**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held March 10, 2016

Commissioners Present:

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| Gladys M. Brown, ChairmanAndrew G. Place, Vice Chairman |
| Pamela A. WitmerJohn F. Coleman, Jr. |
| Robert F. Powelson |

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| Petition of Peoples Natural Gas Company, LLC for Approval of its Second Revised Long-Term Infrastructure Improvement Plan for its Peoples Division and Equitable Division |  Docket Numbers: P-2013-2344596 P-2013-2342745 |

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Commission for consideration is the Petition for approval of the Peoples Natural Gas Company, LLC (Peoples, or Company) Second Revised Long-Term Infrastructure Improvement Plan for its Peoples Division and Equitable Division for the period January 1, 2015, through December 31, 2019 (Second Revised LTIIP). This petition was filed November 6, 2015, and replaces Peoples’ current LTIIP.[[1]](#footnote-1)

Peoples is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. Peoples is in the business of selling and distributing natural gas to retail customers within the Commonwealth, and is therefore a “public utility” within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, subject to the regulatory jurisdiction of the Commission. Peoples, as a Natural Gas Distribution Company (NGDC), provides natural gas service to approximately 640,000 residential, commercial, and industrial customers in all or portions of 16 Southwestern Pennsylvania Counties.[[2]](#footnote-2)

Copies of the Second Revised LTIIP were served upon the statutory advocates and all parties to the Merger Settlement at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651.

No objections or comments were received from any parties. On February 18, 2016, via Secretary Letter, the Commission extended the consideration period for Peoples’ Second Revised LTIIP until March 11, 2016.

**HISTORY OF THE PROCEEDING**

On February 14, 2012,Governor Corbett signed into lawAct 11 of 2012, (Act 11),[[3]](#footnote-3) which amends Chapters 3, 13 and 33 of Title 66. Act 11, *inter alia*, provides utilities with the ability to implement a Distribution System Improvement Charge (DSIC) to recover reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. The eligible property for the utilities is defined in 66 Pa. C.S. § 1351. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file a LTIIP with the Commission that is consistent with 66 Pa. C.S. § 1352.

 On April 5, 2012, the Commission held a working group meeting for discussion and feedback from stakeholders regarding its implementation of Act 11. On May 10, 2012, the Commission issued a Tentative Implementation Order addressing and incorporating input from the stakeholder meeting. On August 2, 2012, the Commission issued the Final Implementation Order, at Docket Number M-2012-2293611, establishing procedures and guidelines necessary to implement Act 11.

The Final Implementation Order adopts the requirements established in 66 Pa. C.S. § 1352, provides additional standards that each LTIIP must meet, and gives guidance to utilities for meeting the Commission’s standards. The Final Implementation Order of Act 11 requires the inclusion of seven elements in the LTIIP.

 On March 14, 2013, the Commission issued a proposed rulemaking on LTIIP at L-2012-2317274. The proposed rulemaking acknowledged the Commission’s decision against establishing a separate Pipeline Replacement and Performance Plan filing process at Docket Number M-2011-2271982, because it would be duplicative of the Act 11 DSIC regulatory process, specifically, the filing of LTIIPs. The Commission, nevertheless, determined that it would rather order additional actions from NGDCs if necessary, in order to safeguard the public. The Commission also acknowledged that the implementation of a DSIC mechanism may lead to numerous construction projects by the utilities. The Commission is also aware that these construction projects could lead to significant disruptions as utilities perform work in the right of ways of the roadways and streets across the Commonwealth in order to repair or replace their infrastructure. Therefore, the Commission has directed, by way of the proposed rulemaking, that a utility, as part of its LTIIP, should provide a description of its outreach and coordination activities with other utilities, Pennsylvania Department of Transportation (PennDOT) and local governments regarding their planned maintenance/construction projects and roadways that may be impacted by the plan.

 Therefore, the proposed rulemaking added an additional element, thereby increasing the seven elements in the LTIIP to eight as shown below:

1. Types and age of eligible property;
2. Schedule for its planned repair and replacement;
3. Location of the eligible property;
4. Reasonable estimates of the quantity of property to be improved;
5. Projected annual expenditures and measures to ensure that 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 and training program.
8. A description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects.

As stated in the Final Implementation Order, a Commission-approved LTIIP is subject to periodic review, and the process for the periodic review of approved LTIIPs is addressed in a rulemaking at L-2012-2317274. The Commission has issued a final rulemaking order to provide a comprehensive process for the ongoing review of approved LTIIPs and to ensure that all utilities remain in compliance with their respective LTIIPs.

On March 31, 2013, a Joint Application was filed by Peoples Natural Gas Company LLC (Peoples), Peoples TWP LLC and Equitable Gas Company (Equitable) at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651 seeking the necessary approvals for, among other things, (1) the transfer of 100% of the membership interests in Equitable to PNG Companies LLC, Peoples’ direct parent and an indirect subsidiary of SteelRiver Infrastructure Fund North America LP; (2) the merger of Equitable with Peoples, and the operation of the former Equitable properties and business as an operating Division of Peoples; and (3) the transfer of certain storage and transmission assets of Peoples to EQT Corporation. On November, 14, 2013, the Commission entered an Order approving a Joint Petition for Settlement (Merger Settlement) of all issues in the acquisition proceeding.

