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January 13, 2012

By Overnight Delivery

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

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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 On Pipeline Replacement and Performance Plans in the above-referenced proceeding. 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

RECEIVED

JAN 13 2012

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 ON PIPELINE REPLACEMENT
AND PERFORMANCE PLANS

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 Tentative Order entered in this proceeding on November 10, 2011, as amended, as 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.

On November 10, 2011, the Pennsylvania Public Utility Commission (“Commission”) issued a Tentative Order (“T.O.”) to address with respect to gas distribution utilities (1) submission of Distribution Integrity Management Plans (“DIMP Plan”) 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”). The Commission also issued a Secretarial Letter on November 21, 2011, wherein the Commission announced certain revisions and clarifications to the November 10 Tentative Order. With regard to DIMP/IM Plans and Frost Patrols, the Secretarial Letter indicated that the Commission would receive comments on or before December 5, 2011. With regard to PRP Plans, the Secretarial Letter extended the comment period from December 2, 2011, to January 13, 2012. The Secretarial Letter was ratified by order entered December 1, 2011.

These comments address the proposed PRP Plans. The T.O. stated that one of its primary purposes is to propose a process under which the Commonwealth’s major natural gas distribution systems will each implement a Commission-approved pipeline replacement plan based on the utility’s DIMP plan. (T.O. pg. 5). Accordingly, each major natural gas utility must file a PRP Plan for Commission review and approval.

The T.O. also proposed that each PRP Plan 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 (noting that utilities will be permitted to amend their PRP Plans in the event legislation permitting alternative ratemaking mechanisms is enacted into law). (T.O. pg. 6)

The T.O. 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 rate of pipeline replacement 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 their DIMP plan for risk assessment and the rate of replacement must be equal to or exceed their Metric. (*Id.*)

The T.O. also proposed that each PRP Plan must include other performance metrics to address (1) damage prevention; (2) corrosion control and distribution systems leaks; (3) emergency response times; and (4) critical valve determination.

II. COMMENTS

The Companies appreciate the opportunity to be heard on the issue of PRP Plans. Pipeline replacement is an important issue, and Peoples has been an advocate for infrastructure improvement through pipeline replacement and the removal of ratemaking disincentives to such replacement. The Companies applaud the Commission's support for infrastructure replacement within the Commonwealth and its support of pending HB 1294, which would potentially eliminate regulatory disincentives to implementation of aggressive PRP Plans. Nearly 30 other states have implemented either statutory or regulatory reforms to encourage, generally through special rate mechanisms, utility infrastructure replacement. In addition, the Administrator of the Pipeline and Hazardous Materials Safety Administration ("PHMSA") just recently requested the support of the National Association of Regulatory Utility Commissioners to ensure that state commissions implement effective programs for the timely repair, replacement, and rehabilitation of, among other things, cast iron gas mains and unprotected steel pipe. It is appropriate and timely for the Commission to take action on this issue.

Independent of this proceeding, the Companies have implemented plans to accelerate the replacement of cast iron (Peoples) and unprotected bare or coated steel pipe (Peoples and Peoples TWP) on their respective systems. As a result, the Companies are willing and able to

prepare and file PRP Plans with the Commission that demonstrate the Companies' intent to replace all cast iron pipe in Peoples' system within 1 year and all unprotected bare or coated steel in their systems within 20 years.¹ The Companies submit, however, that carrying out such a plan must remain a voluntary undertaking, subject not only to the Companies' obligation to provide adequate, efficient, safe, and reasonable service and facilities but also subject to the usual conditions that are left to utility management discretion, including but not limited to the Companies' ability to recover their costs in a timely manner in order to attract capital necessary to finance the planned pipeline replacements.

