

COMMONWEALTH OF PENNSYLVANIA



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January 2, 2014

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 171020

RE: Petition of UGI Utilities, Inc.  
for Approval of its Long-Term  
Infrastructure Improvement Plan  
Docket No. P-2013-2398833

Dear Secretary Chiavetta:

Attached for electronic filing are the Comments of the Office of Consumer Advocate in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script that reads "Erin L. Gannon".

Erin L. Gannon  
Assistant Consumer Advocate  
PA Attorney I.D. #83487

Attachment

cc: Commissioner Robert F. Powelson, Chairman  
Commissioner John F. Coleman, Jr., V. Chairman  
Commissioner James H. Cawley  
Commissioner Pamela A. Witmer  
Commissioner Gladys M. Brown  
Bohdan Pankiw, Law Bureau  
David Screven, Law Bureau  
Paul Diskin, Bureau of Technical Utility Services  
Erin Laudenslager, Bureau of Technical Utility Services

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of UGI Utilities, Inc. – Gas Division :  
for Approval of its Long-Term Infrastructure : P-2013-2398833  
Improvement Plan :

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COMMENTS OF THE  
OFFICE OF CONSUMER ADVOCATE

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Dated: January 2, 2014

## I. INTRODUCTION

On February 14, 2012, Governor Corbett signed Act 11 of 2012 (Act 11 or the Act) into law. Act 11 amends, *inter alia*, Chapter 13 of the Public Utility Code to permit water and wastewater utilities, electric distribution companies, natural gas distribution companies and city natural gas distribution operations to petition for implementation of a Distribution System Improvement Charge (DSIC). See 66 Pa. C.S. §§ 1350-1360 (Act 11). In order to qualify for DSIC recovery, a utility must submit a Long-Term Infrastructure Improvement Plan (LTIIP) for Public Utility Commission (Commission) approval. See 66 Pa. C.S. § 1352. See also In re: Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Final Implementation Order at 21 (Aug. 2, 2012) (Final Implementation Order).

The following seven elements must be included in a utility's LTIIP: (1) types and age of eligible property; (2) schedule for its planned repair and replacement; (3) location of the eligible property; (4) reasonable estimate of the quantity of property to be improved; (5) projected annual expenditures and measures to ensure the plan is cost-effective; (6) manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service; and (7) a workforce management training plan designed to ensure that the utility will have access to a qualified workforce to perform work in a cost-effective, safe and reliable manner. See 66 Pa. C.S. § 1352(a). See also Final Implementation Order at 17-19. It is the utility's burden to demonstrate that its proposed LTIIP and associated expenditures are reasonable, cost-effective, and designed to maintain safe, adequate, and reliable service to customers. Final Implementation Order at 20. The OCA submits that when a utility seeks recovery of costs expended pursuant to its LTIIP in a future proceeding, the utility must demonstrate, *inter alia*, that the costs were reasonably and prudently incurred. Further, the utility

will have to demonstrate that there is no overlap of costs already reflected in base rates with costs expended pursuant to an LTIP. 66 Pa. C.S. § 1357(a)(1)(i).

A utility must file its proposed LTIP with the Commission and serve copies on statutory advocates and all active parties in the utility's last base rate case. See Final Implementation Order at 20. Once filed, a utility's proposed LTIP will be assigned to the Commission's Bureau of Technical Utility Services (TUS) for analysis. TUS is to make a recommendation to the Commission, and other parties may file comments to a proposed LTIP within 20 days of the date it was filed. Id. If any party's comments raise issues of material fact, the proposed LTIP will be referred to the Office of Administrative Law Judge (OALJ) for hearing and decision, which litigation must be completed within 120 days. Id.

The Commission must initiate a rulemaking regarding the five-year periodic review of LTIPs and draft regulations accordingly. See 66 Pa. C.S. § 1352(b)(1). See also Final Implementation Order at 21. In its regulations, the Commission intends to also allow for flexibility by a utility's management to deviate from a previously approved LTIP if circumstances arise, as long as the utility identifies operational, financial, or other justifications for deviating from its approved plan. See Final Implementation Order at 21-22. The Commission will, however, require public notice and comment and Commission approval for significant modifications to an approved LTIP. Id. at 21. Further, Section 1353(b)(2) provides that the Commission shall promulgate regulations that terminate a utility's DSIC if the utility does not comply with its approved plan. Such termination, however, will not occur without the utility being afforded notice and an opportunity to be heard. See 66 Pa. C.S. § 1353(b)(2); see also Final Implementation Order at 22.

