**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held June 9, 2016

Commissioners Present:

Gladys M. Brown, Chairman

Andrew G. Place, Vice Chairman

John F. Coleman, Jr.

 Robert F. Powelson

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| Petition of Philadelphia Gas Works for Approval of a Modified Long-Term Infrastructure Improvement Plan | P-2012-2337737 |

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Commission for consideration is the Petition for the approval of the modified Long-Term Infrastructure Improvement Plan (LTIIP) of Philadelphia Gas Works (PGW or Company).

**HISTORY OF THE PROCEEDING**

PGW is owned by the City of Philadelphia and is the largest municipally owned gas utility in the country. PGW is in the business of selling and distributing natural gas to retail customers within the Commonwealth of Pennsylvania, and is therefore a “city natural gas distribution operation” (CNGDO) within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, subject to the regulatory jurisdiction of the Commission. *See also* 66 Pa. C.S. § 2212, relating to city natural gas distribution operations. PGW manages a distribution system of approximately 6,000 miles of gas mains and service lines supplying approximately 500,000 customers. [[1]](#footnote-1)

PGW’s original LTIIP Petition was filed on December 3, 2012, and approved on April 4, 2013.[[2]](#footnote-2) On February 12, 2016, PGW filed a Petition for approval of a modified LTIIP. Copies of the Petition were served on the statutory advocates as well as the active parties in PGW’s most recent base rate case proceeding, docketed at R‑2009‑2139884.

On March 14, 2016, the Office of Consumer Advocate (OCA) filed comments. The OCA Comments suggested that PGW should file additional information to assist the Commission in evaluating PGW’s modified LTIIP. Based on OCA’s Comments and in response to a request from Commission staff, PGW filed this additional information on April 25, 2016.

**BACKGROUND**

 On February 14, 2012,Governor Thomas Wingett 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 an LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352. The Commission’s LTIIP Regulations are codified at 52 Pa. Code Chapter 121.

 PGW’s currently approved LTIIP addressed the required elements of an LTIIP at the time it was approved. Therefore, we will only discuss the proposed changes from the currently approved LTIIP to the instant modified LTIIP.

**PGW’S MODIFIED LTIIP PETITION**

 PGW’s original LTIIP is a five year plan that ends on August 31, 2017, which is the end of PGW’s fiscal year. The changes proposed in the modified LTIIP are intended to accelerate the replacement of at-risk mains, reduce overall risk to PGW’s gas distribution system, and to enhance reliability. [[4]](#footnote-4) The modified LTIIP is also designed to comply with Ordering Paragraph 8(a) in PGW’s DSIC Cap Waiver Order, and the LTIIP Regulations. [[5]](#footnote-5)

 PGW’s modified LTIIP proposes the following primary changes:

* Update projected expenditures that take into account the additional funding levels resulting from the DSIC Cap Waiver Order that raised the allowable DSIC, inclusive of reconciliation, to 7.5% from 5%;
* Update priorities for accelerated replacement as guided by recently completed independent benchmarking and prioritization studies, and by the risk assessment set forth in PGW’s Distribution Integrity Management Plan (DIMP) risk scores;
* Add a section showing how PGW intends to train staff and contractors to meet the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration’s (PHMSA) Operator Qualification requirements at 49 CFR § §192.801 – 192.809, and to otherwise demonstrate that it will have qualified personnel available to accomplish the accelerated main replacement detailed in the LTIIP;
* Add a section on Outreach and Coordination Activities, which was a requirement adopted after the Company’s existing LTIIP was approved;[[6]](#footnote-6)
* Add a section discussing identification of critical valves.

Each of the primary changes are discussed in further detail, below.

**PGW’s PROPOSED LTIIP CHANGES**

**(1) ADDITIONAL FUNDING FROM DSIC CAP INCREASE TO 7.5%**

**Discussion**

Historically, PGW’s program removes 18 miles of high-risk cast iron distribution main per year, funded out of base rates. At the 5% level, PGW’s DSIC provided PGW with approximately $22 million annually for additional pipeline replacement work above the 18 mile baseline. Under its current LTIIP, PGW planned for approximately 7 additional miles per year, funded by the DSIC. Over the first three years of the LTIIP, PGW replaced or abandoned an average of 8.5 miles per year.

