Kimberly S. Cuccia
Counsel
Legal Department

121 Champion Way, Suite 100
Canonsburg, PA 15317
Office: 724.416.6347
Fax: 724.416.6384
kscuccia@nisource.com

January 13, 2012

VIA ELECTRONIC FILING AND OVERNIGHT MAIL

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, Pennsylvania 17105-3265

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

Dear Ms. Chiavetta:

Enclosed please find the Comments of Columbia Gas of Pennsylvania, Inc. which have been filed electronically in the above-referenced docket.

I have enclosed an original and one additional copy of Columbia's Comments. Please file stamp the additional copy and return it to me in the enclosed self-addressed, stamped envelope.

If you have any questions, please call me at 724.416.6347 or e-mail me at kscuccia@nisource.com. I thank you for your assistance.

Very truly yours,

Kimberly S. Cuccia

enclosure

cc: Paul Metro, Chief, Gas Safety Division (via e-mail)
Robert Young, Deputy Chief Counsel (via e-mail)

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF COLUMBIA GAS OF PENNSYLVANIA, INC.

I. INTRODUCTION

Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company"), by and through its attorneys, submits its comments in response to the Commission's invitation for comments concerning pipeline replacement and performance plans for distribution utilities as discussed in the Tentative Order entered by the Commission on November 10, 2011 ("November 10 Order"). By Secretarial letter dated November 21, 2011 ("November 21 Letter") the Commission extended the deadline for filing such comments to January 13, 2012.[1]

Columbia appreciates this opportunity to submit comments on the topic of pipeline replacement and performance plans, as directed by the November 10 Order and the November 21, 2011 Letter, and also on the overarching topic of enhancing natural gas distribution company pipeline safety in this Commonwealth.[2] As the Commission is aware, Columbia has invested over $281 million during the past 5 years (2007-2011) to replace cast iron and bare steel mains and services.[3] Further, in 2007 Columbia

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[1] The Commission ratified the November 21 Letter at its December 1, 2011 Public Meeting.

[2] The Commission addressed three topics in its November 10 Order—(1) the electronic submission of DIMP/IM Plans, (2) enhanced Frost Surveys, and (3) Pipeline Replacement and Performance Plans. In accordance with the Commission's November 21 Letter, these Comments address one of those topics, as specifically outlined in the November 21 Letter—pipeline replacement and performance plans for distribution utilities. The Commission's November 21 Letter extended the deadline imposed in its November 10 Order to January 13, 2012 for utilities to file comments on that topic. Columbia previously filed comments on the first two topics of the November 10 Order on December 5, 2011. The Commission issued an Order on those two topics on December 22, 2011.

[3] Pursuant to historic practice and the provisions of Section 1510 of the Public Utility Code adopted in 1984, Columbia does not own customer service lines on its system in western (Pittsburgh and vicinity) Pennsylvania. The exact areas in which Columbia does not own the customer service lines are delineated

implemented an aggressive leak detection and leak repair program, which triples the level of leak detection performed over the federal requirements of leakage surveys for bare steel and cast iron mains. As Columbia discussed in its Comments filed on December 5, 2011 in this same docket ("December 5 Comments"), and again noted here, these coordinated practices (replacement, survey, and repair) serve to further the Commission's goal of enhancing the safety of natural gas distribution systems.

II. COMMENTS

A. GENERAL COMMENTS

Columbia prefaces its specific comments on the topic of pipeline replacement and performance plans by emphasizing that each utility system is unique, and that the specific schedule for replacing cast iron and bare steel that will make each of those systems safer must be tailored to each operating system and closely tied to each utility's DIMP Plan. The Commission recognized the need for such tailoring in its November 10 Order where it acknowledged that DIMP Plans require a natural gas distribution company to determine and implement measures designed to reduce risks from failure of *its* gas distribution pipeline. November 10 Order at 5. Moreover, the Commission identified the primary purpose of its November 10 Order as proposing a process under which Pennsylvania's major natural gas utilities would implement a Commission-approved plan for pipeline replacement and performance based on the utility's DIMP Plan. *Id.* Columbia agrees with the Commission's desire to add structure to the issue of addressing aging infrastructure in the Commonwealth. Columbia speaks to the topics