One of the provisions of the Merger Settlement required Peoples to freeze the costs included in the Peoples Division and Equitable Division Distribution System Improvement Charge (DSIC) mechanisms until such time as Peoples filed a Revised LTIIP or Asset Optimization Plan for 2015 through 2019 that addressed the effects of the acquisition transaction, including how redundant facilities would be handled. A Revised LTIIP was filed in compliance with this Merger Settlement provision, and approved by Commission Order entered December 18, 2014. Prior to the merger, both companies proposed and received Commission approval of separate LTIIPs to guide the repair and replacement of aging infrastructure.[[4]](#footnote-4)

**PEOPLES’ SECOND REVISED LTIIP PETITION**

 Peoples Second Revised LTIIP is a five-year plan that refocuses the priorities set forth in the previously-approved LTIIP for Peoples. The Merger Settlement stipulated capital spending commitments by Peoples for their Peoples and Equitable Divisions. Those spending commitments were further clarified in a subsequent Petition and Settlement that allowed Peoples to apply the annual Division capital commitments on

a combined basis with the stipulation that Peoples would meet the annual aggregate capital spending commitment and ensure the required minimum annual commitment for the Equitable Division would be achieved.[[5]](#footnote-5)

Peoples Second Revised LTIIP proposes to modify its current LTIIP in order to reflect five changes to how Peoples will improve its infrastructure:

1. Peoples proposes to defer its bar coding information technology project;
2. Peoples proposes to build an in-house construction division to perform all pipeline construction related work;
3. Peoples proposes to focus its replacement program on pipelines in urban areas;
4. Peoples proposes to implement a smart meter technology;
5. and Peoples proposes to include a new LTIIP category for the replacement and investment in measurement and regulation (“M&R”) infrastructure.

 The Second Revised LTIIP continues annual capital spending for infrastructure improvement at the same levels as contained in the current LTIIP. The changes described, above, impact five different elements of the current LTIIP and are described in greater detail below.

First, Peoples is suspending implementation of its pipeline barcoding information technology program in its current LTIIP. That program includes investment in barcoding hardware, software, reading devices, and the investment in barcodes affixed to DSIC-eligible plant. A proposed rulemaking of the Federal Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (PHMSA) has created uncertainty around this subject matter, and Peoples proposes to defer its project until the uncertainty is removed.[[6]](#footnote-6)

Second, Peoples is establishing a self-contained, in-house construction division (“Construction Division”) that by the end of 2016 will perform all pipeline construction related work, including but not limited to design, planning, construction and restoration. Peoples avers the move to an in-house staffed Construction Division will maximize the overall quality of LTIIP construction (“Capital Work”) by reducing the “planning to restoration” construction cycle time and improving the efficiency and operating costs of all construction activities. Due to the very large upfront expenditures that are required to equip and set up the in-house Construction Division, Peoples is requesting approval to include all of these upfront expenditures as an approved LTIIP expenditure category for 2015 – 2017.

Third, Peoples is refocusing its infrastructure replacement more in the highly populated urban areas over the remaining term of the Revised LTIIP in order to further accelerate the reduction in overall system risk. The majority of the refocused pipeline replacement work will occur in the City of Pittsburgh and surrounding Allegheny County where much of this area is served by the Equitable Division pipeline system and duplicative pipelines are more commonplace. These changes will reduce the miles of pipe to be replaced in the remaining years covered by the LTIIP (2016 through 2019) as a result of the higher cost for pipeline replacements in urban areas. Peoples states that this temporary reduction in miles of pipelines to be replaced will be addressed through a larger increase in the miles of pipelines to be replaced during future periods in succeeding LTIIP submissions when a higher proportion of replacements will be in non-urban areas and the cost per mile of replacement is considerably lower.

Fourth, in its original LTIIP approved in 2013, Peoples received Commission approval for the inclusion of special meter technology as a LTIIP category. However, at that time Peoples had no specific, proposed meter technology program to list in its LTIIP and indicated that during the initial years of the LTIIP it planned to study the deployment of automated meter reading (AMR) technology. Peoples is now presenting its plan for a five-year program that will run from 2016 through 2020 through which it would retrofit Encoder Receiver Transmitters (ERTs) on all Peoples Division residential and commercial customer meters. Peoples states that implementation of the proposed special meter technology program will not reduce the miles of at-risk pipelines to be removed as outlined in the current LTIIP. Peoples states they will fund the project with LTIIP dollars transferred from the suspended bar coding technology initiative and use savings generated from eliminating, rather than replacing, duplicative pipelines.

Fifth, Peoples is proposing to add a new category to its LTIIP for Measurement and Regulator Station (“M&R”) upgrades and improvements for both the Peoples Division and Equitable Division. Peoples explains that these projects will address age, obsolescence, malfunctions, resizing, system operating pressure changes and performance/reliability issues at 6 existing stations and will also help to ensure safe and continued reliable gas service. As with the expenditures for the meter technology program, Peoples proposes to fund this new M&R category with LTIIP dollars saved from the suspension of the bar coding technology initiative and saved from eliminating, rather than replacing, duplicative pipelines. Therefore, the M&R program will not reduce the miles of at-risk pipelines to be removed from that contained in the current LTIIP.