PGW was granted a waiver by the Commission to permit an increase in the Company’s DSIC cap to 7.5%. This allows for an additional $11 million in pipeline replacement spending per year.

The increase in PGW’s DSIC could provide the Company with total annual DSIC revenues of approximately $33 million. PGW anticipates that the Commission will approve the instant Petition by June 2016. Based on that assumption, PGW proposes to replace or abandon an additional 5.58 miles of pipeline during the remainder of fiscal year (FY) 2016 and an additional 9.92 miles in FY 2017.[[7]](#footnote-7) In PGW’s Annual Asset Optimization Plan (AAOP) filed December 15, 2016, at Docket No. M‑2015-2518294, PGW proposed increased spending for FY 2016, assuming that the Commission would approve the Modified LTIIP Petition by June 2016. Table 1, below, details the additional planned acceleration in miles of pipeline to be replaced by the modified LTIIP. Table 2, below, provides the projected accelerated expenditures in the modified LTIIP.

**Table 1 - Additional LTIIP Miles to be Replaced Above 18-mile Baseline Program, FY 2013-2017**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** | **Total** |
| Original LTIIP | 8.33 | 6.90 | 6.87 | 6.79 | 6.89 | 35.78 |
| Modified LTIIP | 8.33 | 6.90 | 6.87 | 12.37 | 16.81 | 51.28 |
| Additional Acceleration | **0** | **0** | **0** | **5.58** | **9.92** | **15.50** |

**Table 2 - Additional LTIIP Spending to be Replaced Above the 18-mile Baseline Program, FY 2013-2017 ($Million)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** | **Total** |
| Original LTIIP | $22.0  | $22.0  | $22.0  | $22.0  | $22.0  | $110.0  |
| Modified LTIIP | $22.0  | $22.0  | $22.0  | $22.0[[8]](#footnote-8)  | $33.5  | $121.5  |
| Additional Acceleration | **$0.0**  | **$0.0**  | **$0.0**  | **$0.0**  | **$11.5**  | **$11.5**  |

PGW averred that this increased level of infrastructure replacement will greatly reduce the time required to retire all of its cast iron main. Under its current spending levels, PGW would require 86 years to replace all of its cast iron. Utilizing the proposed accelerated pace beginning in FY 2017 would reduce that time to 48 years, which is a 44% reduction in time.

**Disposition**

Upon review of PGW’s modified LTIIP, the Commission believes PGW’s increased spending on infrastructure replacement through its increased DSIC cap to be in the public interest. It should greatly accelerate PGW’s replacement of at risk pipe, which will provide increased safety and reliability through the reduction of main breaks and leaks.

**(2) An update to the priorities for accelerated PIPELINE replacement**

PGW stated that it recently revised its DIMP in accordance with a non-compliance letter received from the Commission’s Bureau of Investigation & Enforcement (BIE) on March 4, 2015. PGW explained that this revision mainly included a new relative risk ranking model, which better allowed PGW to identify the high-risk assets that needed to be addressed to reduce overall risk. According to PGW, BIE’s Gas Safety Division has reviewed the changes to the program and has deemed PGW’s DIMP as compliant with the PHMSA requirements.[[9]](#footnote-9) In support, PGW provided a DIMP Inspection Report from BIE, dated February 3, 2016, which states that, “No violations [were] found during the inspection.”

**Disposition**

 Based upon review of PGW’s filing and BIE’s February 3, 2016, DIMP Inspection Report, it appears that PGW has addressed the deficiencies related to their DIMP. Therefore, PGW’s priority of scheduling for pipeline replacement appears to be sufficient.

**(3) WORKFORCE MANAGEMENT AND TRAINING PROGRAM**

 PGW noted that the PHMSA Safety Regulations require natural gas utilities to have a written program in place to ensure that all individuals working on the distribution system are qualified for the work that they are performing and to provide training in the cases where such individuals are not qualified.[[10]](#footnote-10) The LTIIP regulations also require a workforce management and training program to ensure that the utility will have access to a qualified workforce.[[11]](#footnote-11) PGW’s modified LTIIP included a section that further addressed how PGW would ensure its staff and contractors met the requirements of the PHMSA and LTIIP regulations.

