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December 5, 2011

By Overnight Delivery

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105

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DEC - 5 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Docket No. M-2011-2271982
Natural Gas Pipeline Replacement and Performance Plans

Dear Secretary Chiavetta:

Please accept the enclosed original and three copies of the Joint Comments of Peoples Natural Gas Company LLC and Peoples TWP LLC in the above-referenced proceeding. In accordance with the Secretarial Letter issued in this matter on November 21, 2011, I have also served a copy of these comments via email to the Chief, Gas Safety Division (pmetro@pa.gov) and Deputy Chief Counsel – Energy (rfyoung@pa.gov).

If you have any questions or concerns regarding this matter, please do not hesitate to contact me.

Very truly yours,

cc: Via Email
Paul Metro
Robert Young, Esq.

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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DEC - 5 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Natural Gas Pipeline Replacement
and Performance Plans

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Docket No. M-2011-2271982

JOINT COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC
AND PEOPLES TWP LLC

I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples”) and Peoples TWP LLC (“Peoples TWP”) (sometimes hereinafter collectively referred to as the “Companies”) submit these Joint Comments in response to the Secretarial Letter issued in this proceeding on November 21, 2011, as more fully described below. The Companies are indirect subsidiaries of the SteelRiver Infrastructure Fund North America LP and operate independently but join together in these Joint Comments for administrative convenience.

The Tentative Order

On November 10, 2011, the Pennsylvania Public Utility Commission (“Commission”) issued a Tentative Order to address with respect to gas distribution utilities (1) submission of Distribution Integrity Management Plans and Integrity Management Plans (collectively “DIMP/IM Plans”) to the Bureau of Investigations and Enforcement; (2) cold weather leak survey requirements for natural gas distribution utilities’ cast iron

and unprotected steel pipelines (“Frost Patrols”); and (3) Natural Gas Pipeline Replacement and Performance Plans (“PRP Plans”).

DIMP/IM Plans. Specifically, with regard to submission of DIMP/IM Plans, the Commission required in the Tentative Order that each natural gas public utility and city natural gas distribution operation provide an electronic copy of its DIMP Plan to the Chief, Gas Safety Division of the Bureau of Investigations and Enforcement, no later than November 30, 2011. In addition, all Pennsylvania distribution utilities which are transmission pipeline operators were required to provide a copy of their Integrity Management Plans to the Chief, Gas Safety Division of the Bureau of Investigations and Enforcement, no later than November 30, 2011.

Frost Patrols. With regard to Frost Patrols, the Tentative Order required each gas distribution utility to conduct leak surveys starting November 1 of each year and ending April 30 of each year, utilizing the following procedures, which the Tentative Order described as best practices:

- (1) Distribution mains comprised of cast iron 12 inches in diameter or less or unprotected bare or coated steel (mains and services) located in Class 3 and Class 4 areas with a leak history or leaks shall be leak surveyed weekly;
- (2) Distribution mains comprised of cast iron 12 inches in diameter or less or unprotected bare or coated steel (mains and services) located in Class 2 areas with a leak history or leaks shall be leak surveyed monthly;

- (3) Distribution mains comprised of cast iron greater than 12 inches in diameter or unprotected bare steel (mains and services) with no leak history located in all areas shall be leak surveyed monthly; and
- (4) Utilities shall report all leaks to the Gas Safety Division of the Bureau of Investigations and Enforcement on a biweekly basis from November 1 to April 30 of each year and, in addition, will provide a schedule for repairing all reported leaks.

PRP Plans. With regard to distribution utilities' PRP Plans, the Tentative Order stated that one of its primary purposes is to propose a process under which Pennsylvania's major natural gas distribution systems will each implement a Commission-approved PRP Plan based on the utility's DIMP plan. To that end, the Tentative Order proposed that major natural gas distribution utilities be required to file PRP Plans for Commission review and approval.

The Tentative Order proposed that PRP Plans for each utility must include pipeline replacement time frames and a proposal for the means by which the cost of the pipeline replacement program should be addressed in rates. It also proposed that each PRP Plan shall demonstrate compliance with the following Pipeline Replacement Performance Metric ("Metric"): the utility's average rate of pipeline replacement during the ten years prior to the filing of the establishment of the Metric; or the rate that will result in the replacement of all high-risk pipe within twenty years unless the company demonstrates that a lower rate of replacement is in the public interest. Further, that each gas utility will be required to replace unprotected bare or coated steel and cast iron pipe based upon their DIMP plan for risk assessment and the rate of replacement must be

equal to or exceed their Metric. The Tentative Order invited interested parties to propose additional metrics.

The Commission also proposed to adopt a staggered schedule for the filing of PRP Plans, with three groups of utilities each filing their plans on March 16, 2012, May 16, 2012, and July 16, 2012. The Commission anticipates issuing final orders on the respective plans in November 2012, January 2013, and March 2013.