In the Merger Settlement, Peoples agreed to commit an average of $80 million in LTIIP capital expenditures per year for the Peoples Division for the term of the Revised LTIIP. Additionally, the Merger Settlement required that the Equitable Division invest an average of $33 million for the years 2014-2016, and an average of $45 million for the years 2017-2019. As noted above, a subsequent Petition and Settlement allowed Peoples to meet the capital commitments on a combined basis, so long as the minimum commitment for the Equitable Division was met. Peoples avers that, as evidenced by the current LTIIP, Peoples’ planned LTIIP expenditures meet or exceed these annual spending commitments. The modifications proposed in the Second Revised LTIIP do not propose any changes to the combined annual spending levels for the Peoples and Equitable Divisions for the duration of the LTIIP.

Peoples’ current LTIIP addressed the eight elements of an LTIIP, and a copy of the current LTIIP was provided with the petition for the Second Revised LTIIP. Therefore, we will only discuss the five proposed changes from the current LTIIP to the instant Second Revised LTIIP.

**PEOPLES’ PROPOSED LTIIP CHANGES**

1. **DEFERRAL OF BAR CODING TECHNOLOGY**

**Discussion**

The current LTIIP for the Peoples Division and the Equitable Division includes an approved LTIIP category for pipeline bar coding information technology. This technology would enable the Company to track critical information on pipelines and related equipment and includes investment in barcoding hardware, software, and reading devices and the investment in barcodes affixed to DSIC-eligible plant.

The Peoples Division and the Equitable Division have not initiated this project and are not planning to do so at this time as a result of uncertainty created by a proposed rulemaking issued in May 2015 by PHMSA that concerned regulatory requirements involving plastic piping systems used in gas services. The proposed rulemaking, *inter alia*, addresses possible changes regarding the traceability and tracking of plastic pipelines. The Company believes that it is prudent to defer implementation of pipeline bar coding information technology until such future time when the details, requirements and timing regarding final regulations are known. As a result, the data provided within the Second Revised LTIIP no longer shows any planned expenditures for bar coding technology during the five-year LTIIP period. The existing LTIIP bar coding related expenditures of $3.0 million ($1.0 million per year for 2015-2017) for the Peoples Division and $3.0 million ($1.0 million per year for 2015-2017) for the Equitable Division will now be used for some of the expenditures for two new Second Revised LTIIP categories – special meter technology and M&R station upgrades.

**Disposition**

 Upon review of Peoples’ Second Revised LTIIP and all supplemental information filed, the Commission concurs that Peoples deferral of work involving bar coding technology is prudent at this time.

1. **CONSTRUCTION DIVISION**

**Discussion**

In recent years, approximately 20% of capital related construction work at Peoples, including design, planning, and construction, was performed by their in-house employees and crews. The remaining work was performed by outside independent contractors. Within the Equitable Division, an even greater percentage of such capital construction work was performed by outside independent contractors. Historically, all restoration capital work for both Divisions was performed by contractors. Recently, the Company reexamined these historical practices and developed a plan to revamp the construction process by establishing a Construction Division with in-house employees and construction crews that would perform 100% of capital related construction work at Peoples, the Equitable Division and its sister company – Peoples TWP, LLC.

The Construction Division’s scope of work will include design, planning, construction, and restoration. Peoples avers that the move to an in-house staffed Construction Division will further improve the quality of capital work by reducing the cycle time of “planning to restoration” and improving the efficiency and operating costs of all construction activities. The transition to a full Construction Division is expected to be a two-year process that will continue through 2016. By the end of 2016, the Construction Division will be staffed with superintendents, managers, supervisors, technicians and engineers, as well as approximately 300 field employees that will be located throughout our service territories to handle all construction and restoration work. Approximately 220 of these field employees (including field inspectors) will be assigned to 45 construction crews, and the remaining field employees (approximately 80) will be responsible for restoration work.

To address the seasonal nature of construction work in Peoples’ service territory, about 60% (approximately 180) of the total field jobs will be staffed with “seasonal” employees who would be required to work only during the construction season months of March through December of each year. For employee benefits purposes, these seasonal employees will be considered full-time employees even though they will work only ten months per year. Their pay for ten months of work will be paid over twelve months. While the Construction Division employees will be dedicated to performing capital work, they will be made available, on a limited basis, to support Operations and Maintenance (O&M) work activities, such as emergencies and overtime call outs, in order to ensure that all operations activities are done in the most cost-efficient manner. Should this occur, their time would be properly tracked and charged as an O&M expense.

The Company is establishing the in-house Construction Division in order to provide the optimal level of service for their customers over the 20-year period when the Company plans to replace all of its bare steel pipe. Peoples expects that the establishment of the Construction Division will provide numerous benefits, some of which are listed below:

* Improved quality of service and reduced construction times;
* Develop, and better enforce, all construction performance metrics as an in-house service;
* Enhanced partnering with local and regional government agencies and other utilities to improve coordination of various projects;
* Better coordination of all construction phases that will reduce time between planning, design, construction, and permanent restoration;
* Partnering with a proven high quality restoration company on a transitional basis to assist with initial restoration work and provide training/oversight of Peoples Companies’ new restoration employees; and
* Better assurance that technical skills and operator qualification training is performed and updated; avoided challenges of ensuring contractor compliance with skills/OQ training requirements.

