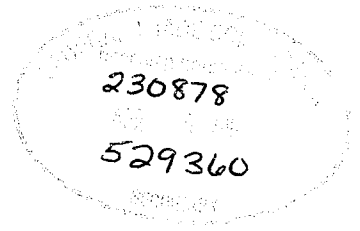


UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION



In the Matter of

EQUITABLE RESOURCES, INC.,
DOMINION RESOURCES, INC.,
CONSOLIDATED NATURAL GAS
COMPANY, and THE PEOPLES
NATURAL GAS COMPANY.

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Docket No. 9322
PUBLIC

**ANSWER OF RESPONDENT EQUITABLE RESOURCES, INC. TO THE FEDERAL
TRADE COMMISSION'S ADMINISTRATIVE COMPLAINT**

Under 16 C.F.R. § 3.12, Respondent Equitable Resources, Inc. ("Equitable"), by and through its attorneys, hereby answers as follows the Administrative Complaint ("Complaint") filed by the Federal Trade Commission ("FTC").

I. THE PARTIES AND JURISDICTION

A. Equitable Resources, Inc.

1. Equitable admits the allegations contained in Paragraph 1.
2. Equitable admits the allegations contained in Paragraph 2.
3. Equitable admits the allegations contained in Paragraph 3.
4. The allegations contained in Paragraph 4 are legal conclusions to which no response is required.

B. Dominion Resources, Inc.

5. The allegations contained in Paragraph 5 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

6. The allegations contained in Paragraph 6 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

7. The allegations contained in Paragraph 7 are legal conclusions to which no response is required.

C. Consolidated Natural Gas Company

8. The allegations contained in Paragraph 8 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

9. The allegations contained in Paragraph 9 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

10. The allegations contained in Paragraph 10 are legal conclusions to which no response is required.

D. The Peoples Natural Gas Company

11. The allegations contained in Paragraph 11 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

12. The allegations contained in Paragraph 12 relate to a defendant other than Equitable, and Equitable is without knowledge or information sufficient to form a belief as to the truth of these allegations.

13. The allegations contained in Paragraph 13 are legal conclusions to which no response is required.

14. Paragraph 14 does not require a response.

II. THE ACQUISITION

15. Equitable admits the allegations contained in Paragraph 15.

16. The allegations contained in Paragraph 16 are legal conclusions to which no response is required.

III. NATURE OF COMPETITION

17. Equitable admits the allegations contained in Paragraph 17.

18. Equitable admits the allegations contained in Paragraph 18.

19. Although the allegation contained in Paragraph 19 asserts a legal conclusion to which no response is required, it is an inaccurate statement of Pennsylvania law and therefore, Equitable denies it. The PUC's statutory authority to regulate public utilities, including LDCs such as Equitable and Peoples, is found at Title 66 of Pennsylvania's Consolidated Statutes, 66 Pa. C.S. § 101, *et seq.*, which is known and cited as the Pennsylvania Public Utility Code, rather than under Title 52 of the Pennsylvania Code as alleged. Under Section 501 of the Public Utility Code, 66 Pa. C.S. § 501, the Pennsylvania General Assembly has given the PUC broad powers to supervise and regulate Pennsylvania's public utilities and protect the interests of Pennsylvania citizens. In furtherance of its statutory authority, the PUC has adopted an extensive set of rules

concerning public utility service within Pennsylvania and it is these rules that are found at Title 52 of the Pennsylvania Code.

20. Equitable admits that its predecessor was originally incorporated pursuant to the Pennsylvania Natural Gas Companies Act of May 29, 1885 (the “1885 Act”). However, the 1885 Act no longer governs. It was specifically repealed by Section 20302 of Pennsylvania’s General Association Act of 1988. Accordingly, any arguments made on the basis of the 1885 Act are not viable. Equitable further admits that it has the right to provide natural gas distribution within Allegheny County and adjoining counties, including the City of Pittsburgh, that it began to provide natural gas distribution pursuant to the 1885 Act at some point after 1885, and does so now. However, Equitable denies any suggestion that it has an unfettered “right” to provide natural gas distribution service in any overlapping service territory. Under the comprehensive statutory scheme existing in the Commonwealth of Pennsylvania, the PUC has jurisdictional authority over the service provided by Pennsylvania’s utilities, including service provided by Equitable and Dominion where territories overlap. Any suggestion that a “loophole” exists in a 100-year old Pennsylvania law that would allow service in overlapping areas to escape regulation would be contrary to long-established Pennsylvania law, which holds that the PUC has the exclusive discretion to determine the extent of competition to be allowed between Pennsylvania public utilities. Moreover, any suggestion that the 1885 Act would preclude the PUC from acting to approve a transaction which would benefit hundreds of thousands of residential and business customers for the sake of maintaining a regulated competitive option for a few hundred, uniquely situated customers, is inconsistent with law and with the public interest. Equitable is without knowledge or information sufficient to form a

belief as to the truth of the allegations of Paragraph 20 as they relate to any other defendant.

Equitable otherwise denies the allegations of Paragraph 20.

21. Equitable does not dispute that, among other things, the PUC, in accordance with the statutory scheme existing in the Commonwealth of Pennsylvania, approves the rates, fees and other charges that an LDC may collect for natural gas distribution service. Equitable, however, denies that it retains unfettered discretion to negotiate rates. The rates and the negotiation process remain subject to the ultimate authority of the PUC to apply the regulatory law of Pennsylvania consistent with the public interest of Pennsylvania's citizens.

