Exelon
Business Services Company

Legal Department

2301 Market Street/S23-1
P.O. Box 8699
Philadelphia, PA 19101-8699

Telephone 215.841.4000
Fax 215.568.3389
www.exeloncorp.com

Direct Dial: 215 841 4220

January 13, 2012

VIA FEDERAL EXPRESS

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 are an original and five (5) copies of the *Comments of PECO Energy Company to the Commission's Tentative Order* in the above-captioned matter. An additional copy of this letter is also enclosed to be date-stamped and returned to PECO Energy.

Very truly yours,

Michael S. Swerling, Esq.
Enclosures

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF PECO ENERGY COMPANY ON THE COMMISSION'S TENTATIVE ORDER

I. INTRODUCTION

On November 10, 2011, the Pennsylvania Public Utility Commission (the "Commission") entered a Tentative Order in the above-referenced docket, which proposed procedures to improve natural gas safety and accelerate the replacement of utility infrastructure. The Tentative Order addressed Distribution Integrity Management Plans ("DIMP") and Integrity Management Plans ("IM"), enhanced Frost Patrols, and Commission-approved Pipeline Replacement and Performance Plans ("PRP Plan") to replace high risk distribution pipes within a Commission-specified timeframe.[1]

The Commission also issued a Secretarial Letter on November 21, 2011, which revised and clarified the sections of the Tentative Order that addressed DIMP/IM plans and Frost Surveys and also extended the comment period for PRP Plans. Comments were extended to January 13, 2012. Reply comments were extended until January 27, 2012. By Order dated December 1, 2011, the Commission ratified the revisions and clarifications included in the Secretarial Letter. On December 22, 2011, the Commission issued an Order that addressed the filing of DIMP/IM plans and enhanced Frost Patrols.

[1] Either an NGDC's average replacement rate during the last 10 years or complete replacement of all high risk pipes within the next 20 years, unless more time is in the public interest. (Tentative Order at 6).

PECO Energy Company ("PECO" or "the Company") supports the Commission's efforts to improve natural gas safety and accelerate infrastructure improvements. PECO also welcomes the opportunity to provide comments in support of the important goal of reducing the risks of failures of Natural Gas Distribution Company ("NGDC") pipelines. Pursuant to the Commission's above-referenced Orders and Secretarial Letter, PECO hereby submits its comments on the Commission's proposed requirement that NGDCs file PRP Plans for Commission review and approval.

II. PECO'S COMMENTS

A. PRP Plans Depend on Fair Cost Recovery

PECO agrees that high risk pipes should be replaced on an accelerated basis; however, it is critical that full and current cost recovery is provided for such a large, expensive and accelerated program (either through a distribution system improvement charge ("DSIC") or some other non-bypassable surcharge mechanism). PECO estimates that it will cost at least $34 million annually to replace its highest risk pipes over the next 30 years. Without the ability to recover these expenditures on a current basis, it would be too costly for PECO to accelerate its existing replacement schedule, which would have all of its high risk pipes replaced over the next 85 years.

B. PRP Plans Should be an Element of DIMP Plans

Each utility's DIMP plan should be used as the mechanism to define and categorize high risk pipes. Thus, a utility's PRP Plan should use the risk identification and ranking processes set forth in its DIMP to determine which pipes are high risk and need to be replaced on an accelerated basis.

Each utility's PRP Plan should be part of its existing DIMP plan. As such, there should be no need to file separate PRP Plans because, as part of the DIMP, they will be reviewed through the Commission's annual DIMP process and any changes or revisions to the PRP Plan that the Commission deems necessary can be addressed through the annual DIMP audit process.

Indeed, PECO's recommended approach coordinates with the directive contained in the Commission's November 10 Tentative Order to implement a PRP Plan based on a utility's DIMP plan:

> 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.*" (Tentative Order at 5).

In sum, PECO's method follows this directive because it proposes implementing the Company's accelerated pipeline replacement program through its DIMP, which already contains mechanisms for identifying high risk pipes for replacement.

C. A Flexibile Plan is Required to Account for Implementation Challenges

PECO also believes it is paramount that PRP Plans be flexible. Having a plan that accounts for implementation priorities and challenges that may develop over the life of the plan is reasonable and prudent. Indeed, this approach will provide utilities with the ability to adjust their resources in a manner that is necessary to address safety concerns.

D. High Risk Should be Defined in Each Utility's DIMP Plan

Corollary to the foregoing principle, each utility should also be allowed to define what pipes it considers to be high risk. Each utility's distribution system is different. By making the

PRP Plan an element of the DIMP, the PRP Plan can utilize the existing mechanism contained in each utility's DIMP to define and rank high risk pipes.

In defining which pipes are high risk, PECO's DIMP plan utilizes a risk management and identification model that incorporates failure rates of pipes and the potential impacts of such failure. With this data, PECO determines the relative importance and risk of each threat. In PECO's DIMP, high risk pipes are those with the largest Risk Potential, which is a function of Risk Frequency and Consequence. Risk Frequency is determined by reviewing past leaks and breaks per mile of pipe. Consequence is a function of pressure, total system incidents dating back to the 1970s, and average service length. In deciding the replacement order for high risk pipes, PECO performs a risk analysis and an economic analysis on specific pipe segments and types to determine what pipes pose the highest risk and must be replaced first. This existing replacement framework simply needs to be accelerated to accomplish the Commission's objective.