Peoples states that the Peoples’ Companies, as well as other natural gas distribution companies in their region, have begun and will continue to pursue accelerated pipeline replacement programs. Also, abundant Marcellus shale production, which is located throughout Peoples’ service territory, has spurred new pipeline construction that Peoples expects to increase over the next few years as more pipeline projects are built to ship natural gas out of our region. Peoples believes these initiatives have increased, and will continue to increase, the demand for pipeline contractors to perform work on the development and replacement of pipeline infrastructure. Peoples explains that the increased demand for trained and capable pipeline contractors has increased the cost for such services and is expected to continue to increase further in the coming years. Peoples believes bringing this work in-house will provide insulation from this supply/demand driven cost escalation and help to control the labor costs for construction related work.

In order to outfit the newly formed construction crews, the Company will need to purchase various vehicles and miscellaneous tools/equipment including: gang trucks with compressors, trailers, backhoes, mini-excavators, dump trucks, pick-up trucks, fusion machines, pipe squeeze units and miscellaneous tools such as concreate saws and tamping machines. Also required are some larger items such as tri-axle tandem dump trucks, skid loaders, pipe trailers, and larger scale excavators. The Company began purchasing these items in 2015 but expects the bulk of these purchases to occur in 2016. A breakdown of the vehicle/equipment expenditures in support of each Division are set forth in Appendix 4 of the Second Revised LTIIP.

Peoples’ current LTIIP includes a category for Vehicles, Tools and Equipment. Due to the significantly increased scale of such purchases required to equip and set up the in-house Construction Division and the role the Construction Division will play in accelerating infrastructure improvement and controlling future cost escalation, the Company is now requesting approval to include these upfront expenditures as an approved LTIIP expenditure category for years 2015 – 2017. However, the Company is not requesting at this time, nor is it planning to request in the future, to recover these upfront expenditures for the specific period from 2015 – 2017 through the DSIC mechanism at the time the expenditures are made. Rather, the ongoing costs for these items (i.e., depreciation) will be charged as a capital overhead cost to each individual construction project as they are used. Peoples expects that the overhead capital costs associated with the use of these vehicles and equipment (depreciation, maintenance, and fuel) will qualify as DSIC recovery items only as they are used in support of and charged to future DSIC related projects through a clearing account process.

**Disposition**

 Upon review of Peoples’ Second Revised LTIIP and all supplemental information filed, the Commission believes that Peoples’ plan to develop an in-house Construction Division is in the public interest. This process will assist Peoples in conducting its replacement and upgrading activities in a timely and cost-efficient fashion and will enhance the reliability and safety of their system.

1. **PIPELINE REPLACEMENT STRATEGY – SHIFT TO URBAN FOCUS**

**Discussion**

The current LTIIP of the Peoples Division and the Equitable Division was filed shortly (six months) after the closing of the transaction that merged Equitable with Peoples. During that period of time, the Company was able to conduct preliminary evaluations of the priority of infrastructure replacement for both divisions with a goal of replacing the highest risk pipelines first, without regard to the Division in which the pipeline is located. Because the Company had planned to undertake further ongoing and in-depth pipeline replacement evaluations of both divisions following the submission of the current LTIIP, it sought and received Commission approval of a provision designed to provide the Company with flexibility to better address system-wide risk across Divisions. More recent evaluations conducted by the Company carefully reviewed the pipeline systems of both Divisions. These evaluations measured risk by evaluating the threat and consequence of failure of pipelines and considered both population and the density of mains and service lines as factors. Peoples avers the results of these more recent evaluations showed that by focusing pipeline replacement in the areas of high population density with overlapping pipelines, system-wide risk can be mitigated more quickly and in the most cost effective manner.

Peoples is now presenting a modification to its current LTIIP that reflects the recent evaluations and a shift of more of the planned spending to the Equitable Division to more effectively target pipeline replacements for higher risk projects located in the urban and higher population areas of the system. This modified approach will not eliminate infrastructure replacement work in non-urban areas during the period of this LTIIP, but will result in a more concentrated focus in the urban, duplicative pipeline areas. Along with risk reduction, Peoples notes that the urban focus will minimize the impacts on municipalities in the pipeline replacement areas by, among other things, shortening the period of disruption due to pipeline replacement for a large number of customers. Under the revised urban focus plan, the Company would complete bare steel pipeline replacement in the City of Pittsburgh within five to seven years and replace or remove from service by the end of 2015 all six miles of small diameter cast iron pipeline in place on the Equitable Division system at the time of acquisition.

Peoples is also proposing a measured, longer-term replacement approach for the existing thirty-one miles of large diameter (16 inch or larger) cast iron pipelines in the Equitable Division. The Company plans to remove the larger diameter cast iron pipelines over a fifteen year period. This longer term replacement period for larger diameter cast iron pipelines will enable the Company to undertake a carefully phased and sequential replacement plan that will utilize pressure reinforcing interconnections between the Divisions with a proposed high pressure loop/belt system around the City of Pittsburgh that will allow for downsizing or elimination of mainline segments.

