UGI
CORPORATION

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January 13, 2012

VIA E-FILING AND FIRST CLASS MAIL

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed for filing, please find an e-filing copy of the comments of the UGI Distribution Companies in response to the Natural Gas Pipeline Replacement and Performance Plan portion of the Commission's Tentative Order in the above-captioned matter entered on November 10, 2011, as modified by the Commission's November 21, 2011 Secretarial Letter. For the purposes of this submission, the UGI Distribution Companies are comprised of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc.

Should you have any questions concerning this filing, please feel free to contact me.

Very truly yours,

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF THE
UGI DISTRIBUTION COMPANIES

The UGI Distribution Companies ("UGI"), comprised for the purposes of this filing of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc., appreciate this opportunity to submit comments in response to the Natural Gas Pipeline Replacement and Performance Plan portion of the Commission's Tentative Order in the above-captioned matter entered on November 10, 2011, as modified by the Commission's November 21, 2011, Secretarial Letter (the "Tentative Order").

UGI recognizes the paramount importance of gas safety, and seeks to work cooperatively with the Commission in pursuing this common goal. UGI actively participates in events sponsored by the Energy Association of Pennsylvania and the Commission, and well as through more informal contacts, to promote the exchange of information and perspectives on how to best promote gas safety, and looks forward to working cooperatively with the Commission in the future.

I. COMMENTS

A. The Risk Assessment Process

UGI and other natural gas distribution companies ("NGDC") have for years employed engineers, corrosion experts, software products and other available tools to assess and rank, based on the best available information, the gas safety risks associated with their pipeline

facilities, and have used such information in making management decisions as to how to best allocate available resources to alleviate such risks in the most cost-effective manner, and otherwise meet or exceed applicable federal and state gas pipeline safety requirements. Risk assessment methodologies utilized by NGDCs may include, but are not limited to, engineering and statistical analyses, gathered from individual NGDC experience, manufacturer communications or from available industry-wide information.

Of course, even with the use of the best available engineering judgment and information, not all risks can be identified and classified with complete precision, and the assessment of risks may change over time as additional information is gained, better evaluation techniques are developed and deployed and technological improvements are made. Such an iterative process serves to form a sound foundation for risk assessment which, on an on-going basis, is most likely to result in a risk ranking that is reflective of actual relative risk.

B. DIMP

As the Tentative Order recognizes, the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA") has adopted regulations which seek to make NGDC risk mitigation processes more formalized and transparent by requiring the filing of Distribution Integrity Management Plans ("DIMP") containing the following elements:

> (a) *Knowledge*. An operator must demonstrate an understanding of its gas distribution system developed from reasonably available information.
>
> (1) Identify the characteristics of the pipeline's design and operations and the environmental factors that are necessary to assess the applicable threats and risks to its gas distribution pipeline.
>
> (2) Consider the information gained from past design, operations, and maintenance.
>
> (3) Identify additional information needed and provide a plan for gaining that information over time through normal activities conducted on the pipeline (for example, design, construction, operations or maintenance activities).

(4) Develop and implement a process by which the IM program will be reviewed periodically and refined and improved as needed.

(5) Provide for the capture and retention of data on any new pipeline installed. The data must include, at a minimum, the location where the new pipeline is installed and the material of which it is constructed.

(b) *Identify threats.* The operator must consider the following categories of threats to each gas distribution pipeline: corrosion, natural forces, excavation damage, other outside force damage, material or welds, equipment failure, incorrect operations, and other concerns that could threaten the integrity of its pipeline. An operator must consider reasonably available information to identify existing and potential threats. Sources of data may include, but are not limited to, incident and leak history, corrosion control records, continuing surveillance records, patrolling records, maintenance history, and excavation damage experience.

(c) *Evaluate and rank risk.* An operator must evaluate the risks associated with its distribution pipeline. In this evaluation, the operator must determine the relative importance of each threat and estimate and rank the risks posed to its pipeline. This evaluation must consider each applicable current and potential threat, the likelihood of failure associated with each threat, and the potential consequences of such a failure. An operator may subdivide its pipeline into regions with similar characteristics (e.g., contiguous areas within a distribution pipeline consisting of mains, services and other appurtenances; areas with common materials or environmental factors), and for which similar actions likely would be effective in reducing risk.

