PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

PA PUC, et al. v. Peoples Natural Gas Company LLC, Peoples Natural Gas Company LLC – Equitable Division and Peoples TWP LLC

Public Meeting: August 31, 2017
2586310-ALJ, 2586317-ALJ
Docket Nos. R-2017-2586310, R-2017-2586318, R-2017-2586317, et al.

STATEMENT OF VICE CHAIRMAN ANDREW G. PLACE

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the purchase gas cost filings as required under Section 1307(f) for Peoples Natural Gas Company LLC (Peoples), Peoples Natural Gas Company LLC – Equitable Division (Equitable), and Peoples TWP LLC (TWP) (Companies), which provide for projected changes in tariff rates resulting from changes in the Company's purchase gas costs (PGCs). On June 2, 2017 a Joint Petition for Settlement (Settlement) was filed. I recommend approval of the PGC filings, as amended by the Settlement.

While I am supportive of the Settlement, I want to express my concern about the increasing levels of Lost and Unaccounted for Gas (LUFG). Specifically, for the 12 months ending August 31, LUFG on the Peoples/Equitable system has increased steadily from 3.79% to 4.44% to 5.54%, respectively, over the last 3 years.[1] Similarly, LUFG on TWP has increased steadily from 2.27% to 2.88% to 3.36% to 3.91%, respectively, over the last 4 years.[2] Moreover, LUFG has increased in absolute terms, despite lower throughput in 2016 for all Companies.

The Companies have been on notice for some time about these high loss factors. As far back as August 30, 2007, Vice Chairman Cawley expressed concern regarding Equitable's large values for LUFG and Company Use.[3] Equitable was reminded of these concerns in similar statements in 2008 and again in 2014.

Similarly, Peoples was on notice for its high LUFG volumes beginning on September 13, 2007.[4] Peoples was reminded of these concerns in similar statements in 2008,[5] and again in 2010, but given time to allow their new LUFG mitigation measures to take effect.[6] Further, TWP was also provided notice about these concerns on June 16, 2010.[7]

[1] Docket No. R-2017-2586310, OSBA Statement #1.
[2] Docket No. R-2017-2586317, OCA Statement No. 1, Schedule JDM-1.
[3] Statement of Vice Chairman Cawley, Docket No. R-00072111.
[4] Statement of Chairman Cawley, Docket No. R-00072109.

[5] Statement of Chairman Cawley, Docket No. R-2008-2022206.
[6] Statement of Chairman Cawley, Docket No. R-2010-2155608.
[7] Statement of Chairman Cawley, Docket No. R-2009-2145441, as revised by the Focused Management and Operations Audit.

As early as 2008, Peoples committed to monitoring LUFG on gathering systems and quantify these [loss] levels under its PGC settlement agreement. Additionally, measurement was to occur at customer offtakes, company use points and gas receipt points into the transmission system. In Peoples 2009 PGC Settlement, the Company further agreed to report, in its next 1307(f) filing, on the progress of its LUFG mitigation measures as described in the Direct Testimony of Joseph A. Gregorini. As part of the settlement in this case, Peoples agreed to provide and had attached thereto an Appendix "B" - a summary of ten mitigation measures and approximate completion dates. In its 2011 PGC, Peoples committed to use reasonable efforts to implement its "2011 Unaccounted-For-Gas Plan and Report" (LUFG Plan). The LUFG Plan set forth a target LUFG rate of 4.65% by 2014. In its 2014 PGC settlement, Peoples committed to continuing its efforts to reduce lost and unaccounted for gas on its gathering, distribution and transmission facilities. More specifically, Peoples explained that it would identify gathering pipelines with high leak frequency and prioritize them for its Repair//Replace program, in order to further reduce LUFG. In its 2016 PGC settlement, the Company again committed to continue its efforts to reduce LUFG.