During the five-year term of the Second Revised LTIIP, the majority of the refocused pipeline replacement work will occur in the more densely populated areas in the City of Pittsburgh and surrounding Allegheny County where much of this area is served by the Equitable Division pipeline system. The impact of focusing more pipeline replacement work in the urban areas of the system results in a higher cost per foot of pipeline to be replaced. These cost increases are due to, among other things, tight space work areas (which decreases efficiency), significant traffic control issues, excavating through multiple hard surface layers, and significantly more extensive restoration work on both the streets where the mains are located as well as on the customers’ property. The higher cost per mile to install pipelines in the urban areas will reduce the total mileage of pipelines to be replaced as set forth in the current LTIIP. The projected mileage of main to be replaced over the Second Revised LTIIP period (2015 – 2019) under the proposed urban focus plan is 446 miles as compared to the current LTIIP projection of 594 miles, which is a 25% reduction.

Peoples avers that, despite the reduction in mileage replaced, the new focus should also help to maximize the amount of pipelines that can be abandoned and not replaced during the term of the LTIIP through the ability to interconnect the pipeline systems of both divisions. Peoples notes that they have found additional efficiencies to be captured through the urban focus and projects that a total of 23 miles of urban pipeline can be abandoned without replacement over the 2016 - 2019 period. Peoples notes that the reduction in miles of main replaced would only be 21%, rather than 25%, when factoring in the miles of these avoided pipelines with the miles of pipeline to be replaced under the Second Revised LTIIP. Moreover, Peoples states that the reduction in miles of pipeline replaced is temporary and will be more than offset by an increase in the miles of pipeline to be replaced annually during future periods when a higher proportion of pipeline replacements will be in non-urban areas where the cost per mile of replacement is considerably lower. Peoples also notes that the number of services per mile of pipeline to be replaced under the Second Revised LTIIP will actually increase as a result of the increased density of customer premises.

Table 1, below, shows the shift in LTIIP spending from the Peoples Division to the Equitable Division as a result of the revised pipeline replacement strategy. Table 2, below, shows the change in cost per mile of main replacement between the current LTIIP and the Second Revised LTIIP.

**Table 1: Total LTIIP Spending from Current LTIIP to Second Revised LTIIP for Peoples Division, Equitable Division, and the Combined Total for Both Divisions**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **PEOPLES** |  |  |  |  |  |  |  |
|  | 2015 | 2016 | 2017 | 2018 | 2019 | Total | Average |
| Current | $54.5 | $73.0 | $84.0 | $96.0 | $97.9 | $405.4 | $81.1 |
| Second Revised | $43.3 | $56.8 | $63.6 | $70.8 | $71.8 | $306.3 | $61.3 |
| Change | -$11.2 | -$16.2 | -$20.4 | -$25.2 | -$26.1 | -$99.1 | -$19.8 |
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| **EQUITABLE** |  |  |  |  |  |  |  |
|  | 2015 | 2016 | 2017 | 2018 | 2019 | Total | Average |
| Current | $32.9 | $33.0 | $45.0 | $46.0 | $51.0 | $207.9 | $41.6 |
| Second Revised | $44.1 | $49.2 | $65.4 | $71.2 | $77.1 | $307.0 | $61.4 |
| Change | $11.2 | $16.2 | $20.4 | $25.2 | $26.1 | $99.1 | $19.8 |
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| **BOTH DIVISIONS** |  |  |  |  |  |  |  |
|  | 2015 | 2016 | 2017 | 2018 | 2019 | Total | Average |
| Current | $87.4 | $106.0 | $129.0 | $142.0 | $148.9 | $613.3 | $122.7 |
| Second Revised | $87.4 | $106.0 | $129.0 | $142.0 | $148.9 | $613.3 | $122.7 |
| Change | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |

**Table 2: Comparison of Cost per Mile of Main Replaced between Peoples’ Current LTIIP and Second Revised LTIIP**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015 | 2016 | 2017 | 2018 | 2019 | Average |
| Current | $733,750 | $701,905 | $718,462 | $754,676 | $776,429 | $737,044 |
| Second Revised | $786,957 | $901,471 | $932,222 | $906,542 | $906,195 | $886,677 |
| Change | $53,207 | $199,566 | $213,761 | $151,866 | $129,766 | $149,633 |

**Disposition**

Peoples avers that overall risk can be mitigated more quickly by focusing on more urban areas of the system (i.e., Pittsburgh and the surrounding areas). A direct result of this focus is that more replacement work will be done on the Equitable system, rather than the Peoples system. Peoples correctly points out that the Merger Settlement specifically requires a certain level of combined spending between the divisions, in addition to a certain minimum level of replacement spending for the Equitable Division. Consequently, a shift to more spending on the Equitable system is not a violation of the Merger Settlement.

The Commission is of the opinion that this shift in spending results in a significant benefit to the rate-payers for two reasons. First, the faster reduction in risk will result in increased safety and reliability benefits. Second, the efficiencies gained by this approach should reduce the number of miles of pipeline that will need to be replaced (by abandoning them instead), resulting in faster overall replacement of target pipe by the Company and reducing the costs being borne by the rate-payers. Therefore, the Commission feels that Peoples’ shift to an urban focus in its LTIIP is in the public interest.