On December 12, 2013, UGI Utilities, Inc. – Gas Division (UGI-GD or the Company) filed a Petition for approval of its LTIP with the Commission (Petition).<sup>1</sup> The Company's LTIP is attached as Exhibit A to the Petition (LTIP). The OCA submits these Comments on UGI-GD's proposed LTIP for the Commission's consideration. In the OCA's view, the Company's Plan reflects a thorough effort to address the legislative and Commission elements required for the LTIP. Some additional information may be necessary, however, for the Commission to determine that the proposed improvements are prudent and cost-effective and will maintain safe, reliable and reasonable service as required by Sections 1352(a)(5), (a)(6) and 1353 of the Public Utility Code.

## II. COMMENTS

### A. Introduction

In its December 12, 2013 Petition, the Company requests that the Commission find that the Company's LTIP contains all necessary items identified in Section 1352 and approve the LTIP. Petition at 12. UGI-GD notes that it has been identifying and repairing, improving, or replacing its distribution infrastructure as part of its obligations under the Settlement Agreement approved by the Commission at C-2012-2308997. Petition at 4-5. That 2013 Settlement requires the Company to accelerate its pace to replace all cast iron pipelines in 14 years. Pa. PUC, Bureau of Investigation and Enforcement v. UGI Utilities, Inc., C-2012-2308997, Order at 20-22 (Feb. 19, 2013) (February 19 Order).

UGI-GD states that its LTIP is designed to accelerate its investment in 2014 through 2018 to approximately \$51.2 million per year in DSIC-eligible distribution infrastructure, including *inter alia*, gas distribution and transmission mains, service lines, gas meter sets, district

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<sup>1</sup> Concurrent with the filing of UGI-GD's LTIP, UGI Penn Natural Gas, Inc. (UGI-PNG) and UGI Central Penn Gas, Inc. (UGI-CPG) both filed LTIP Petitions and DSIC petitions at Docket Nos. P-2013-2397056 and P-2013-2398835, respectively. UGI-GD is not filing a DSIC petition at this time.

regulator and city gate stations, mandated facility relocations, and related capitalized costs. LTIP at 7, 25. According to the Company, in 2014, its plan will enable it to replace approximately 33 miles of combined cast iron and bare steel mains. LTIP at 19. The Company's accelerated main replacement program will initially focus on cast iron and bare steel/wrought iron mains and related facilities, with all 347 miles of cast iron retirements to be completed by February 2027, and all 392 miles of bare steel/wrought iron to be completed by September 2041. Petition at 6; February 19 Order at 23. The Company further states "the amount of the annual UGI Distribution Companies' [UGI-GD, UGI PNG, and UGI CPG, collectively] 62 mile main replacement plan allocated to UGI-GD will vary as risks are annually re-evaluated and re-prioritized across all UGI Distribution Companies."<sup>2</sup> LTIP at 19. The Company includes a comparison of the accelerated capital expenditures under the LTIP to a three-year baseline average of capital expenditures from 2009 through 2011, which shows a 96% increase in eligible spending between the baseline period and 2018 projected spending. LTIP at 29-30.

UGI-GD proposes to replace coated steel distribution mains and transmission mains as necessary.<sup>3</sup> LTIP at 24. The Company maintains 117 miles of transmission pipelines. LTIP at 14. Nineteen percent of that system is pre-1960s vintage.<sup>4</sup> Id. at 16.

The Company states that it will also replace gas service lines in conjunction with replacement of the mains to which they are connected. Petition at 6. Indoor meters will also be replaced with outdoor meters at such time. Excess flow valves and regulators will also be

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<sup>2</sup> The Company's Petition notes that cast iron and bare steel make up 13.6% of UGI-GD's total 5,423 miles of distribution mains. LTIP at 8-9.

<sup>3</sup> UGI-GD's distribution system contains 32.1% unprotected/protected coated steel mains. Id. at 9.

<sup>4</sup> Only a small portion of UGI-GD's total transmission is bare steel (0.5%); the remainder is almost entirely protected coated steel. Id. at 15.

installed, and risers and meter bars will be replaced in conjunction with service line replacements. Id.

The Company also states that it will employ numerous oversight and control processes to ensure that resources expended on LTIP projects are prudently spent. LTIP at 26. As part of its effort to increase construction efficiency, the Company plans to group replacement projects with others in a geographic region. Id. at 27.

Implementing the mandates of new legislation requires great effort and care by all involved to ensure that the spirit and letter of the law is upheld. The OCA appreciates the Company's discussion of each of the legislative and Commission elements required for the LTIP, and the descriptions of its LTIP objectives and processes. The OCA submits, however, that certain additional information may be needed for Technical Utility Services and the Commission to properly evaluate whether UGI-GD's LTIP meets all the requirements of Act 11 and the Final Implementation Order, particularly with regard to acceleration and cost-effectiveness.