As far back as 2008, Equitable has been developing plans to mitigate LUFG. In Equitable's 2008 PGC docket, Equitable agreed to track and report efforts made to reduce LUFG on its system. Equitable further articulated its LUFG reduction measures in its 2009 PGC filing.[8] These measures included main line replacement, pressure testing of house lines, leak surveys, third-party damage reduction strategies, theft reduction, and elimination of measurement error.[9] In its 2010 PGC filing, Equitable identified its primary UFG reduction initiatives to include: (1) segmentation of the gathering system; (2) line walking; (3) meter-size testing; and (4) a more stringent large meter calibration program.[10] In 2014, Equitable again committed to continue its efforts to reduce lost and unaccounted for gas on its gathering, distribution and transmission facilities, and reiterated its intention to execute its (1) Enhanced Leak Repair Program, which prioritizes leak repairs; (2) Measurement Improvement Program, designed to audit and improve measurements at producer interconnects and to study the impact of temperature on the measurement accuracy of non-compensated meters; (3) Interconnect Improvement Program, designed to eliminate the possibility of gas backflow; and (4) Pipeline Improvement Plan, to abandon or replace pipelines that are obsolete or cannot be repaired.[11] Under last year's joint PGC filing in 2016, Equitable and Peoples' mitigation plan included increased leak repair on Class 2 and Class 3 leaks to reduce the duration of leaks and resulting UFG, more frequent monitoring of high or low volume meters to ensure they are operating within an acceptable measurement range, and review of producer and customer meters that appear inactive to mitigate gas theft or unintended reverse flow. Lastly, Peoples asserts it monitors system pressures to make sure the Company is not operating at pressures higher than what is required to serve its customers, thus reducing gas loss through pipe leakage or measurement errors.[12]

TWP agreed to continue its ongoing efforts to control LUFG through its "Leak Tracker and Hot List" programs and committed to continue to implement cost-effective efforts to reduce

[8] Docket No. R-2008 2021160, RD at 4.
[9] Docket No. R-2009-2088072, Equitable Witness Thomas P. Wiggers, Equitable Exhibit TPW-3.
[10] Docket No. R-2010-2155613, RD at 12.
[11] Docket No. R-2014-2403935, RD at 8, 12-13.
[12] Docket No. R-2016-2528562, RD at 24.

LUFG in its 2010 PGC docket. If the Company's LUFG percentage in 2010 increases over the 2009 level, the Company agreed to provide an explanation of the causes for such increases in the next PGC filing and a recommended response to such causes. These programs included 11 specific elements designed to address high LUFG, including:

1. Leak Tracker: Find and fix more leaks and provide regular updates,
2. Hot List: Survey the highest prone areas of leakage more frequently,
3. Leak survey bare steel pipe annually,
4. Abandon Pipe: Identify and cut off sections of pipe serving no distribution purpose.
5. Install Master Meters: Consolidate and move gas purchase meters closer to transmission pipelines,
6. Active Corrosion Areas: Identify and track areas of active corrosion and increase their priority for replacement,
7. Provide a modest financial incentive to district operating employees for a 10% reduction in district LUFG from the prior year,
8. Unmetered Company Use: Emphasize identification and quantification of all Company use gas,
9. OPCP: Install 100 check valves to prevent gas flow from the existing pipeline system,
10. Temperature Compensated Gas Purchase Meters: Install temperature compensated meters on gas purchases with compression to more accurately measure gas receipts, and
11. Reduce Operating Pressures: Reduce operating pressures and/or isolate segments to lower LUFG.[13]

In the May 24, 2011 acquisition of T. W. Phillips Gas and Oil Co. by LDC Holdings II, LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP. T. W. Phillips Gas and Oil Co. was merged into a newly-formed limited liability by the name of Peoples TWP LLC. The Commission approved the acquisition by Order entered on May 23, 2011 at Docket No. A-2010-2210326 (Acquisition Settlement), under which Peoples TWP was to investigate ways to reduce LUFG, and to collaborate with its affiliate, Peoples Natural Gas LLC (Peoples) to identify best practices to reduce LUFG. Peoples TWP completed the required LUFG evaluation and presented the results to the Commission and the parties to the Acquisition Settlement. Peoples TWP Statement No. 3, pp. 9-10. PWB Exhibit 1. The evaluation of both the Peoples TWP and Peoples LUFG programs identified six broad LUFG Best Practices and 25 detailed programs within those six best practices. Peoples TWP implemented five of the six best practices and 24 of the 25 detailed programs. TWP again reiterated its commitment to continue cost-effective efforts to maintain LUFG at reasonable levels in its 2012 PGC docket.[14] In 2013, TWP explained that it intended to continue its existing LUFG programs and, in addition, to implement a trial segmentation study. The segmentation study was intended to evaluate LUFG on a portion of TWP's system that is in an area that gathers local production, but is after