1. **AUTOMATED METER READING (AMR)**

**Discussion**

AMR is a technology that allows for consistent and accurate collection of information from a natural gas meter. Peoples notes that the technology has been available for more than 40 years and has continued to evolve into the reliable, multi-faceted systems that are commercially available today. Peoples explains that readings are captured by an AMR device, which is a unit mounted on the natural gas meter by a trained installer. The AMR device has the ability to constantly monitor and register a customer's natural gas usage. Data is collected and transferred to a centralized database for billing purposes and/or usage analysis. This information is then used to calculate a monthly bill for the customer. Peoples avers that AMR eliminates the need for manual meter readings and, more importantly, eliminates the need for an “every other month” estimated bill. Peoples states that actual readings will increase customer satisfaction by improving the accuracy of customer usage data for billing and other data collection purposes and minimize intrusion upon a customer's home or business. Peoples notes that the majority of Natural Gas Distribution Companies in Pennsylvania are using AMR and, due to Act 129, all large Electric Distribution Companies are required to implement Smart Meters that perform similar functions.

Peoples’ current LTIIP includes special meter technology as an area of “special consideration.” Peoples explains that the special meter technology would likely involve an AMR technology such as Encoder Receiver Transmitters (“ERTs”), but at that time Peoples had no specific, proposed meter technology program to list in its LTIIP. Peoples intended to present a future claim to recover AMR technology costs when the Company began installation of AMR technology. The Company further explains that during the initial years of the LTIIP it planned to study the deployment of AMR technology.

Peoples has undertaken further evaluation and review of the special meter technology and is now proposing to revise its current LTIIP to incorporate the installation of AMR technology. The Company is proposing a five-year program that will run from 2016 through 2020 through which it would retro-fit ERTs, using the latest technology, on all Peoples Division residential and commercial customer meters. Peoples explains that ERTs use a packet radio protocol that will transmit data from customer meters to Company drive-by vehicles in order to collect metered usage data without a worker physically reading each meter. Under the proposed program, ERT’s would only be placed on Peoples Division customer meters and not on the meters of Equitable Division customers. Equitable Division customer meters have AMR/ERT equipment already installed.

The estimated total cost of the five-year program is $33.0 million and consists of costs for: data logging modules on 375,000 meters; hardware such as Mobile Collectors Units and accessories; software; planning; testing; and labor for ERT mounting and installation.[[7]](#footnote-7) Peoples’ first-year costs (2016) are estimated to be $5.1 million and will consist of upfront project planning and hardware and software costs of $2.2 million along with $2.9 million for the ERT units and installation on approximately 33,000 meters. The annual costs for each of the last four years of the plan (2017-2020) are estimated to be $7.0 million. This includes ERT units and installation on the remaining customer meters. Peoples states that the initial rollout will utilize drive by technology and the accelerated installation of ERTs on the Peoples Division system will be strategically installed by location so that Peoples Division and Equitable Division routes can be managed in the most efficient manner. Peoples notes that as new meters are installed through the normal meter change process, ERTs will be installed on those meters and the meters will be added to drive-by-routes as soon as practicable. The Company intends to further evaluate the installation of a fixed network system in concentrated areas that would permit the real-time automated collection of meter data using wireless communications in the future.

Peoples plans to redirect dollars from two areas to cover the costs related to the installation of AMR technology. First, as described above, the Company is not planning to initiate its bar coding technology initiative for the Peoples Division and the Equitable Division. Peoples proposes that the total bar coding related expenditures of $6.0 million as set forth in the current LTIIP ($3.0 million for the Peoples Division and $3.0 million for the Equitable Division) instead be used for AMR (as well as M&R station upgrades - a new LTIIP category discussed later).

Peoples also plans to use savings generated from reductions to their pipeline replacement capital costs that were not recognized in the current LTIIP. The means for generating these costs saving were made possible by the recent Commission approvals granted in the Peoples and Peoples Equitable Division’s 1307(f) proceedings to merge the purchased gas cost (PGC) rates of its two Divisions.[[8]](#footnote-8) Beginning October 1, 2015, both Divisions are charging the same PGC rates to their customers. Peoples notes that with the merger of gas costs rates, the Company will no longer be required to meter and track the physical flow of volumes delivered between the two Divisions. Earlier this year the Company more closely analyzed the systems to identify those previously unavailable opportunities to interconnect the pipeline systems in the overlapping urban areas. This analysis looked at the areas of planned pipeline replacement and initially identified approximately 23 miles of duplicative pipelines that now will no longer need to be replaced over the LTIIP period from 2016 through 2019. At an assumed urban area pipeline replacement cost of $1.2 to $1.5 million per mile, the initially identified 23 miles of avoided pipeline replacements could generate Peoples estimates synergy savings from the change of $28 to $35 million.

While Peoples already has Commission approval to include AMR technology as an LTIIP category for the Peoples Division, it received Commission approval to withdraw its proposal to recover AMR related costs through the DSIC mechanism with the right to present a future claim to include AMR technology costs at such time when the Company actually installs AMR support technology. The Company recognizes that such a claim would need to be made through a separate petition that requests modification of its existing DSIC recovery mechanism. The Company is not submitting such a petition at this time but reserves the right to do so in the future.

