Philadelphia Gas Works
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January 13, 2011

VIA ELECTRONIC FILING

Rosemary Chiavetta - Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: **Natural Gas Pipeline Replacement and Performance Plans – Docket No. M-2011-2271982; Comments of PGW in Response to the November 10, 2011 Tentative Order**

Dear Secretary Chiavetta:

Enclosed for filing is an original of Philadelphia Gas Works' Comments in Response to the November 10, 2011 Tentative Order.

If you have any questions, please contact me.

Respectfully submitted,

Gregory J. Stunder

Enclosure

PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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

COMMENTS OF PHILADELPHIA GAS WORKS IN RESPONSE TO THE NOVEMBER 10, 2011 TENTATIVE ORDER

I. INTRODUCTION

The Pennsylvania Public Utility Commission ("Commission" or "PUC") adopted a Tentative Order in the above referenced matter on November 10, 2011 ("Tentative Order" or "Order") which requests comments regarding the Commission's proposal with respect to pipeline replacement and performance plans, pipeline replacement time frames & pipeline replacement performance metrics.[1] Philadelphia Gas Works ("PGW" or the "Company"), which provides natural gas service to over 500,000 customers in the City of Philadelphia and maintains more than 6,000 miles of distribution mains and services, submits the following comments.

II. COMMENTS

The Tentative Order proposes "a process under which Pennsylvania's major natural gas distribution systems will each implement a Commission-approved pipeline replacement and performance plan ["PRP Plans"] based on the utility's DIMP plan" and seeks comments in response to this proposal.[2] The Order also provides that each PRP Plan must include pipeline replacement time frames, a proposal for the means by which the cost of the pipeline replacement

[1] A Secretarial Letter issued in the matter (that was subsequently ratified by a PUC Order adopted on December 1, 2011) extended the comment period from December 2, 2011 to January 13, 2012.
[2] Tentative Order at p. 5.

program should be addressed in rates and a demonstration that the PRP Plan complies with the following performance metrics: "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."[3] Furthermore, the Order also requires the replacement of unprotected bare or coated steel and cast iron pipe based on each utility's DIMP plan for risk assessment and the rate of replacement must be equal to or exceed the DIMP Plan Metric.[4]

First and foremost, PGW concurs with the Energy Association of Pennsylvania's ("EAP") comments in this matter. PGW is likewise concerned that the Commission is seeking to impose binding norms via a Tentative Order process and foregoing the proper processes set forth by Pennsylvania law (i.e. a rulemaking or company-specific adjudication). PGW also shares EAP's view that it is unclear how the Commission is defining "high risk" and whether or not the Commission is establishing a replacement time frame performance metric utilizing a historical 10 year replacement average or utilizing a replacement schedule of 20 years for all "high risk" pipe. Furthermore, PGW concurs that it is premature to plan for cost recovery in rates until the ARM legislation has been adopted by the legislature and implemented by the PUC. Finally, PGW agrees with EAP's comment that it is unclear how a 20 year high risk pipe replacement metric is an appropriate time period for application of this standard to all natural gas distribution systems.

PGW agrees with the Commission that "one size doesn't fit all" with respect to PRP Plans and that the following should be taken into consideration in the design of each plan: "each

[3] Tentative Order at p. 6.
[4] Tentative Order at p. 6.

utility's total inventory of cast iron, unprotected steel or other high risk pipe, customer rate stability, utility financial health, and the amount of time that the utility estimates to replace the failing infrastructure."[5] PGW would like the opportunity to demonstrate to the Commission how the uniqueness of its distribution system inventory and how the Company developed its DIMP Plan (in addition to PGW's financial situation) will impact the development of a PRP Plan. Without such an opportunity, PGW is concerned that an across-the-board definition for such terms as "high risk" and a Pennsylvania-wide mandate that risky pipe (or "high risk" pipe) be replaced in twenty years will result in an unnecessary accelerated level of annual main replacement that will have a negative impact on ratepayers.

