

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
HARRISBURG, PENNSYLVANIA 17105-3265**

**Re: Peoples Natural Gas  
Company LLC – Equitable  
Division Management Efficiency  
Investigation Evaluating the  
Implementation of Selected  
Recommendations from the 2010  
Focused Management and  
Operations Audit**

**Public Meeting: April 23, 2014  
2354811-AUD  
Docket No. D-2013-2354811**

**Joint Statement of Chairman Powelson  
and Commissioner Cawley**

Before us is the Management Efficiency Investigation (MEI) of Equitable Gas Company's (EGC) progress in implementing 18 of the original 72 recommendations. The Audit Staff's field work concluded prior to the approval of the merger of EGC into Peoples Natural Gas, and, as a result, all follow-up findings and recommendations were based on conditions that existed prior to the approved merger. The Audit Staff found that EGC has effectively or substantially implemented 10 of the 18 prior Management Audit recommendations reviewed, has taken some action on seven of the eight remaining recommendations, and has not taken action on one of the recommendations. Among the more notable improvements achieved by the management of EGC are:

- Developed alternate arrangements for natural gas supply from local Marcellus Shale production resulting in annual cost savings of approximately \$13.3 million.
- Reduced its unaccounted for gas levels from 5.8% in 2008 to 5.0% in 2012 resulting in an annual cost savings of approximately \$750,000.
- Began to staff the Gas Control Center with at least two gas controllers per shift.
- Increased capital spending dedicated to the accelerated replacement of bare steel mains to levels from \$16.3 million in 2008 to an annual average of \$19.2 million from 2009 to 2012. EGC plans to remove all small diameter cast iron mains by 2016 and all cast iron mains from the system within nine years. All bare steel should be removed from the system in 32 years (or approximately by 2045).
- Upgraded mapping and capital assets.

While these accomplishments are commendable, Audit Staff has identified further improvement opportunities in certain areas. In particular, EGC needs to reduce the number of outstanding leaks, especially Class 2 leaks, defined as leaks that do not present an immediate hazard but must be acted upon within 14 days based on its probability as a future hazard. Generally, a reinvestigation

must be performed at a set interval, but repair can take place within a year of detection. Class 2 leak inventories have increased from 740 in 2009 to 961 in April, 2013 – a 30% increase. In addition to the costs associated with lost gas, leaks are, of course, a safety concern that could result in property damage, injuries, or death. Consequently, EGC should make the required capital pipeline investments, exploit all opportunities for operational efficiencies, and continue to utilize new technologies to reduce all outstanding leaks, particularly Class 2 leaks.

April 23, 2014

Date



Robert F. Powelson



James H. Cawley