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in Columbia's tariff. In conjunction with Columbia's implementation of its accelerated infrastructure replacement program, Columbia requested, and was granted, a limited waiver of its tariff to replace customer owned service lines in conjunction with its accelerated main replacement and upgrade program. *Petition of Columbia Gas of Pennsylvania, Inc. for Limited Waivers of Certain Tariff Rules Related to Customer Service Line Replacement*, Docket No. P-00072337 (Order entered May 19, 2008). Upon replacement by Columbia, those services remain the property and responsibility of the customer.

on which the Commission is now seeking comment based on Columbia's own experience in implementing a successful company-initiated accelerated infrastructure replacement plan over the past five years.

B. COLUMBIA'S REPLACEMENT PERFORMANCE

While Columbia is not required to submit an actual replacement plan at this time, Columbia's plan is publicly available as outlined in its 2008, 2010 and 2011 rate case testimony.[4] Specifically, Columbia has been operating an accelerated bare steel and cast iron replacement plan for the past five years. Based on its 2011 run rate, Columbia's accelerated program would replace all of Columbia's first generation cast iron and bare steel by 2029, or approximately eighteen years. As described in Columbia's December 5 Comments, through this initiative Columbia has undertaken a substantial step towards replacing its cast iron and bare steel. Over the past five years, Columbia has eliminated approximately 400 miles of bare steel and cast iron mains. In other words, Columbia has already replaced 18% of the total amount of cast iron and unprotected bare steel that existed on its system five years ago.

Columbia plans to continue to direct capital dollars towards the replacement of aging bare steel and cast iron because system requirements demand such replacement. Continual system degradation due to unrelenting corrosion is a challenge to a natural gas utility's ability to operate a system safely. Therefore, the continuation of Columbia's accelerated replacement program is an essential alternative to a high leakage rate and its associated system safety risk. As a prudent system operator, Columbia is addressing the systemic problem of its aging facilities by replacing aging pipe at a rate where the

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[4] *See* Company testimony of Danny G. Cote, General Manager of Columbia Gas of Pennsylvania, Inc. Docket Nos. R-2008-2011621 (2008 Base Rate Case), R-2009-2149262 (2010 Base Rate Case), R-2010-2215623 (2011 Base Rate Case).

Company can also ably address Class 1 and Class 2 leaks with the strategic goal of systematically driving down the number of Class 1 and Class 2 leaks over time. This exemplifies how Columbia's coordinated practices to address the replacement, survey, and repair of aging infrastructure enhances overall system wide safety.

Columbia does not object to the Commission's proposal to have utilities submit pipeline replacement plans for review by the Commission, on the premise that one size does not fit all. Replacement timeframes should be addressed in a flexible manner as discussed herein, and allow for utilities, like Columbia, who have established a successful replacement plan, to continue on the path of that plan.

C. REPLACEMENT TIMEFRAMES

In its November 10 Order, the Commission proposes to require utilities to include pipeline replacement timeframes and a proposal for how the cost of the replacement plan should be addressed in rates. To address the Commission's request specific to timeframes, Columbia encourages the Commission to look for long term replacement goals from each utility based on their system specific needs and DIMP Plan priorities. Columbia urges the Commission to support the establishment of long term goals rather than prescriptive year to year deadlines. In operating its accelerated replacement plan, Columbia has experienced the need for a flexible approach due to unforeseen circumstances that can take place from year to year such as burdensome municipal permitting processes and the recently experienced financial crises that restricted access to capital dollars. The ultimate framework for any plan must allow utilities to reprioritize projects based on ongoing risk assessment. For example, Columbia may have a large project lined up for 2012, but, as a result of increasing leaks elsewhere in its system, that project could be rescheduled for 2013, while the area or areas of increasing

leakage are addressed in 2012. Such flexibility is consistent with an effective and well managed DIMP Plan, and any type of pipeline replacement plan, such as Columbia's, should also afford similar flexibility. Taking the need for flexibility into account, in the past five years Columbia has still been able to replace over 400 miles of priority pipe. Replacement plan timeframes ultimately found to be acceptable by the Commission should take into account the fact that spending in some years may be greater or less than the average, as will retirement rates even if there are similar annual spends. See for example Columbia's five year retirement rate of priority pipe:

	Miles	Dollars
2007	67	$32,000,000
2008	100	$63,689,000
2009	66	$42,406,000
2010	61	$51,006,000
2011[5]	105	$92,000,000
Average	80	$56,220,200

Columbia requests the Commission to consider plans with long term goals and where success is measured in progress towards the long term goals. Demonstrating the ability to remain on track toward the ultimate goal, even with year to year variances, should be found acceptable by the Commission.

The Commission also sought comment on how the cost of replacement should be addressed in rates. Columbia's current twenty year goal is contingent on continued

[5] The 2011 numbers in these Comments represent budgetary projections unless otherwise noted. In addition, Columbia received an additional allotment of capital dollars in 2011, however there is no assurance this high level can or will continue on an annual basis.

access to reasonably-priced capital. Events such as the freezing of capital markets experienced in 2008—or even less severe increases in the cost of capital—can significantly affect future capital dollar projections and limit Columbia's ability to reach its planned replacement rate.

Moreover, under Pennsylvania's current regulatory paradigm, the opportunity for investors to earn a return is less certain and less timely than in other states. Current usage-based rates do not reflect the reality that the massive capital costs associated with replacing infrastructure do not increase or decrease based on the amount of gas flowing through the pipe. Investors invest a fixed amount of capital into any given project and investors expect recovery of that fixed investment with reasonable certainty—ideally on a fixed basis comparable to the mode of investment. However, usage-based rates compensate investors on a variable basis in line with how much gas flows through the pipe. Tying investors' ability to earn a return on their investments to a usage-based metric that has no rational relationship to the investment lessens the certainty of recovery and thereby increases the risk of the investment. To help maintain long-term interest in investing in Pennsylvania's utilities, the Commission should adopt rate mechanisms that reflect the reality of the fixed investment and increase the certainty of recovery.

In addition to increasing the certainty of recovery, it is important to decrease the regulatory lag associated with recovery of these large scale investments. Under the current regulatory structure, recovery of the investment does not begin until at least a year after the dollars have been spent. Unlike utilities in some other states, Columbia must file a rate case almost annually in order remain financially attractive to investors who provide the financing needed to replace aging pipe. Columbia has openly

advocated for alternative rate designs and rate mechanisms similar to what investors enjoy in other jurisdictions, explaining that the litigious rate case process is costly for customers and an inefficient way to maintain an infrastructure replacement program.

Columbia commends the Commission's support for House Bill 1294, as passed out of the Pennsylvania House on October 4, 2011, which provides alternative mechanisms that would allow for infrastructure replacement recovery on a more timely basis. Columbia maintains that a reconcilable surcharge that is adjusted on a quarterly basis with annual, Commission-approved reconciliation, similar to the gas cost process pursuant to 66 Pa. C.S. § 1307(f), would be most desirable.

Columbia's current replacement efforts are forced to fit within the confines of the Pennsylvania rate design and rate case processes. Maintaining long-term, large-scale investor interest in Pennsylvania is critical to the successful completion of both Columbia's replacement plan as well as the replacement plans of other Pennsylvania utilities. Columbia has been able to support its accelerated program only by filing essentially annual base rate cases. To maintain Columbia's currently accelerated program or even further accelerate it, Columbia suggests that approval of alternative types of ratemaking mechanisms such as rate mechanisms that provide more certainty to investors, a forward-looking rate year for known capital projects,[6] or a tracker would aid Columbia in more certain and timely recovery of its infrastructure replacement costs, thereby improving Columbia's ability to compete for investment to fund critical infrastructure replacements.

