquisition Adjustments.

APPENDIX I

Peoples Natural Gas Company LLC and Peoples Gas Company LLC
Merger of Peoples and Peoples Gas

Peoples Natural Gas Company LLC
Statement of Income
For the Period Ending September 30, 2021

Operating Revenues

Total Operating Revenues \$ 669,087,846

Operating Expenses

Total Operating Expenses \$ 478,946,244

Net Utility Operating Income **\$ 190,141,602**

Total Other Income and Deductions \$ (7,220,877)

Interest Charges \$ 33,768,449

Income Before Extraordinary Items **\$ 149,152,276**

Peoples Gas Company LLC
Statement of Income
For the Period Ending September 30, 2021

Operating Revenues

Total Operating Revenues \$ 79,121,820

Operating Expenses

Total Operating Expenses \$ 58,943,815

Net Utility Operating Income **\$ 20,178,005**

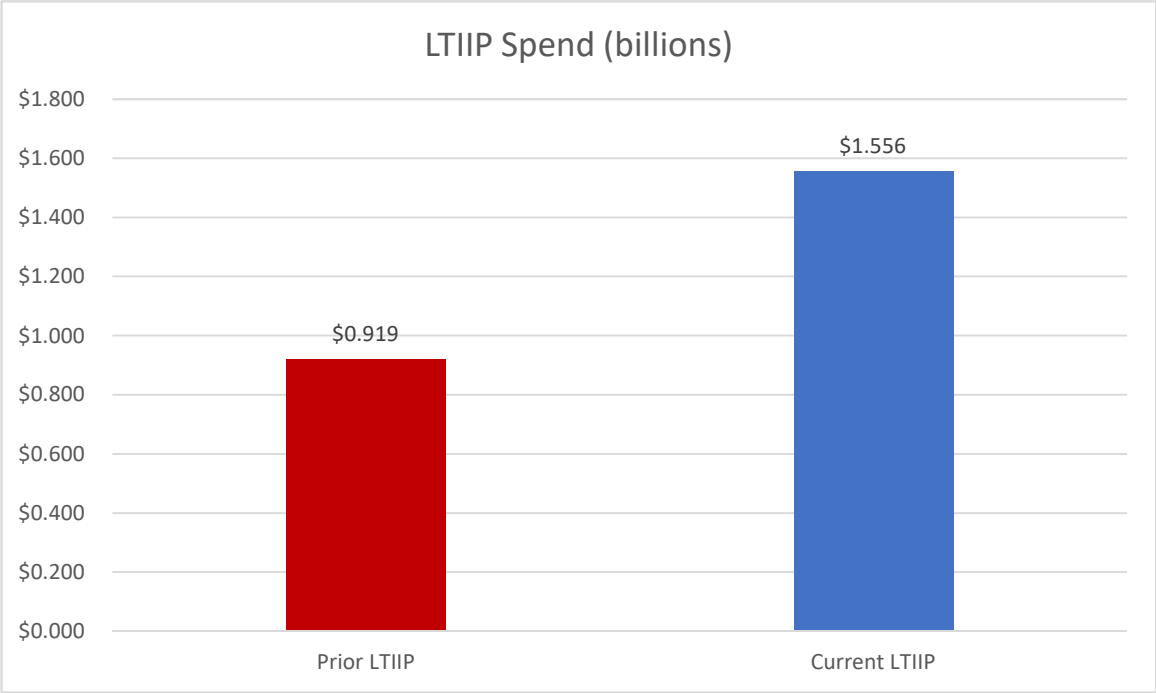
Total Other Income and Deductions \$ (1,082,589)

Interest Charges \$ 3,126,472

Income Before Extraordinary Items **\$ 15,968,944**

APPENDIX J

Appendix J



**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of Peoples Natural Gas
Company LLC and Peoples Gas Company
LLC for All of the Authority and
Necessary Certificates of Public
Convenience to Merge Peoples Natural
Gas Company LLC and Peoples Gas LLC

Docket No. A-2021-

VERIFICATION

I, Michael Huwar, President of Peoples Natural Gas Company LLC, hereby state that the above-captioned Joint Application, and the Appendices attached thereto, are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth therein.

I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: November 30, 2021





Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
Harrisburg, PA 17105-3265
EFILING - FILING DETAIL

Date Created	Filing Number
12/1/2021	2328455

Your filing has been electronically received. Upon review of the filing for conformity with the Commission's filing requirements, a notice will be issued acknowledging acceptance or rejection (with reason) of the filing. The matter will receive the attention of the Commission and you will be advised if any further action is required on your part.

The date filed on will be the current day if the filing occurs on a business day before or at 4:30 p.m. (EST). It will be the next business day if the filing occurs after 4:30 p.m. (EST) or on weekends or holidays.

Representing: Peoples Natural Gas and Peoples Gas

Case Description: Joint Application of Peoples Natural Gas Company LLC and Peoples Gas Company LLC for All of the Authority and Necessary Certificates of Public Convenience to Merge Peoples Natural Gas Company LLC and Peoples Gas Company LLC

Transmission Date: 12/1/2021 3:59 PM

Filed On: 12/1/2021 3:59 PM

eFiling Confirmation Number: 2328455

Filing Fee: \$350.00

ePay Confirmation Number: 05150J

File Name	Document Type	Upload Date
Peoples Natural Gas Company LLC and Peoples Gas Company LLC - Joint Merger Application.pdf	Application to Acquire or Transfer Assets (Fixed Utility)	12/1/2021 3:56:14 PM

For filings exceeding 250 pages, the PUC is requiring that filers submit one paper copy to the Secretary's Bureau within three business days of submitting the electronic filing online. Please mail the paper copy along with copy of this confirmation page to Secretary, Pennsylvania Public Utility Commission, 400 North Street, Harrisburg PA 17120 a copy of the filing confirmation page or reference the filing confirmation number on the first page of the paper copy.

No paper submission is necessary for filings under 250 pages.

You can view a record of this filing and previous filings you have submitted to the PUC by using the links in the Filings menu at the top of the page. Filings that have been submitted within the last 30 days can be viewed by using the Recent Filings link. Older filings can be viewed by using the search options available in the Filing History link.