**Disposition**

 The Commission has already approved AMR technology as an LTIIP spending category for Peoples in their current LTIIP. Owing to the many benefits to be realized through the implementation of this technology, the Commission finds Peoples’ plan to incorporated AMR technology in the public interest.

1. **M&R STATIONS**

**Discussion**

 Peoples notes that M&R stations are critical points where gas pressure and delivery volumes are regulated to ensure that gas delivered into, or out of, a pipeline system is maintained within a specified and safe operating pressure range. M&R stations are located at points where gas is delivered between higher and lower pressure pipelines. Peoples explains that an M&R station regulates or adjusts pressure and volumes from a higher pressure transmission or distribution pipeline for delivery into a lower pressure distribution pipeline. The Peoples Division has 1,376 M&R stations strategically located on the system. There are 662 M&R stations on the Equitable Division system.

 During the five-year term of the Second Revised LTIIP, Peoples is planning to undertake various upgrades and improvements to the M&R stations and related M&R equipment located on both the Peoples Division and Equitable Division to ensure safe and continued reliable gas service to customers. Peoples notes that these upgrades and improvements are based on a number of factors. Peoples explains that those factors include: age; obsolescence; malfunctions; resizing; system operating pressure changes; performance and reliability issues; and relocation. During the five-year term of the Second Revised LTIIP, the Company is planning upgrades and improvements to approximately 40 M&R stations per year, or 200 M&R stations in total. The Company also plans to spend $7.1 million (or $1.4 million per year) for M&R station upgrades/improvements on the Peoples Division and $4.1 million (or $0.8 million per year) for M&R station upgrades/improvements on the Equitable Division.

 As explained, above, Peoples plans to redirect a portion of LTIIP dollars originally intended for bar coding technology ($6.0 million in avoided costs) and expected capital cost “synergy savings” ($28 to $35 million) toward the installation of M&R station upgrades. Over the five-year term of the Second Revised LTIIP, these redirected costs and synergy savings will be used to cover the estimated costs of M&R station upgrades ($11.2 million) and the AMR program ($26.2 million).

 Peoples proposes to include M&R station improvements as a new component of the LTIIP for both the Peoples and Equitable divisions. The Company recognizes that in order to recover the costs for this new category through the DSIC mechanism, a separate petition is required. The Company is not submitting such a petition at this time but reserves the right to do so in the future.

**Disposition**

 The Commission finds that Peoples’ M&R Stations are an acceptable LTIIP spending category. Their maintenance is critical to ensure safe and reliable service for Peoples’ customers.

**ADDITIONAL SAFETY CONCERNS: CUSTOMER-OWNED SERVICE LINES**

**Discussion**

 The Commission has recognized the safety issue of customer-owned service lines in Pennsylvania in the course of conducting reviews of natural gas distribution utilities’ (NGDCs) LTIIPs, in addition to its mid-term reviews of both Peoples TWP, LLC’s and Columbia Gas of PA’s (Columbia) LTIIPs. Replacement of service lines made of at-risk materials (bare steel, cast iron, wrought iron, etc.) in the course of main replacement is common throughout many of the Commonwealth’s other large NGDCs, as can be seen in the LTIIPs of companies such as: PECO Energy Company – Gas, UGI Utilities, Inc. – Gas Division, UGI Central Penn Gas, Inc., and UGI Penn Natural Gas, Inc. Those NGDCs own almost all of the service lines. In contrast, Peoples and Columbia have a large portion of customer-owned service lines in their service territories. The Pennsylvania Public Utility Code prevents NGDCs from acquiring or assuming ownership of any customer's service line.[[9]](#footnote-9) Columbia currently replaces all bare steel customer-owned services in conjunction with their main replacement program pursuant to a Commission waiver whereby Columbia may recover the cost of the replacement, but not assume ownership of the service line.

 At this time, Peoples does not replace all customer-owned bare steel service lines. By Order entered May 23, 2013 the Commission provided a limited waiver of Peoples’ tariff that authorized Peoples to replace customer-owned service lines in conjunction with main replacements if such service lines failed a pressure test.[[10]](#footnote-10) The Commission authorized Peoples to include the cost of replacing these services in its LTIIP. Additionally, by Order entered August 21, 2014, the Commission authorized recovery of customer-owned service line replacements through Peoples’ DSIC.[[11]](#footnote-11)

 In the course of the review of the Second Revised LTIIP, Commission staff initiated a data request to Peoples regarding their policy on the replacement of customer-owned services. In response, Peoples confirmed that they currently pressure test customer-owned service lines before either returning them to service or replacing them based on the results of the test. Further requests for data were sent to inquire about the costs and other consequences of replacing all customer-owned services, both going forward and to replace services in areas that had already been excavated over the course of the LTIIP.

**Disposition**

 Regarding a utility’s LTIIP, 66 Pa. C.S. § 1352(a)(7) states that:

*“If the plan is not adequate and sufficient to ensure and maintain adequate, efficient, safe, reliable and reasonable service, the commission shall order a new or revised plan.”*

 The Commission believes that bare steel and other at-risk services constitute a significant safety risk, and should be addressed. Contemporary materials (i.e., high density polyethylene and low density polyethylene) should result in substantially reduced risk of corrosion-related leakage or failure. Leaving bare steel services in the ground when they could be reasonably removed in the normal course of infrastructure improvement projects is an unnecessary safety risk to the public.