The Secretarial Letter

By Secretarial Letter issued November 21, 2011, the Commission announced certain revisions and clarifications to the November 10 Tentative Order. With regard to DIMP/IM Plans, the Secretarial Letter acknowledged that there are confidentiality issues related to the requirement in the Tentative Order that each distribution utility file its DIMP/IM Plan with the Chief of the Gas Safety Division, and the Secretarial Letter stated that, in order to better address this issue, the Commission would receive comments on or before December 5, 2011, on the submission of electronic copies of DIMP plans.

With regard to Frost Patrols, the Secretarial Letter stated that the Commission also wished to receive comments on this issue, and it revised the Frost Patrol provisions of the Tentative Order as set forth below and requested comments on or before December 5, 2011.

Specifically, the Commission revised the Frost Patrol provisions of the November 10 Order as follows:

1. Pending further action by the Commission, each natural gas distribution public utility and city natural gas distribution operation shall conduct Frost Patrols as specified in its DIMP/IM Plans.

2. Each natural gas distribution public utility and city natural gas distribution operation with cast iron pipeline or unprotected steel pipeline in its systems shall file comments on Frost Patrols. The comments shall include:
 - a. A full description of the utility's prior Frost Patrol protocols over the five (5) winter seasons preceding its DIMP/IM Plans;
 - b. A full description of the utility's current Frost Patrol protocols under its DIMP/IM Plans (if different from above);
 - c. A full description of enhanced Frost Patrol Protocols the utility proposes to perform this winter; and
 - d. A discussion about whether Commission issued standards for Frost Patrols should be considered going forward, and whether such standards should be determined on a utility by utility basis or on an industry wide basis.

The Secretarial Letter also required each Section 1307(f) utility to schedule a meeting with the Chief, Gas Safety Division, and scheduled a special Commission meeting on December 22, 2011 to address Frost Patrols and the filing of DIMP/IM Plans.

With regard to PRP Plans, the Secretarial Letter extended the comment period from December 2, 2011, to January 13, 2012. The Companies anticipate that they will file comments by that date.

II. COMMENTS

The Companies appreciate the opportunity to be heard on the issue of the filing of DIMP/IM Plans and the issue of Frost Patrols. These are, indeed, important and timely issues, and while the Commission has separated the comment period on these issues from the comment period on PRP Plans, Peoples and Peoples TWP acknowledge that the issues are interrelated in that an aggressive PRP Plan can both reduce the reasons for stepped-up Frost Patrols and affect a distribution company's DIMP. Pending HB 1294 would potentially eliminate regulatory disincentives to implementation of aggressive PRP Plans, and the Companies applaud the Commission's support for that legislation. Similarly, the Commission should signal in this proceeding that it will remove regulatory disincentives for stepped-up Frost Patrols by permitting distribution companies to defer for eventual recovery in rates any additional costs resulting from this proceeding.

As discussed in more detail below, the Companies support the use of Frost Patrol standards developed on a utility by utility basis; however, if the Commission should decide to proceed on an industry wide basis, the Commission should also consider addressing these issues through the usual administrative rulemaking process which encompasses public notice and opportunity for comments. 45 P.S. § 1201. Not only does that procedure provide time for full vetting of the issues, it is also well established in law and thus would preclude challenges to the final outcome based solely on procedural questions.

A. Filing of DIMP/IM Plans

The Companies acknowledge that in carrying out its pipeline safety duties pursuant to, *inter alia*, 52 Pa. Code § 59.33, the Commission's Gas Safety Division needs to have access to the Companies' DIMP/IM Plans. The Companies agree, however, with the conclusion in the Secretarial Letter that distribution utilities' DIMP/IM Plans may contain confidential information. Such information, while confidential, may not satisfy the definition of "confidential security information" as set forth in 35 P.S. § 2141.2, in which case, it would not be covered by the protections provided in the Public Utility Confidential Security Information Disclosure Protection Act and the Commission regulations promulgated to carry out the purpose of that Act found at 52 Pa. Code §§ 102.1 – 102.4.

The Companies also agree with the conclusion in the Secretarial Letter that filed DIMP/IM Plans are likely exempt from public disclosure pursuant to Section 708(b)(3) of the Right To Know Law, 65 P.S. § 67.708(b)(3), which exempts from disclosure records, the disclosure of which creates a reasonable likelihood of endangering the safety or the physical security of public utility infrastructure and facilities. However, as evidenced by the procedural status of the request for information in *Pennsylvania Public Utility Commission v. Daniel Gilbert and The Wall Street Journal*, Docket No. 1381 CD 2011,¹ the determination of whether such information must be disclosed is not necessarily made by the utility or the Commission, and disclosure can be required even when both the utility and the Commission believe it to be inappropriate. Thus, neither law provides

¹ This matter is currently pending in the Commonwealth Court pursuant to a petition for review filed by the Commission from a Final Determination of the Office of Open Records that the materials and records generated during Bureau of Investigations and Enforcement pre-prosecutorial inspections are not exempt from the Right to Know Law.

assured protection against the release of confidential information, and the Companies believe this means that neither law provides adequate protection.