However, if the Commission determines that a definition for high risk must be developed and standardized, then PECO submits that a formal rulemaking proceeding should be utilized to determine how to appropriately standardize the definition/characterization of high risk pipes. If a one-size-fits-all approach is adopted, a full record should be established to ensure that the standard incorporates the appropriate safety and cost considerations.

E. PECO's Accelerated PRP Plan

As PECO's Vice President of Gas, Ronald Bradley, testified in the Commission's *Round Table on Strategies and Options for Gas Infrastructure Maintenance* on June 2, 2011, PECO has decided to accelerate its maintenance program for its gas distribution network, after assessing the

age, composition and leak history of its facilities.[2] This plan has been aligned with PECO's existing DIMP plan framework and PECO requests that the Commission accept it as satisfying the Commission's PRP Plan requirement instead of requiring that a separate plan be filed with the Commission.

PECO's accelerated replacement program will replace all of its high risk pipe in a significantly faster fashion than its prior replacement program. Under that program, PECO replaced about thirteen miles of cast iron and bare steel mains per year. At that rate, it would take PECO approximately 82 years to repair or replace its system with modern technology and materials.

PECO's accelerated initiative considers cast iron mains, bare steel mains and bare steel services to be the type of high risk pipes that should be targeted for accelerated replacement. These facilities were installed between the late 1890s and the 1960s, and, while the cast iron and bare steel mains comprise only 14% (in length) of PECO's system, they are responsible for approximately 83% of the gas leaks experienced in a typical year. PECO deems these pipes to be high risk because cast iron, though relatively strong, is vulnerable to breaks from ground movement, which can occur from cycles of freezing and thawing of the surrounding soil and bare steel pipe is vulnerable to galvanic corrosion.

PECO will accelerate the repair or replacement of its highest-priority gas infrastructure – with respect to pipe material and size, pressure level, and location – by substantially increasing the capital investment dollars it commits to its program annually. Currently, PECO allocates about $14 million of its Gas Division's capital budget to the repair and replacement of cast iron and bare steel mains and bare steel services on an annual basis. Under its accelerated plan, the

[2] PECO's decision to accelerate its existing maintenance program is premised upon the belief that full and current cost recovery will be allowed.

Company will increase that amount by $20 million, so that once the program reaches a steady state in 2012, it will be investing approximately $34 million on replacing these types of facilities on an annual basis.

At this level of investment, PECO estimates that it will be able to replace its high-priority mains and services in about 10 years.[3] In addition, at this level of investment, PECO estimates that it will be able to repair or replace all of its cast iron and bare steel mains in 30 years.

F. A 30-Year PRP Plan is in the Public Interest

The Commission's November 10 Tentative Order proposed that NGDCs replace their high risk distribution pipes within a Commission-specified timeframe - either an NGDC's average replacement rate during the last 10 years or complete replacement of all high risk pipes within the next 20 years, unless more time is in the public interest. It is unclear why the Commission chose the timeframes proposed instead of allowing each NGDC to formulate a timeframe that fits their individual system's pipeline materials, risks and the associated rate impacts.

Nonetheless, PECO supports a utility-by-utility approach that is based on the specific system materials, risks and rate impacts attributable to each NGDC and their customers. PECO has determined that due to the total mileage of its high risk cast iron and bare steel pipes and the potential rate impact to its customers, a 30-year replacement plan is warranted.

Under a 30-year timeframe, PECO estimates that replacement will be completed with minimal impact on customers' rates and therefore is in the public interest. PECO projects the

[3] PECO's highest-priority cast iron is pipe that: (1) is less than eight inches in diameter; (2) operates at elevated pressure; and (3) is located in areas with greater population density and under extensively paved surfaces. Bare-steel services make up our highest priority bare-steel pipes, as they are in the closest proximity to customers' homes and businesses.

need to increase rates by only 3% over the first 10 years and by a total of only 5% over the entire 30-year duration of the program.

A 30-year timeline also allows PECO to manage the replacement initiative in the most efficient manner. PECO plans to replace its highest risk pipes within the first 10 years of its 30-year plan. This timeframe will see the biggest reduction in miles of high risk pipe and can be synchronized with other existing Company projects and workload and other NGDC projects in the region.

G. Other Performance Metrics

The Commission's November 10 Tentative Order indicates that PRP Plans shall include metrics that address: (1) damage prevention; (2) corrosion control and distribution system leaks; (3) emergency response times; and (4) critical valve determination. PECO believes that metrics such as damage prevention, corrosion control, emergency response times and critical valve determination should not be elements of a PRP Plan because they do not factor into company decisions to replace high risk pipes. However, PECO agrees that these metrics/elements could be included in DIMP plans to the extent that they impact system risks.

IV. CONCLUSION

PECO appreciates the opportunity to comment on this important matter and believes that the Company's recommendations can effectively and efficiently improve natural gas safety for its customers. Accordingly, PECO requests that the Commission favorably consider these comments.

Respectfully Submitted,

Anthony E. Gay (Pa. No. 74624)
Michael S. Swerling (Pa. No. 94748)
Exelon Business Services Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699
Phone: 215.841.4635
Fax: 215.568.3389
anthony.gay@exeloncorp.com

January 13, 2012

For PECO Energy Company

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Mincy Branch
EXELON
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S23-1
PHILADELPHIA, PA 19103

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Rosemary Chiavetta
Penna. Public Utility Commission
400 NORTH ST FL 2
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HARRISBURG, PA 17120

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