B. OCA Recommendations

1. Acceleration and Prudence

a. Cast Iron and Unprotected Bare Steel Accelerated Replacement

UGI-GD's proposed LTIP would accelerate its replacement of cast iron and bare steel mains during the next five years in accordance with the Settlement Agreement approved by the Commission at Docket No. C-2012-2308997. LTIP at 18. Under its LTIP, the UGI Distribution Companies reaffirm their commitment to replacing all cast iron and bare steel within their combined systems by February 2027 and September 2041, respectively. LTIP at 19. The

Company plans to prioritize replacement based on a systematic approach reflecting risk analysis, leak repair data, and project coordination opportunities. LTIP at 20-21; Appendix A.

To assist the Commission in assessing the Company's rate and prioritization of replacement, the OCA recommends that UGI-GD provide the Commission with the results of risk assessments for mains and services and/or program reports, particularly the parameters the Company selected when it conducted its analysis, leak histories, other scoring systems considered by its engineering department/Subject Matter Experts, and any outside reports from third-party consultants or engineers regarding its distribution system capital replacement or expansion that support the approach chosen for its replacement program. The OCA also recommends that, for each year of the LTIP, UGI-GD provide a breakdown of its projected pipe replacement showing the pipe materials (cast iron, unprotected bare steel, and protected bare steel) grouped by diameters to assist the Commission in understanding and evaluating the rate of replacement of system components, to the extent that the Company is not already providing, or required to provide, this information as part of the Settlement Agreement at Docket No. C-2012-2308997. See February 19 Order at 36-39. The Company should also provide leak histories for the projects identified for replacement in 2014 so the Commission can ensure that UGI-GD's replacement program is effectively targeting its worst-performing pipes, to the extent that this does not duplicate the Company's reporting obligations in the February 19 Order.

In addition, the Commission should request basic performance information for UGI-GD's system, such as leak rates per 1,000 services by material type or leaks per mile of main by pipe material type (for the diameters of mains included in the LTIP), to be considered together with the Company's selected approach. Some of this information can be derived from the DOT 7100 reports the Company must file annually with the Office of Pipeline Safety, Pipeline and



Hazardous Materials Safety Administration. 49 C.F.R. §§ 191, *et seq.* Having these reports for at least eight (8) years will allow comparison of periods before and during UGI-GD's current main replacement program and assist the Commission in evaluating the reasonableness and effectiveness of the Company's current and going-forward replacement plan.

b. Projected Costs

The Company provides its projected annual expenditures for each of the five years of the LTIIIP. LTIIIP at 25. The filing does not explain the basis for those estimates, however. The Company states that it anticipates replacing 33 miles of combined cast iron and bare steel mains in 2014 and identifies project locations and asset type (cast iron or bare steel). LTIIIP at 19, App. B. It is not clear from the chart on page 20 of the LTIIIP what its anticipated cast iron and bare steel replacement will be in the other years of the LTIIIP. UGI-GD has not provided any estimates for other categories of plant (quantity or associated expenditures) such as transmission or services. To this end, other utilities have provided a list of LTIIIP projects or estimated how much will be replaced each year for categories of plant in order to support their projected annual spending.<sup>5</sup> The OCA submits that this additional information is necessary for the Commission to evaluate the prudence and reasonableness of UGI-GD's projected expenditures.

c. City Gate and District Regulator Stations

The Company's LTIIIP includes City Gate and District Regulator stations, stating that stations and components must be periodically replaced or updated to maintain reliability and to ensure availability of replacement parts. LTIIIP at 13. The Company states that the regulator facilities may be replaced in whole or in part depending on project objectives. *Id.* The Company

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<sup>5</sup> See PECO LTIIIP, Appendix A (quantifying total replacement for the period of the LTIIIP by county and by asset type, *i.e.* mains, bare steel services, facilities relocation); PGW LTIIIP at 12 (showing quantities, asset type and expenditures for each year of the plan); PPL LTIIIP at 17-53 (units and expenditures by distribution asset by year); Peoples LTIIIP at 48-51 (projected investment by year and by asset type).

further states that these replacements fall under definition of DSIC-eligible property in Section 1351(2)(i) and (iv), piping and valves, respectively. UGI-GD identifies equipment such as heaters, supervisory control and data acquisition, and odorization, however, which do not appear to fall into the category of piping or valves. LTIP at 13. The OCA submits that these items may be eligible for DSIC recovery, but requests additional information from the Company to ensure that the identified plant items fall are properly recovered through a surcharge intended to accelerate the replacement of aging infrastructure.