(d) *Identify and implement measures to address risks*. Determine and implement measures designed to reduce the risks from failure of its gas distribution pipeline. These measures must include an effective leak management program (unless all leaks are repaired when found).

(e) *Measure performance, monitor results, and evaluate effectiveness*.

(1) Develop and monitor performance measures from an established baseline to evaluate the effectiveness of its IM program. An operator must consider the results of its performance monitoring in periodically re-evaluating the threats and risks. These performance measures must include the following:

(i) Number of hazardous leaks either eliminated or repaired as required by § 192.703(c) of this subchapter (or total number of leaks if all leaks are repaired when found), categorized by cause;

(ii) Number of excavation damages;

(iii) Number of excavation tickets (receipt of information by the underground facility operator from the notification center);

(iv) Total number of leaks either eliminated or repaired, categorized by cause;

(v) Number of hazardous leaks either eliminated or repaired as required by § 192.703(c) (or total number of leaks if all leaks are repaired when found), categorized by material; and

(vi) Any additional measures the operator determines are needed to evaluate the effectiveness of the operator's IM program in controlling each identified threat.

(f) *Periodic Evaluation and Improvement.* An operator must re-evaluate threats and risks on its entire pipeline and consider the relevance of threats in one location to other areas. Each operator must determine the appropriate period for conducting complete program evaluations based on the complexity of its system and changes in factors affecting the risk of failure. An operator must conduct a complete program re-evaluation at least every five years. The operator must consider the results of the performance monitoring in these evaluations.

(g) *Report results.* Report, on an annual basis, the four measures listed in paragraphs (e)(1)(i) through (e)(1)(iv) of this section, as part of the annual report required by § 191.11. An operator also must report the four measures to the state pipeline safety authority if a state exercises jurisdiction over the operator's pipeline.

49 C.F.R. §192.1007(a)-(f).

The first of these DIMP filing were made in August of 2011, and the UGI DIMP filing was the subject of an audit, conducted from December 5-8, 2011 at UGI, by the Gas Safety Division of the Bureau of Investigation and Enforcement. UGI is now working to respond to questions and concerns posed by Commission staff and will continue communications designed to develop a mutual understanding of DIMP evaluation criteria that will guide subsequent plan changes.

UGI submits that the Commission should consider the merits of allowing the new DIMP process to further develop, thereby creating a greater mutual understanding of how risks to distribution facilities are identified and evaluated, before the Commission considers undertaking major new initiatives to address distribution systems risks. UGI also suggests that the Commission acknowledge that the DIMP process recognizes that the evaluation of risks is a dynamic and iterative process and that risk management measures may need to change over time as risk materializes or changes on the basis of collected data which may clarify existing risks or

identify new risks, changed risk mitigation and evaluation techniques and currently unknown variables.

C. PRPPs

In the Pipeline Replacement and Performance Plan ("PRPP") portion of the Tentative Order, the Commission notes that under the DIMP regulations NGDCs must "[*d*]*etermine and implement measures designed to reduce risks from failure of its gas distribution pipeline[,]*" and that there are varying "*amounts of pipe classified as 'high risk' under their DIMP risk assessments.*" The Tentative Order then states that:

[a] primary purpose of this order is to propose a process under which Pennsylvania's major natural gas distribution systems will each implement a Commission-approved pipeline replacement and performance plan based on the utility's DIMP plan.

A subsequent "Performance Metrics" portion of the Tentative Order then states, however:

> *Each PRP Plan shall demonstrate compliance with the following Pipeline Replacement 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. Additionally, each gas utility will be required to replace unprotected bare or coated steel and cast iron pipe based upon the DIMP plan for risk assessment and the rate of replacement must equal or exceed their Metric.*

Tentative Order at 5-6.