In response to recently promulgated regulations by the Pipeline and Hazardous Materials Safety Administration,[6] PGW and all other Natural Gas Distribution Companies ("NGDC") each completed a Gas Distribution Integrity Management Plan (i.e. DIMP Plan) in August 2011 which:

- Identifies the characteristics of the pipeline's design and operations and the environmental factors;[7]
- Considers the information gained from past design, operations, and maintenance;[8]
- Identifies threats to PGW's distribution pipeline;[9]
- Evaluates and ranks the risks associated with PGW's distribution pipeline,[10]

[5] Tentative Order at p. 6.
[6] 49 C.F.R. 192.1007.
[7] 49 C.F.R. 192.1007(a)(1).
[8] 49 C.F.R. 192.1007(a)(2).
[9] 49 C.F.R. 192.1007(b).
[10] 49 C.F.R. 192.1007(c).

- Determines and implements measures designed to reduce the risks from failure of PGW's gas distribution pipeline;[11] and

- Develops and monitors performance measures from an established baseline to evaluate the effectiveness of PGW's Integrity Management program.[12]

PGW's development of its DIMP Plan was an exhaustive process which has resulted in the compilation of the most comprehensive information about PGW's distribution system in one document. Incorporated into this document is PGW's plan to address the replacement of its most risky pipe (i.e. main). PGW has had a main replacement program since the 1970's which has utilized several different computer modeling algorithms to establish main replacement priority rankings. Since 2008, PGW has utilized a Main Replacement Prioritization Model ("MRP")[13] developed by Advantica.[14] The MRP[15] ranks main replacement priority using such factors as maintenance history, material, diameter, pressure, proximity to building to establish a replacement priority ranking based on condition and risk. The use of such a model is considered a best practice.

The vast amount of valuable information contained in PGW's DIMP Plan and the Company's Main Replacement Prioritization Model can serve as the basis for the development of a PRP Plan. PGW understands that the Commission is currently in the process (or will soon begin the process) of reviewing the DIMP Plans for two PA NGDCs. After the Commission begins this review, it will be clear that there is a wealth of information provided in the DIMP

[11] 49 C.F.R. 192.1007(d).
[12] 49 C.F.R. 192.1007(e)(1).
[13] PGW employed several similar main replacement prioritization models prior to 2008.
[14] Advantica is a global engineering consultancy, supporting clients in the gas, oil, water and electric industries. Advantica was formed by joining the former research arm of British Gas in the UK and software utility provider Stoner Associates in the US.
[15] It is important to note that the MRP is a dynamic model that is continually fine tuned by PGW.

Plans (and can be provided by the NGDC personnel who developed the DIMP Plans) which can inform the Commission as to how PRP Plans should be developed. In light of the foregoing, PGW urges the Commission to:

1) Abandon the Tentative Order process;

2) Review the DIMP Plans of all PA NGDCs (for the purpose of informing a rulemaking and policy statement process);

3) Convene individual meetings with each NGDC in order to discuss the unique characteristics of their distribution systems and financial circumstances (for the purpose of informing a rulemaking and policy statement process);

4) Implement a rulemaking process to implement regulations that are applicable to all NGDCs; and

5) Develop separate policy statements for each NGDC which address the issues that are unique to each NGDC's pipe replacement program.

III. CONCLUSION

PGW appreciates the opportunity to provide comments and looks forward to working with the Commission on the critical issues of increasing safety, decreasing risk and increasing the amount of natural gas pipeline in the Commonwealth which is fit for dependable service. Because we support these goals, we conclude:

1) The PUC should create the regulatory process set forth directly above instead of imposing binding norms through a Tentative Order process.

2) The PUC should consider the substantial benefits of incorporating a comprehensive management document in active, daily use by PA NGDCs into the regulatory process.

3) The PUC should continue to foster a positive regulatory climate which is focused on increasing safety and decreasing risk for each distinct and individual PA NGDC.

Respectfully Submitted,

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