[13] Docket No. R-2009-2145441, Letter of T.W. Phillips Gas and Oil Company, July 8, 2010.
[14] Docket No. R-2011-2273539, RD at 20.

producer purchase meters. This project would provide TWP with measurements that would allow it to better separate actual distribution LUFG levels from LUFG experienced on the non-distribution portion of the system.[15] Under last year's PGC filing in 2016, TWP's mitigation plan included increased leak repair on Class 2 and Class 3 leaks to reduce the duration of leaks and resulting UFG, more frequent monitoring of high or low volume meters to ensure they are operating within an acceptable measurement range, and review of producer and customer meters that appear inactive to mitigate gas theft or unintended reverse flow. Lastly, TWP asserts it monitors system pressures to ensure the Company is not operating at pressures higher than what is required to serve its customers.[16]

Under the current settlements before us, the Companies propose to assemble a cross-functional team to assess, analyze and take deliberate steps to mitigate LUFG. The LUFG team will be led by a new, senior, full-time manager with a primary job description of managing LUFG activity. Peoples' immediate plan is to continue the LUFG reduction initiatives described in their filing, which the Companies claim have proven over time to be effective. In addition, the Companies have started a process to review the ongoing value of owning, operating and maintaining various portions of its gathering system. Peoples plans to study the projected cost of owning and operating various segments of its gathering system in the future and to assess options, recognizing that while customers served directly from the gathering system comprise less than 1% of Peoples' total customer base, this is still a substantial number of customers, and even more are served from distribution systems connected to the gathering system. The Company will prioritize Enhanced Leak Repair, will continue to monitor supply interconnects to ensure accurate measurement and backflow prevention equipment is effective, and will continue system segmentation efforts to identify and report LUFG based on pipeline function. However, Peoples explains that it is not feasible to expect immediate and significant reductions in UFG as a result of UFG mitigation efforts.

I take exception to this statement. Many of these LUFG reduction plans have been on the books since at least 2008 – over a decade, as documented in the previous cases addressed by the Commission. The Companies have had sufficient time to explore the effectiveness of these strategies. I agree with the Office of Investigation and Enforcement (I&E) and the Office of Small Business Advocate (OSBA) - it is time for Peoples' UFG mitigation plan to show positive results. This is fundamentally important as the Companies current LUFG is not only costing customers upwards of $23.9M per year but also losing to the atmosphere substantial quantities of a potent greenhouse gas.[17]

In this proceeding, the Companies were critical of both I&E and the OSBA for not proposing alternative solutions. To that end, I will point out the utilities have strongly objected to this Commission being a "Super Board of Directors". The Commission as well as utilities have the tools to change policies that permit Companies to operate efficiently and to reduce costs. If a policy change is needed concerning this issue, I would encourage the Companies to inform the Commission and other stakeholders of needed improvements to address the UFG

[15] Docket No. R-2013-2341604, RD at 21.
[16] Docket No. R-2016-2528557, RD at 19. Docket R-2016-2528557, RD at 22.
[17] Assumes 2016 LUFG volumes of 6,544,217Mcf for Peoples/Equitable and 1,076,115Mcf for TWP, valued at $3/Mcf.

issue. However, in the interim, I suggest the Companies empower this cross-functional team to immediately reduce LUFG and reflect improvements before the Companies next 1307(f) docket that otherwise might necessitate an adjustment to disallow certain costs as were presented here.

DATE: August 31, 2017

Andrew G. Place, Vice Chairman