As a result, Peoples and Peoples TWP suggest that any requirement for a gas distribution utility to file its DIMP/IM Plans be conditioned on the utility's ability to designate parts of its Plans as confidential and to redact those parts from the filing. A utility would still make the unredacted Plans available for inspection by the representatives of the Gas Safety Division and would still produce the Plans as ordered in formal proceedings where procedures are in place that ensure the protection of the confidentiality of the confidential information. This procedure would provide an appropriate balance between the Commission Staff's need to access the DIMP/IM Plans in order to carry out its pipeline safety duties and the utility's need to protect the confidentiality of some of its proprietary information.

B. Frost Patrols

The Secretarial Letter directed each natural gas distribution public utility and city natural gas distribution operation with cast iron pipeline or unprotected steel pipeline in its systems to file comments on Frost Patrols and listed four specific subjects for comment. Since Peoples currently operates approximately 40 miles of cast iron pipeline and approximately 1900 miles of unprotected steel pipeline (20 miles of wrought iron pipeline are included in the unprotected steel category), and Peoples TWP currently operates approximately 990 miles of unprotected steel pipeline (but no cast iron pipeline), the Companies are filing comments on this issue, as directed.

1. Provide a full description of the utility's prior Frost Patrol protocols over the five (5) winter seasons preceding its DIMP/IM Plans.

For the five preceding winter seasons, Peoples has surveyed its operating locations, beginning in mid-December, to determine the presence of frost in the ground. When frost was detected at a depth of at least 6 inches, Peoples initiated an additional leak survey of its cast iron pipelines beginning in the business districts and then extending throughout the operating area continuing until frost was no longer a concern. This additional leak survey, which included approximately 40 miles of cast iron, was conducted in conjunction with the planned annual leak survey of business districts and areas of wall to wall concrete.

For the years 2006-2009, Peoples TWP's Frost Patrols consisted of leak surveying mains and services in the business districts on a monthly basis. Beginning in the winter of 2009/2010, the Frost Patrols were expanded and now include mains and services in business districts and public buildings (schools, hospitals, and other special care facilities) on at least a monthly basis, low pressure bare steel pipelines in selected urban areas on a monthly basis, and unrepaired class 2 leak checks in urban areas on a monthly basis. The Frost Patrols are started when frost is detected by field activities.

2. Provide a full description of the utility's current Frost Patrol protocols under its DIMP/IM Plans (if different from above).

The Frost Patrol protocols under Peoples' DIMP/IM Plans are not different from those described in the preceding section. Peoples' DIMP provides for routine and specially scheduled leakage surveys with leak detection equipment under procedures consistent with the Gas Piping Technology Committee (GPTC) Guide Material G-192-8

Distribution Integrity Management Program. Peoples' DIMP also provides for supplemental leak surveys under the following conditions:

- New areas of active corrosion (annually designated) are leak surveyed until the project is replaced.
- *Business Districts and wall to wall paved areas are surveyed annually.*
- All other areas are surveyed on a 3 year rotation (tri-annual survey).
- *Cast iron mains are leak surveyed at least once each winter. When extreme cold is experienced additional surveys may be run. (Emphasis added.)*
- Pre-paving optical methane detection (OMD) survey is performed (usually in the spring) in municipalities that provide a paving schedule.
- At the request of local supervision, a leak survey is performed over sewer and water line projects when project is done and before the new pavement is installed.
- Special surveys when requested by local supervision, such as in areas of blasting, anticipated heavy loads (e.g., logging activities), etc.

Peoples TWP carried forward its current Frost Patrol procedure in its DIMP.

Peoples TWP also surveys all 990 miles of its bare steel pipeline annually, which includes new areas of active corrosion, and conducts supplemental leak surveys under the following conditions:

- Pre-paving leak detection surveys are performed (usually in the spring) in municipalities that provide a paving schedule.

- At the request of local supervision, a leak survey is performed over sewer and water line projects when project is done and before the new pavement is installed.
- Special surveys when requested by local supervision, such as in areas of blasting, anticipated heavy loads (e.g., logging activities), etc..