The Companies also submit that setting a fixed time period over which certain pipe in its system will be replaced, such period referred to in the T.O. as a "metric", is not necessarily consistent with their DIMP Plans. As a result, contrary to the purpose of the T.O. as stated at page 5, the Companies' PRP Plans, if required to implement specified high risk pipeline replacement with a fixed time period, will not necessarily be based on the Companies' DIMP Plans. The reason for this is that while cast iron and bare and unprotected steel pipe may be high risk pipe under a utility's DIMP risk assessment, there may be other pipe, from time to time, that is assessed as higher risk. In such case, rather than being consistent, the utility's proposed pipe replacement under its PRP Plan and its proposed pipe replacement under its DIMP Plan could conflict.

A. The PRP Plan requirements should be clarified.

While it is clear from the T.O. that the Commission is seeking to fix a time period for natural gas distribution companies to replace cast iron and unprotected bare or coated steel pipe,

¹ Peoples has 40 miles of cast iron pipe and approximately 2,200 miles of unprotected steel pipe in its system. Peoples TWP has no cast iron pipe but has approximately 990 miles of unprotected steel pipe in its system. Peoples plans to replace its entire cast iron pipe during 2012. Peoples and Peoples TWP plan to replace all unprotected steel pipe on their respective systems over 20 years.

the time limits of the proposed replacement metric are unclear and should be clarified. The T.O. states at page 6 that each PRP Plan shall demonstrate compliance with the following Pipeline Replacement Performance Metric: the utility's average rate of pipeline replacement during the ten years prior to the filing of the establishment of the Metric; or rate of pipeline replacement 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 their DIMP plan for risk assessment and the rate of replacement must be equal to or exceed their Metric. This requirement breaks down into the following parts:

1. A. the utility's average rate of pipeline replacement during the ten years prior to the filing of the establishment of the Metric; or
B. i. rate of pipeline replacement that will result in the replacement of all high-risk pipe within twenty years
ii. unless the company demonstrates that a lower rate of replacement is in the public interest.
2. Any replacement of unprotected bare or coated steel and cast iron pipe shall be based upon their DIMP plan for risk assessment and the rate of replacement must be equal to or exceed their Metric.

Focusing on the requirements included in 1, above, they seem to indicate that a utility may use for its Metric either A., its historical average pipe replacement rate over the past 10 years, or B., a 20-year replacement rate, but, in lieu of the 20-year rate, if the utility demonstrates that a "lower rate of replacement is in the public interest," then the utility may use the lower rate.

This requirement is unclear in the following ways:

The “average rate of pipeline replacement” is not defined. It would seem reasonable that it would mean the historical average rate of replacement of unprotected bare or coated steel and cast iron pipe, and the Companies request that the Commission make this clarification.

Does the “unless” clause modify only the 20-year replacement rate, as shown above, or does it modify the entire clause – both the 20-year replacement rate and the average historical rate of replacement?

The term “lower rate of replacement” is not defined, and the Companies request that the Commission clarify that it means a slower rate of replacement.

With regard to the requirements included in 2., above, it is unclear what is meant by the requirement that, on the one hand, replacement of unprotected bare or coated steel and cast iron pipe shall be based upon a utility’s DIMP plan for risk assessment and, on the other hand, the rate of replacement must be equal to or exceed the utility’s Metric. Is the first requirement simply that the utility is to prioritize replacement of its pipe in accordance with its DIMP assessment of riskiest pipe? If so, this may create inefficiencies in the pipe replacement process. For example, efficient pipeline replacement may call for replacing an entire 2-mile run of bare steel pipe, but if some of the pipe within those 2 miles is not high-risk under the utility’s DIMP assessment, then this requirement could mean that the utility should replace only parts of the 2-mile run.

Similarly, a DIMP remediation plan may call for action other than pipeline replacement or for pipeline replacement over a time period other than the 20-year maximum replacement period proposed in the T.O. Thus, it does not necessarily follow that replacement of pipe based

upon the utility's DIMP plan for risk assessment will be consistent with a replacement rate equal to or exceeding the Metric.