 The Commission believes it is far more prudent and efficient to replace at-risk customer services as part of an overall infrastructure upgrade program going forward, rather than individually as those services fail or degrade. Additionally, based on data received from Peoples, it is far less expensive to replace services while replacing the adjoining distribution main associated with it. The difference comes from factors such as crews and equipment that are already on site and that restoration costs can be spread over the entire project, among other reasons. As a result, the cost to replace a service on its own compared to the more efficient method of doing so in the course of main replacement work could be nearly triple the cost. It was also determined through the data provided by Peoples that retroactive replacement of at-risk customer-owned services (if the locations could even be practically identified) was cost-prohibitive and logistically unfeasible.

 Peoples’ Second Revised LTIIP does not address the replacement of all at-risk customer-owned services, but only those that fail the pressure test, as described above, and in their current LTIIP. Therefore, the Commission determines that Peoples’ LTIIP is not sufficient to ensure and maintain adequate, efficient, safe, reliable service, either as currently filed, or with the Second set of revisions currently under consideration. Peoples is directed to file a new or revised LTIIP that includes a provision for the replacement of all at-risk (bare steel, copper, cast iron, or otherwise at-risk) customer-owned services on a going-forward basis for the main replacement projects outlined in the LTIIP. Peoples is also no longer required to perform the pressure test before replacing the customer-owned at-risk services.

 In order to facilitate Peoples’ ability to replace customer-owned services going forward, the Commission will expand the scope of its previous waiver to include all at-risk customer-owned services and not just those that fail a pressure test[[12]](#footnote-12). The waiver will still be “limited” in the fact that Peoples will not take ownership of the customer-owned portion of the service line, but may recover the cost of the replacement through its DSIC.

**CONCLUSION**

The Commission has reviewed Peoples’ Petition for Approval of its Second Revised LTIIP and finds that the five proposed revisions are acceptable and in the public interest. However, the Petition does not adequately address the issue of at-risk customer-owned service lines and the LTIIP is not sufficient to ensure and maintain adequate, efficient, safe, reliable service. Accordingly, Peoples’ Petition is rejected;

**THEREFORE,**

**IT IS ORDERED:**

1. That the Petition of Peoples Natural Gas Company, LLC for approval of its Second Revised Long-Term Infrastructure Improvement Plan for its Peoples Division and Equitable Division is rejected.
2. That within 30 days of the date of the entry of this Order, the Peoples Natural Gas Company, LLC shall file a new or revised LTIIP consistent with the directives in this Order.
3. That if Peoples Natural Gas Company, LLC chooses to withdraw its Long-Term Infrastructure Improvement Plan, Peoples Natural Gas Company, LLC shall notify the Commission within thirty (30) days of the entry of this Order and Peoples Natural Gas Company, LLC Distribution System Improvement Charge shall immediately terminate.
4. That if Peoples Natural Gas Company, LLC chooses to withdraw its Long-Term Infrastructure Improvement Plan, Peoples Natural Gas Company, LLC shall also file a tariff supplement within thirty (30) days of the entry of this Order that removes any provisions or language related to its Distribution System Improvement Charge. The tariff supplement shall be filed effective on one (1) days’ notice.
5. That a copy of this Order be served on all parties to the Merger Settlement at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651.

**BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: March 10, 2016

ORDER ENTERED: March 10, 2016

1. *See* Docket No. P-2013-2344596, *Petition of Peoples Natural Gas Company, LLC for Approval of its Revised Long-Term Infrastructure Improvement Plan for its Peoples Division and Equitable Division,* approved by Commission Order entered on December 18, 2014. [↑](#footnote-ref-1)
2. Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland Counties. [↑](#footnote-ref-2)
3. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM>. [↑](#footnote-ref-3)
4. *See* Docket No. P-2013-2344596, Order entered May 23, 2013 and Docket No. P-2013-2342745, Order entered July 16, 2013, amended Order entered August 15, 2013. [↑](#footnote-ref-4)
5. *See* Docket No. P-2014-2429346, *Petition of Peoples Natural Gas Company, LLC and Peoples TWP, LLC for Accounting and Regulatory Approvals and Approval of Related Tariff Provisions Associated with Implementation of Revised Long-Term Infrastructure Plan*, Joint Settlement approved by Commission Order entered December 18, 2014. [↑](#footnote-ref-5)
6. *See* Docket No. PHMSA-2014-0098. [↑](#footnote-ref-6)
7. The AMR program starts in 2016, while the LTIIP spans the years 2015-2019. As such, while the total AMR program will cost $33.0 million, the portion of this included in this current LTIIP will be only $26.2 million for the four years from 2016-2019. [↑](#footnote-ref-7)
8. *See* Docket Nos. R-2015-2465172 and R-2015-2465181. [↑](#footnote-ref-8)
9. 66 Pa. C.S. § 1510. [↑](#footnote-ref-9)
10. *See* Docket No. P-2013-2346161. [↑](#footnote-ref-10)
11. *See* Docket No. P-2013-2344596. [↑](#footnote-ref-11)
12. *See* Docket No. P-2013-2346161. [↑](#footnote-ref-12)