3. Provide a full description of enhanced Frost Patrol Protocols the utility proposes to perform this winter.

Peoples will continue to perform leak surveys following its historical practice. In addition, Peoples proposes to enhance its Frost Patrol leak surveys by beginning, in December, when consistent frost is first detected based upon feedback from field activities, an enhanced leakage survey program to inspect all mains and services in business districts and areas of wall to wall concrete.

Peoples' enhanced leakage survey will encompass approximately 949 miles of pipeline and approximately 30,000 service lines and will include all of Peoples' 40 miles of cast iron pipeline. The enhanced leakage survey will also include special accounts such as schools, hospitals, and other special care facilities. The survey will be conducted on a continuing basis until frost is no longer present and will be accomplished using contract and in-house resources utilizing mobile leak detection and route walking. Peoples projects that it can complete the entire enhanced survey cycle once per month barring extreme weather conditions.

Peoples TWP will continue to perform leak surveys following its most recent enhanced practice. Peoples TWP will perform its Frost Patrol leak surveys by beginning, in December, when consistent frost is first detected based upon feedback from field

activities, an enhanced leakage survey program to inspect all mains and services in business districts and areas of wall to wall concrete.

Peoples TWP's enhanced leakage survey will encompass approximately 485 miles of pipeline and will include 90 miles of bare steel and connected service lines. It will also include special accounts such as schools, hospitals, and other special care facilities. The survey will be conducted on a continuing basis until frost is no longer present and will be accomplished using contract and in-house resources utilizing mobile leak detection and route walking. Peoples TWP projects that it can complete the entire enhanced survey cycle once per month barring extreme weather conditions.

4. Discuss whether Commission issued standards for Frost Patrols should be considered going forward, and whether such standards should be determined on a utility by utility basis or on an industry wide basis.

In the Tentative Order at page 6, the Commission, while addressing PRP Plans, noted that "one size does not fit all" and stated that utilities should be permitted to design their PRP Plans taking individual company-specific factors into account. The same holds true for Frost Patrols. While some utilities share relevant traits, such as being in the same climate band or having similar amounts of installed cast iron pipeline, no two utilities share all of the same relevant traits, and as a result, all utilities should not necessarily be subject to the same Frost Patrol requirements. Rather, each utility should be permitted to design its own Frost Patrol guidelines, taking its own company-specific factors into account.

Because each utility's distribution system is different, with its own specific operating characteristics, each utility should develop its DIMP and/or Standard Operating Procedures ("SOPs") with its own specific protocols for Frost Patrols. The results and

protocols should be reviewed after each winter season, and appropriate changes should be incorporated in the DIMP and/or SOPs to strive for continuous improvement.

Conclusion on Frost Patrols.

The Companies commend the Commission for reconsidering the prescriptive, standardized approach to Frost Patrols that it promulgated in the Tentative Order. While described as best practices, the Companies are not aware of these Frost Patrol practices having been implemented by any gas utility. Importantly, those practices have not been subjected to any analysis of whether they will produce substantive benefits, i.e., help prevent catastrophic events caused by gas leaks. The Companies, instead, support the practice suggested in the Secretarial Letter that encourages each utility to expand its historical Frost Patrols but permits each utility to determine the Frost Patrol practice that best serves its unique system and environment.

The Companies submit that a more productive approach would be to encourage the replacement of pipeline that could be deemed not as safe as newer pipeline. Notably, by requiring utilities to incur tremendous expense for leakage surveys, the utilities with the most pipeline to be surveyed -- those with the most pipeline to be replaced -- would be incurring expenses that may make such replacement unattainable. So, rather than making these pipeline systems safer, the actual result may be different -- particularly given the unproven benefits expected from the prescribed surveys.

Peoples' Enhanced Frost Protocols described above focus on Peoples' cast iron pipeline and pipeline in business districts regardless of type. As Peoples will describe more fully in its PRP comments, Peoples has accelerated its cast iron replacement program and now plans to replace all of its cast iron pipeline by the end of 2012. After the replacement

of all of its cast iron pipeline, Peoples will continue Frost Patrols in accordance with its DIMP/IM Plans.

Peoples TWP's Enhanced Frost Protocols described above focus on Peoples TWP's bare steel pipeline in its most populated areas. Peoples TWP will continue Frost Patrols in accordance with its DIMP/IM Plans. As Peoples TWP will describe more fully in its PRP comments, Peoples TWP has accelerated its bare steel replacement program and is committed to increase its capital investment designed to improve safety and reliability of service, such as the removal of bare steel and aging infrastructure, reduce lost and unaccounted for gas, and improve customer service.

WHEREFORE, the Companies respectfully request that the Commission accept these Comments and give them due consideration in this proceeding.

Respectfully submitted,

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PEOPLES NATURAL GAS
COMPANY LLC

PA PUBLIC UTILITY COMMISSION
PEOPLES TWP LLC SECRETARY'S BUREAU

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