In addition, the OCA submits that the Company should provide information about how it plans to prioritize replacement and upgrades of these facilities and how their rate of replacement will be accelerated from historic replacement. The OCA notes that City Gate Stations and District Regulator Stations serve different functions in the system and, thus, the Company's prioritization and rate of replacement may differ for each.

d. Reliability Improvements

The Company proposes to include reliability improvements required to "improve system pressures as may be needed to maintain system reliability design criteria to firm customers." LTIP at 17. As described by the Company, this type of project does not appear to be linked to concern over a particular pipe material type and its risk of failure in the field, *i.e.* aging infrastructure, but instead seems to be related to the Company's ongoing, routine operational planning for system growth and reliability. The OCA submits that the Company should address these types of projects through its normal capital planning process and recover the associated costs through its base rates.

e. Related Capitalized Costs

UGI-GD proposes to include costs related to items like tools, equipment, fleet, corrosion control, and information technology investments that are related to specific accelerated capital improvement projects. LTIP at 18. It is not clear that these costs are eligible distribution system plant that may be included in the LTIP and recovered through the DSIC. 66 Pa. C.S. § 1351. The OCA submits that the Company's proposal to recover these types of costs should be fully examined.

2. Cost-Effectiveness

A. Project Coordination and Municipal Outreach

The Company states that it will employ prioritization and construction methods that minimize service interruptions and impact to customers. LTIP at 27. Additionally, UGI-GD's LTIP states that it will continue its history of reaching out to municipalities to coordinate construction projects. LTIP at 33. The OCA commends this effort and submits that the Company should also coordinate construction activities with other utilities and agencies that may be planning sewer, water, paving, and other utility projects. In addition, the Company should routinely review planned projects with the Pennsylvania Department of Transportation (DOT) to identify and to coordinate highway reconstruction projects. The OCA suggests that the Company should provide further information in this regard so as to ensure that replacement is efficient and cost-effective.

C. Summary of OCA Recommendations

In summary, the OCA submits that supplemental information may be needed by the Commission and its staff in their review of UGI-GD's LTIP for compliance with the requirements of Act 11 and the Commission's Final Implementation Order. The OCA

recommends that the Company provide the following information, to the extent that it does not duplicate information required under the Commission's February 19 Order approving the Settlement Agreement, with modification, at Docket No. C-2012-2308997:

1. results of risk assessments for mains and services and/or program reports, particularly the parameters the Company selected when it conducted its analysis, leak histories, other scoring systems considered by its engineering department/Subject Matter Experts, and any outside reports from third-party consultants or engineers regarding its distribution system capital replacement or expansion that support the approach chosen for its replacement program;
2. a breakdown of pipe replacements by material and diameter;
3. leak histories for the projects identified for replacement in 2014;
4. the basic performance information for UGI-GD's system, such as leak rates per 1,000 services by material type and leaks per mile of main by pipe material type (for the diameters of mains included in the LTIP);
5. the Company's DOT 7100 reports for the prior 8+ years;
6. the basis for its projected annual expenditures for each of the five years of the LTIP;
7. details regarding the plant accounts proposed for inclusion in the LTIP related to City Gate and District regulator stations and information regarding the Company's proposed prioritization and acceleration of replacement and upgrade of those facilities;
8. information showing how proposed improvements to system pressures are part of the Company's plan for replacing aging infrastructure, as opposed to ongoing, routine operational planning for growth and reliability; and

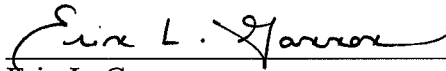
9. a report on its plans to coordinate with other utilities, agencies and local municipalities that may be planning sewer, water, paving, and other utility projects.

In addition, the OCA recommends that the Company's proposal to recover costs incurred for tools, equipment, fleet, corrosion control, and information technology investments through the DSIC be reviewed to determine whether it is consistent with statutory requirements.

### III. CONCLUSION

The OCA submits that, while it is not requesting a hearing in this proceeding at this time, the Company should provide additional information with its filing to allow the Commission to determine if UGI-GD's LTIP accelerates infrastructure repair and replacement in a cost effective manner as required by Act 11.

Respectfully submitted,



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Dated: January 2, 2014  
00178116

CERTIFICATE OF SERVICE

Petition of UGI Utilities, Inc. :  
for Approval of a Long Term : Docket No. P-2013-2398833  
Infrastructure Improvement Plan :

I hereby certify that I have this day served a true copy of the foregoing Comments of the Office of Consumer Advocate upon parties in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 2<sup>nd</sup> day of January 2014.

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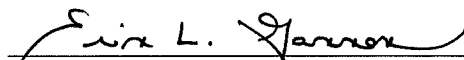
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