As the Commission reviews the DIMP submissions of individual NGDCs, UGI believes the Commission will see that DIMP risk assessments and underlying data will not classify all cast iron and bare steel pipe as "high risk", or call for the replacement of all such pipe by a specific date because the DIMP process recognizes that risk assessments may change over time and the DIMP regulations do not require NGDCs to specify specific dates for the replacement of certain facilities. In this regard, UGI believes it would be appropriate for the Commission to allow NGDCs to identify and categorize "high risk" facilities within their PRPP.

With regard to the stated metrics and their application, UGI respectfully believes additional clarification is required by the Commission.

First, it would appear that the initial Metric regarding replacement rate may have been intended to be defined to be equal to the higher of (a) the utility's average rate of high-risk pipeline replacement during the ten years prior to the filing of the establishment of the Metric or (b) a pipeline replacement 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. For purposes of the comments herein, UGI has assumed that the above intended wording is correct.

Next, pursuant to the Tentative Order, such Metric appear to be intended to also apply to the replacement of all unprotected bare or coated steel and cast iron pipe. However, because DIMPs may actually categorize certain segments of cast iron or unprotected bare or coated steel pipe as relatively low risk (certain segments in what would be the equivalent of a Class 1 location for a transmission pipeline,[1] for example) UGI believes the Commission may wish to clarify the Metric's application to all such pipe which is considered to be high-risk under the utility's PRPP. Such clarification will work to ensure the effectiveness and efficiency of resources dedicated to PRPPs.

With the above clarifications, as NGDCs subsequently file their PRPPs, UGI believes that the Commission can be more assured that an enhanced focus will be placed on replacement of the appropriate high-risk pipe in a timely manner.

PRPP Cost Recovery

[1] UGI does not classify its distribution facilities according to the class system applied to transmission lines, and would have to engage in extensive efforts to develop such classifications.

In the Tentative Order, the Commission states that PRPPs should include "a proposal for the means by which the cost of the pipeline replacement program should be addressed in rates." In this regard, while UGI recognizes that there is pending legislation which may address alternative ratemaking mechanisms for PRPP-related costs, the Commission should encourage NGDCs to propose innovative approaches to funding for the Commission's consideration. For example, interstate pipeline refunds received by NGDCs could be redirected for an interim period into PRPP funding or NGDC incentive sharing mechanisms could be modified to redirect certain amounts for an interim period into PRPP funding. Non-traditional approaches such as these can greatly assist in reaching the overall goals of the Commission, NGDCs, PHMSA and others in encouraging enhanced pipeline replacement programs.

D. Timing of Filings

If the Commission decides to proceed with a requirement for the submission of PRPP filings, it should provide an additional period of ninety days after the date of entry of its final order before requiring the submission of the initial round of PRPP filings to permit sufficient time for the preparation of such filings and the gathering of underlying supporting information. An efficient Commission plan review process will be fostered by having filings be supported by adequate information.

II. CONCLUSION

As the Tentative Order recognizes, "Pennsylvania's natural gas utilities have been providing safe and reliable service for many years." Tentative Order, p. 5. DIMP submissions have just recently been filed and are under ongoing review and modification consistent with Commission staff discussions. Through the DIMP process, a level of expected change in the

relative risk of certain pipeline segments and other potential areas of risk will occur, realigning or reaffirming risk management and mitigation activities.

To the extent the Commission nonetheless wishes to establish new pipeline replacement schedules outside of the DIMP process, it should do so in a manner considering the individual circumstances of each NGDC. The UGI Distribution Companies stand ready to work with the Commission in investigating the pros and cons of various facilities replacement options. The Commission could also tie any pipeline replacement program more closely to the DIMP process by establishing pipeline replacement deadlines by NGDC for those pipeline segments identified by the NGDC through its DIMP process as carrying higher levels of risk in comparison to other threats to distribution system integrity.

UGI also wishes to thank the Commission for its efforts to date in seeking the adoption of legislative changes which would permit the establishment of a rate recovery mechanism for pipeline replacement programs without the need for the filing of costly and time consuming base rate proceedings. In the interim, to the extent such legislation is not enacted and such rate mechanisms are not made available to NGDCs, the Commission should be open to innovative rate proposals for funding incremental investments on an interim or even longer-term basis.

Respectfully submitted,

Mark C. Morrow

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