B. The PRP Plan Process Would Benefit from the Additional Time and Review Provided by a Rulemaking.

The Companies also submit that the procedure utilized in this docket for establishing the PRP Plan requirements is too accelerated to produce the best practices. Given the short time for comments and the Commission's proposal that some natural gas distribution companies must file their PRP Plans as soon as March 16, 2012, it is reasonable to assume that the details of the process, and maybe even more general guidelines for the process, will be determined through the adjudication of the individual filings of these first companies. This would not be fair to the companies who come in later and cannot participate in the process by which such details and guidelines are developed.

Moreover, the current process may be legally deficient. The Energy Association of Pennsylvania ("EAP") has filed comments in this docket explaining why rulemaking procedures must be followed when the Commission proposes, as it does here, to impose binding norms of conduct. The Companies are members of EAP and endorse the EAP comments filed in this docket.

However, the Companies would like to reiterate that they are committed to the accelerated replacement of higher risk pipe, that both began to accelerate the replacement of such pipe in 2011, and, despite the Companies' procedural concerns with this docket, they fully support the Commission's emphasis on infrastructure replacement and gas safety issues.

C. Performance under the Companies' PRP Plans Must Be Subject to Conditions.

Independent of this proceeding, each of the Companies is developing a pipeline replacement program with a target of replacing all cast iron pipe within 1 year and bare and unprotected steel pipe in their respective systems within 20 years. While such a program is consistent with the DIMP plan of each of the Companies, it is not required by the DIMP plans. Nevertheless, the Companies consider such a program reasonable and prudent at this time, taking numerous factors – economic, operational and societal - into consideration. However, since we live in a dynamic world, those factors are subject to change, and if they do, then the Companies must retain the discretion to change the programs accordingly.

Their ability to carry out their programs will be dependent upon their continued ability to raise capital needed to finance the significant investment such a program requires.² The ability to raise capital will be greatly aided by the implementation of a distribution system improvement charge that provides for the timely recovery of costs related to improvements. Without a distribution system improvement charge, the Companies estimate that they may have to prosecute a general rate case every 12 months, each of which has a cost in today's dollars of approximately \$1.5 to 2.0 million, and their ability to continue to raise capital would depend on their success in each of those cases in recovering all of its costs of doing business including, but certainly not limited to, its investment in accelerated pipeline replacement. It is imperative that the capital markets know that if they invest in this accelerated pipeline replacement program they are going to receive a timely and fair return on the investment provided.

² Peoples estimates that the total investment cost of its replacement program will be approximately \$970,000,000 in current dollars. Peoples TWP estimates that the total investment cost of its replacement program will be approximately \$260,000,000 in current dollars.

The Companies' ability to carry out their pipeline replacement programs will also be dependent upon other, non-financial factors, such as the ongoing ability to attract and retain qualified personnel, the price and availability of required materials, and the continued ability to obtain permits to work in public streets under reasonable conditions. Similarly, if all Pennsylvania natural gas utilities initiate enhanced and accelerated pipeline replacement programs, a major strain will likely be put on the supply chain of raw materials and labor, potentially slowing down the pace at which the projects will be completed (and possibly increasing the cost of this work).

D. Inclusion of Other Metrics in PRP Plans Is Acceptable.

The Tentative Order also proposed that each PRP Plan must include other performance metrics to address (1) damage prevention; (2) corrosion control and distribution systems leaks; (3) emergency response times; and (4) critical valve determination. The Companies address each of these operational conditions in other existing operation and maintenance plans which are subject to regular Commission inspection and review, and the Companies have no objection to providing this information with their PRP Plans. If, however, the Commission intends to use that data to establish performance standards which would subject the Companies to penalty if not met, then such use should not be made until after the Commission has provided notice of such use and an opportunity for affected parties to comment.

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

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Dated: January 13, 2012

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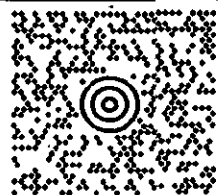
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