 PGW described its management structure for construction, restoration, and project supervision. The Company explained how its project bidding process is structured, and how this process ensured that only qualified individuals are able to bid on each PGW project. PGW also discussed how it has been training contractors to be qualified in new types of work (live gas work), and described its dedicated Training Section, which provides both classroom and field training for PGW employees and outside contractors.

**Disposition**

 Upon review of PGW’s modified LTIIP, it appears PGW adequately addresses the requirements of ensuring that it has qualified workers that are trained to perform work safely and effectively. Therefore, the Commission finds the section on the workforce management and training program to be sufficient.

**(4) OUTREACH AND COORDINATION ACTIVITIES**

PGW’s modified LTIIP included an added section on outreach and coordination activities. As noted, above, this was a requirement adopted after the Company’s existing LTIIP was approved. The modified LTIIP described how PGW coordinates with a number of entities within its service territory, principally the Pennsylvania Department of Transportation, the Philadelphia Water Department, and the City of Philadelphia. PGW explained that it meets with these entities on a regular basis to determine if and when there are conflicts between their construction schedules. In order to better facilitate coordination, PGW noted that it plans projects in a very preliminary outline for years in advance in order to identify any conflicts as early as possible.

**Disposition**

Upon review of PGW’s modified LTIIP, the Commission finds the coordination activities requirements of the Final Implementation Order have been fulfilled.

**(5) IDENTIFICATION OF CRITICAL VALVES**

PGW’s modified LTIIP included a new section that discussed the identification of critical valves. PGW averred that it does not intend to repair, improve upon, or replace any critical valves through the DSIC recovery mechanism in the remainder of the LTIIP term. PGW specified that it will identify critical valves in a subsequent LTIIP, which is expected to be filed with the Commission at least 120 days prior to the expiration of the modified LTIIP.

**Disposition**

 Upon review of PGW’s modified LTIIP, the Commission finds the section on identification of critical valves to be sufficient.

**CONCLUSION**

Upon review, the Commission finds that the modified Long-Term Infrastructure Improvement Plan of Philadelphia Gas Works substantially conforms to the requirements of Act 11 and our Final Implementation Order and the Petition should be granted; **THEREFORE,**

**IT IS ORDERED:**

That the Petition for Approval of a Modified Long-Term Infrastructure Improvement Plan filed by Philadelphia Gas Works is approved, consistent with this Order.

** BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: June 9, 2016

ORDER ENTERED: June 9, 2016

1. PGW owns and operates all the service lines from the mains to the meters. There are no customer-owned service lines in the PGW territory. Service lines are also referred to as services. [↑](#footnote-ref-1)
2. *See* the Opinion and Order entered April 4, 2013, at Docket No. P-2012-2337737. [↑](#footnote-ref-2)
3. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM> [↑](#footnote-ref-3)
4. PGW uses the term “at risk” in reference to cast iron and unprotected steel mains. [↑](#footnote-ref-4)
5. *See “*Petition of Philadelphia Gas Works for Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge Cap and to Permit Levelization of DSIC Charges,” Docket No. P-2015-2501500. Opinion and Order entered January 28, 2016. [↑](#footnote-ref-5)
6. 52 Pa. Code § 121.3(a)(8). [↑](#footnote-ref-6)
7. PGW’s Fiscal Year runs from September 1 to August 31. [↑](#footnote-ref-7)
8. PGW’s AAOP filed December 15, 2016 at Docket No. M-2015-2518294 proposes increased expenditures of $26.4 Million total for FY 2016, contingent upon approval of the LTIIP Modification Petition by June 2016. [↑](#footnote-ref-8)
9. The PHMSA Pipeline Safety Regulations appear at 49 CFR Part 192. The DIMP requirements are addressed at 49 CFR § § 192.1001 – 192.1015. [↑](#footnote-ref-9)
10. 49 CFR § § 192.801 – 192.809 [↑](#footnote-ref-10)
11. 52 Pa. Code § 121.3(a)(7). [↑](#footnote-ref-11)