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[6] Columbia defines a forward looking rate year as the first year that new rates are in effect after the most recent rate case (i.e., if Commission-approved base rates after a rate case went into effect October 1, 2011, those rates would include recovery for known replacement projects demonstrated in the rate case that are scheduled to take place in the first year after rates go into effect, or in the case of this example, October 1, 2011 through September 30, 2012).

D. PERFORMANCE METRICS

In its November 10 Order, the Commission proposes that each utility, in its replacement plan, would need to demonstrate compliance with the following performance metric unless the utility can demonstrate a lower rate of replacement is in the public interest: the utility's average rate of pipeline replacement during the past ten years, or the rate that will result in the replacement of all high-risk (cast iron and bare steel) within twenty years. The Commission also proposes that utilities, in meeting this metric, will be required to replace unprotected bare or unprotected coated steel and cast iron pipe based upon their DIMP Plan risk assessments.

For Columbia, the average rate of replacement over the past 10 years has been approximately 318,053 feet per year and the rate at which Columbia would need to replace pipe to replace all cast iron and bare steel in the next twenty years is approximately 478,117 feet per year. Columbia's more telling number is its average replacement rate over the past five years (during the Company's accelerated replacement program), which is 422,078 feet per year—in excess of Columbia's ten year average by more than 100,000 feet per year. At Columbia's current 2011 replacement rate, Columbia would replace its entire remaining inventory of first generation pipe in 18 years, or by 2029. Columbia submits that the essential consideration when evaluating replacement projects is the previously identified and prioritized risks categorized in the Company's DIMP Plan. Therefore, since Columbia's current rate of replacement exceeds its ten year average and because Columbia defers to its identified risks when prioritizing projects, the metrics proposed by the Commission constitute an

acceptable target for Columbia given Columbia's current accelerated replacement goals.[7] Moreover, Columbia is on track towards achieving its replacement plan, but is not in a position to commit to 20 years without recovery mechanisms that provide more certainty and more timely opportunities for recovery. However, in stating that the recent 10 year average replacement rate and 20 year goal are acceptable performance metrics, Columbia again emphasizes that neither metric should be used as a year to year absolute standard. Columbia's experience over the past five years of its replacement plan demonstrates that variability in investment, and in feet of mains replaced, is inevitable. Performance should be measured over a period of years, and not by comparing a single year's results in isolation, to determine whether a utility is progressing satisfactorily in addressing pipeline replacement.

In addition, the Commission must provide utilities reasonable due process if it is dissatisfied with filed Pipeline Replacement Plans or proposed metrics. After reviewing each utility's plan to address their aging infrastructure, to the extent that the Commission is not satisfied with a specific utility's plan and/or metrics they have provided, and if an informal resolution cannot be achieved with the Commission staff, then the Commission should initiate an on the record proceeding on a company by company basis in order to address that company's specific issues.

In its November 10 Order the Commission also proposes that each utility should adopt in its Pipeline Replacement and Performance Plan performance metrics addressing (1) damage prevention, (2) corrosion control and distribution system leaks, (3) emergency response times, and (4) critical valve determination. Columbia submits

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[7] Columbia's replacement rate is contingent on future access to capital. Events, such as the freezing up of capital markets experienced in 2008, can affect future capital dollar projections.

that in 2006, the Company launched a number of initiatives to improve its operating performance, including initiatives on a number of the above four topics. Those initiatives have been discussed in Columbia's 2008, 2010, and 2011 rate case testimony, and are more fully described below. Given Columbia's ability to develop and adopt its own internal metrics and the Company's ability to demonstrate its continued improved performance, the Company submits that, for Columbia, it is neither necessary to adopt performance metrics, nor is it necessary to incorporate these metrics in any pipeline replacement plan that may eventually be submitted to the Commission. Columbia submits the following in response to the Commission's proposal regarding each of the four metrics:

1. Damage Prevention

Beginning in 2006, Columbia launched a number of specific initiatives to improve its operating performance, and the operating characteristics of its system. Damage prevention was one of those initiatives. Specifically, Columbia set out to improve its locating performance and excavator outreach as measured by third-party damage because, for Columbia, this has remained a primary cause of Class 1 leaks. Moreover, third-party damage remains a leading cause of federally reportable pipeline incidents (e.g. death, injury requiring hospitalization, or property damage over $50,000) in the United States[8] as well as in the Columbia system. As a result, Columbia has undertaken a comprehensive process designed to reduce third-party damage. This process has included tighter management and more stringent performance standards for contract locators, bringing the locating function back in-house for two large operating centers in Western Pennsylvania and in the York operating territory, and

[8] http://primis.phmsa.dot.gov/comm/DamagePrevention.htm

routinely conducting face-to-face meetings with excavators who caused repetitive damage. These efforts have resulted in a 43% reduction in third-party damage on the Columbia system between 2006 and 2010—from a damage per thousand locates rate of 5.47 in 2006 to a damage per thousand locates rate of 3.13 in 2011. Further, Columbia is fully supportive of the Commission's efforts to promote the effective enforcement of damage prevention with both excavators and utilities who fail to meet their obligations under the law.

In its December 5 Comments, Columbia indicated that it would present the Commission with an approach that is tailored to address that specific issue in this set of comments. In addition to continuing its current initiative, Columbia plans to enhance its efforts to prevent third-party damage by adding three damage prevention coordinators in Western Pennsylvania. The role of these individuals will be to work with excavators across the Columbia footprint to educate them on the requirements of the One Call Law, and monitor their construction projects to ensure adherence to appropriate damage prevention practices. In adding these three positions, Columbia expects a reduction in both damages caused by excavators hitting correctly marked lines, and damages caused by excavators' failure to notify PA One Call, which currently amount to 50% and 10% of Columbia damages, respectively. The Company makes this proposal because it believes this is the most effective way to target the number one risk in its DIMP Plan, and the risk that has proven to be the leading cause of Class 1 leaks on the Columbia's system.

2. Corrosion Control and Distribution System Leaks

Also starting in 2006, Columbia made the decision to increase its leak survey rate on cast iron and bare steel mains from the federally mandated 3 year cycle to an annual

survey of those facilities. In addition, the Company simultaneously embarked on a program to reduce the number of open Class 2 leaks in its system as measured by the year end open leaks as reported in the annual 7100 Federal DOT report. This was a significant undertaking in assuring safe and reliable service to customers, since the greater the number of leaks in a system combined with the length of time they are left unattended, the greater the potential risk of an incident.

In 2007, the Company also began surveying its entire system (bare steel, cast iron, cathodically protected steel, and plastic mains) every three years, even though the federal code only requires a leak survey every five years on cathodically protected steel and plastic mains. Moreover, the Company has initiated surveying enhancements to its frost patrols for the 2011-2012 winter heating season, and is working with the Commission's Gas Safety Division to determine whether such surveying enhancements merit a permanent addition to Columbia's surveying practices. The Company is now doing more leakage surveys than at any point in the Company's history and, as a result of Columbia's comprehensive survey and leak reduction initiative, the Company has reduced open Class 2 leaks by nearly 40% since 2007:

Year	**Open Class 2 Leaks**
2007	3,755
2011	2,374
% Reduction	37%

Columbia submits that the most effective way to mitigate the concern associated with bare steel corrosion and cracks on cast iron on its system is the accelerated replacement of bare steel and cast iron main and to survey that same material on an

annual basis until it can be replaced.[9] Columbia's comprehensive survey, repair and replacement methods are also aligned with Columbia's system specific risks and the priorities ranked in its DIMP Plan. Therefore, to address the Commission's request for metrics to measure corrosion, Columbia submits that no additional metrics are necessary for Columbia in addition to its current survey metrics and its accelerated infrastructure replacement initiative.