22. Equitable admits that, in areas that are serviced by two or more LDCs, some nonresidential end users may negotiate natural gas distribution rates. However, rates and the negotiation process remain subject to the ultimate authority of the PUC to apply the regulatory law of Pennsylvania consistent with the public interest of Pennsylvania's citizens. The PUC substantially reduced, if not effectively eliminated, Equitable's ability and incentive to compete by offering discounts when, as part of recently concluded purchased gas cost proceedings for both Equitable and Dominion, the PUC advised the companies that, it would no longer allow the costs of the discounts to be recovered from other customers if the discount was offered in order to induce a customer to switch its delivery service from another jurisdictional LDC, or to match an offer made to an existing customer by another jurisdictional LDC in order to retain the load. Equitable therefore denies Paragraph 22 to the extent it avers that Equitable has an ongoing incentive to compete for the business of the individual nonresidential end users by offering discounts no longer contemplated by the PUC. Moreover, as the PUC's Administrative Law Judge wrote in his Initial Decision, "maintenance of gas-on-gas distribution is poor public policy. . . ." and that, "[p]resent Commonwealth law and public policy do not favor competition

among gas distribution utilities.” Initial Decision at 68. Equitable otherwise denies the remaining allegations of Paragraph 22.

23. Equitable admits that it offers distribution discounts to a small number of contested nonresidential natural gas distribution customers who are fortuitously located in areas of overlapping service territories. These discounts remain subject to the continuing oversight of the PUC and established Pennsylvania law, which gives the PUC exclusive discretion to determine the extent of competition to be allowed between Pennsylvania public utilities. Equitable denies that any competition that may exist results in better service. Equitable denies the remaining allegations of Paragraph 23.

24. Equitable admits that in an extremely limited geographic area of Western Pennsylvania, it may be the only other LDC besides Peoples with authority to provide local natural gas distribution. In other areas, Columbia Gas of Pennsylvania, Inc. and/or T.W. Phillips Gas & Oil Co. may also have operating authority. Equitable denies that it has an unfettered right to “compete” in these areas. Limited competition exists in Pennsylvania as a form of regulated competition subject to the continuing oversight of the PUC and established Pennsylvania law. Equitable otherwise denies the remaining allegations of Paragraph 24.

IV. RELEVANT MARKETS

25. Equitable denies the allegations contained within Paragraph 25.

26. Equitable denies the allegations contained within Paragraph 26.

V. ENTRY CONDITIONS

27. To the extent that Paragraph 27 refers to the LDC business, Equitable admits that the LDC business requires a substantial investment of capital and scale efficiency, and is, accordingly, a natural monopoly that renders entry difficult. Entry into the LDC business is also

impeded by significant regulatory barriers. Equitable denies Paragraph 27 to the extent it is intended to encompass anything other than the LDC business.

VI. ANTICOMPETITIVE EFFECTS

28. Equitable denies the allegations contained within Paragraph 28.

29. Equitable denies the allegations contained within Paragraph 29 in their entirety, including the allegations contained within the subparts therein.

VII. VIOLATIONS CHARGED

COUNT I - ILLEGAL ACQUISITION

30. Equitable denies the allegations made in paragraph 30 and incorporates by references its responses set forth above to paragraphs 1 through 29.

31. Equitable denies the allegations contained within Paragraph 31.

COUNT II - ILLEGAL ACQUISITION AGREEMENT

32. Equitable denies the allegations made in paragraph 32 and incorporates by references its responses set forth above to paragraphs 1 through 31.

33. Equitable denies the allegations contained within Paragraph 33.

To the extent that the Complaint can be read to make any other specific allegations that were not admitted or denied above, those allegations are denied.

NOTICE and NOTICE OF CONTEMPLATED RELIEF

This section does not contain any factual averments; therefore it does not require any response, except that Equitable denies that the Commission is entitled to any relief.

DEFENSES

FIRST DEFENSE

The actions of respondent Equitable challenged in the Administrative Complaint are immunized from application of the Sherman, Clayton and Federal Trade Commission Acts by reason of the state action antitrust doctrine insofar as all of the actions that are the subject of the allegations contained within the FTC's Administrative Complaint were undertaken pursuant to a clearly articulated and affirmatively expressed policy of the Commonwealth of Pennsylvania, acting through the Pennsylvania Public Utility Commission, and are subject to active supervision by the state.

SECOND DEFENSE

The Complaint, in whole or in part, fails to state a claim upon which relief can be granted.

THIRD DEFENSE

The Complaint fails to comply with Section 5(b) of the Federal Trade Commission Act, 15 U.S.C. § 45(b), because the issuance of the Administrative Complaint and the contemplated relief are not in the public interest.

FOURTH DEFENSE

The acquisition will result in substantial merger-specific efficiencies that far outweigh any alleged anticompetitive effects and, as a result of the applicable regulatory system, will benefit consumers.

FIFTH DEFENSE

The alleged market definitions fail as a matter of law.

OTHER DEFENSES

Equitable reserves the right to assert other defenses as discovery and the proceedings continue.

* * *

WHEREFORE, Equitable respectfully request that the Commission (i) dismiss the Complaint in its entirety with prejudice, (ii) award Equitable its costs of suit, including attorneys' fees, and (iii) award such other and further relief as the Commission may deem proper.

Dated: April 9, 2007

Respectfully submitted,

By: George S. Cary / CTL

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing ANSWER OF RESPONDENT EQUITABLE RESOURCES, INC. TO THE FEDERAL TRADE COMMISSION'S ADMINISTRATIVE COMPLAINT was served on April 9, 2007, upon the following persons:

By Hand

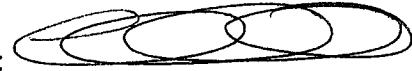
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