3. Emergency Response Times

Again, in 2006, Columbia launched a specific initiative to increase Columbia's 60 minute or less Emergency Response Rates. These rates are integral to public safety since the sooner the first Columbia responder arrives at a possible emergency, the faster the situation can be stabilized, made safe, and ultimately remediated. Since 2006, Columbia has undertaken a structured approach to improving its emergency response times including—adding additional field operations positions, adding additional off hours shifts, providing all field employees with GPS enabled cell phones (allowing the Dispatch Group to identify closest/quickest responder when dispatching field technicians to emergencies), and driving an increased focus with all employees on the need to respond to reported emergencies as quickly as possible. The results of these efforts have been significant, and a comparison of the data showing the 60 minute or less response rates from 2006 to 2011 is captured below:

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[9] In addition to annual bare steel and cast iron surveys, the Company also performs surveys during frost conditions as described in the Company's December 5, 2011 Comments. For the 2011-2012 winter heating season, the Company will also enhance its frost survey methods, and then discuss the effectiveness of those enhancements with the Commission's Gas Safety Division sometime after March 31, 2012, and before the start of the 2012-2013 winter heating season.

	2006	2011
Normal Hours	98.13%	99.50%
After Hours	92.34%	98.00%
Weekends and Holidays	88.99%	96.30%
Total Performance	97.00%	98.00%

Therefore, Columbia submits that based on its ability to demonstrate overall improvement in this performance category, Columbia should continue this initiative, and track its ability to exceed a 60 minute response time.

4. Critical Valve Determinations

In 2008, as a result of discussions with the Commission's Gas Safety Division, Columbia committed to install or identify as a critical valve (in the case of existing valves) all of the valves required in its plastic or coated, cathodically protected steel systems, so that its system is sectionalized into customer groupings of 1,000 or less. Columbia committed to complete this process within five years, and this process will be completed by December 31, 2013. Columbia has identified 376 valves meeting these criteria and 263 valves have already been addressed.

In addition, Columbia committed to install the critical valves necessary to meet the same criteria as it continues to replace its existing bare steel and cast iron systems. Based upon these prior commitments, and Columbia's progress in meeting these commitments, no performance metric is needed with respect to critical valves.

Columbia wishes to stress that its approach to the four metrics have been developed with characteristics and the needs of its system in mind. Accordingly, Columbia's approaches to each of these metrics may not necessarily be applicable or appropriate for other gas companies in the Commonwealth.

E. SCHEDULE FOR FILINGS

Columbia is in agreement with the Commission's proposal to adopt a staggered schedule for the filing of pipeline replacement and performance plans, and offers to submit its plan as part of the first wave of future potential plan submissions.

III. CONCLUSION

For the reasons discussed above, Columbia Gas of Pennsylvania, Inc. respectfully requests that the Commission consider replacement and performance plans on a utility by utility basis, focusing on a long term goal with year to year flexibility built into the plan. Specifically, Columbia submits that it is doing the right thing by maintaining an accelerated replacement program that puts it on track to replace its aging infrastructure as expeditiously as possible given the current allowable cost recovery mechanisms. Columbia also requests that to the extent the Commission wants Columbia to firm up its replacement timeframe, that the Commission consider alternative rate mechanisms such as a future rate year that would allow for recovery of documented future projects or a tracker that would more timely recover costs. In addition, Columbia requests that the Commission not establish metrics for Columbia given its demonstrated performance and internal tracking procedures.

Respectfully submitted,

Kimberly S. Cuccia (ID #308216)
Theodore J. Gallagher (ID #90842)
Columbia Gas of Pennsylvania, Inc.
121 Champion Way, Suite 100
Canonsburg, PA 15317
Phone: 724-416-6347
Fax: 724-416-6384
E-mail: kscuccia@nisource.com
E-mail: tjgallagher@nisource.com
Counsel for Columbia Gas of Pennsylvania, Inc.

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