

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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December 24, 2012

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17101

RE: Petition of Philadelphia Gas Works  
Long-Term Infrastructure Improvement Plan  
Docket No. P-2012-2337737

Dear Secretary Chiavetta:

Attached for electronic filing are the Comments of the Office of Consumer Advocate in the above-referenced proceeding.

Copies have been served on the parties listed on the attached Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Erin L. Gannon".

Erin L. Gannon  
Assistant Consumer Advocate  
PA Attorney I.D. #83487

Attachment

cc: Commissioner Robert F. Powelson, Chairman  
Commissioner John F. Coleman, Jr., V. Chairman  
Commissioner James H. Cawley  
Commissioner Wayne E. Gardner  
Commissioner Pamela A. Witmer  
Bohdan Pankiw, Law Bureau  
David Screven, Law Bureau  
Paul Diskin, Bureau of Technical Utility Services  
Erin Laudenslager, Bureau of Technical Utility Services

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Philadelphia Gas Works :  
for Approval of its Long-Term Infrastructure : P-2012-2337737  
Improvement Plan :

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COMMENTS OF THE  
OFFICE OF CONSUMER ADVOCATE

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Dated: December 24, 2012

## I. INTRODUCTION

On February 14, 2012, Governor Corbett signed Act 11 of 2012 (Act 11 or Act) into law. Act 11 amends, *inter alia*, Chapter 13 of the Public Utility Code to permit water and wastewater utilities, Electric Distribution Companies (EDCs), Natural Gas Distribution Companies (NGDCs) and city natural gas distribution operations to petition for implementation of a Distribution System Improvement Charge (DSIC). See 66 Pa. C.S. §§ 1350-1360. In order to qualify for DSIC recovery, a utility must submit a Long-Term Infrastructure Improvement Plan (LTIIP) for Commission approval. See 66 Pa. C.S. § 1352. See also In re: Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Final Implementation Order at 21 (Aug. 2, 2012) (Final Implementation Order).

The following seven elements must be included in a utility's LTIIP: (1) types and age of eligible property; (2) schedule for its planned repair and replacement; (3) location of the eligible property; (4) reasonable estimate of the quantity of property to be improved; (5) projected annual expenditures and measures to ensure the plan is cost effective; (6) manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service; and (7) a workforce management training plan designed to ensure that the utility will have access to a qualified workforce to perform work in a cost-effective, safe and reliable manner. See 66 Pa. C.S. § 1352(a). See also Final Implementation Order at 17-19. It is the utility's burden to demonstrate that its proposed LTIIP and associated expenditures are reasonable, cost-effective and designed to maintain safe, adequate and reliable service to customers. Final Implementation Order at 20. The OCA submits that when a utility seeks recovery of costs expended pursuant to its LTIIP in a future proceeding, the utility must demonstrate, *inter alia*, that the costs were reasonably and prudently incurred. Further, the utility

will have to demonstrate that there is no overlap of costs already reflected in base rates with costs expended pursuant to an LTIP. 66 Pa. C.S. § 1357(a)(1)(i).

A utility must file its proposed LTIP with the Public Utility Commission (Commission) and serve copies on statutory advocates and all active parties in the utility's last base rate case. See Final Implementation Order at 20. Once filed, a utility's proposed LTIP will be assigned to the Commission's Bureau of Technical Utility Services (TUS) for analysis. TUS is to make a recommendation to the Commission, and other parties may file comments to a proposed LTIP within 20 days of the date it was filed. Id. If any party's comments raise issues of material fact, the proposed LTIP will be referred to the Office of Administrative Law Judge (OALJ) for hearing and decision, which litigation must be completed within 120 days. Id.

The Commission must initiate a rulemaking regarding the five-year periodic review of LTIPs and draft regulations accordingly. See 66 Pa. C.S. § 1352(b)(1). See also Final Implementation Order at 21. In its regulations, the Commission intends to also allow for flexibility by a utility's management to deviate from a previously approved LTIP if circumstances arise, as long as the utility identifies operational, financial or other justifications for deviating from its approved plan. See Final Implementation Order at 21-22. The Commission will, however, require public notice and comment and Commission approval for significant modifications to an approved LTIP. Id. at 21. Further, Section 1353(b)(2) provides that the Commission shall promulgate regulations that terminate a utility's DSIC if the utility does not comply with its approved plan. Such termination, however, will not occur without the utility being afforded notice and an opportunity to be heard. See 66 Pa. C.S. § 1353(b)(2). See also Final Implementation Order at 22.

On December 3, 2012, Philadelphia Gas Works (PGW or Company) filed its proposed LTIP with the Commission. The OCA submits these Comments on PGW's proposed LTIP for the Commission's consideration. In the OCA's view, the Company has made a thorough effort to address the legislative and Commission elements required for the LTIP. The OCA submits that some additional information may be helpful to the Commission in its consideration of the acceleration and cost-effectiveness criteria required under 66 Pa. C.S. §§ 1352(a)(5) and (a)(6).

## II. COMMENTS

### A. Introduction

On December 3, 2012, PGW filed its LTIP. In its filing, PGW asserted that its LTIP satisfies the seven requirements in Section 1352(a) and the Final Implementation Order. PGW LTIP at 26-27. The Company provided its plans to continue improving safety and reliability through the elimination of its cast iron main inventory and, subsequently, the removal of its unprotected coated steel and ductile iron main, which has a comparatively lower risk of future incident. PGW LTIP at 1, n.4. With regard to cast iron main, PGW currently replaces approximately 18 miles of main per year, focusing on its 8-inch and smaller low and intermediate pressure mains. Since 2008, in response to the recommendations of a benchmarking study on its main replacement program, PGW has used an established main replacement prioritization (MRP) model to identify those cast iron mains with the highest probability of breaking and causing an incident. PGW LTIP at 16-17, App. B at 9. In 2012, PGW had a benchmarking study conducted on the replacement of large diameter cast iron mains. PGW LTIP at 18, App. D.

Based on the recommendations contained in the 2008 and 2012 studies, as well as its Distribution Integrity Management Program (DIMP), field observations and consideration of

redundant or under-utilized main segments, PGW developed a 5-year plan to accelerate main replacement. PGW LTIP at 4-5, 15-20. The LTIP would increase replacement from the current 18 miles per year to approximately 25 miles per year and give greater priority to replacement of larger mains (12-inch and smaller and 30-inch high pressure). The LTIP also continues and accelerates the removal of 8-inch and smaller low and intermediate pressure mains. PGW LTIP at 2, 9, 13-14. PGW states that its LTIP plan would accelerate replacement of larger mains by more than 60 years and smaller mains by 17 years. PGW LTIP at 13.

Implementing the mandates of new legislation requires great effort and care by all involved to ensure that the spirit and letter of the law is upheld. The OCA notes that PGW provided a significant level of detail in its LTIP to assist the Commission in its determination in this proceeding. The OCA commends the Company for its considered discussion of each of the legislative and Commission elements required for the LTIP. The OCA submits that certain additional information may be needed for TUS and the Commission to properly evaluate whether PGW's LTIP meets all the requirements of Act 11 and the Final Implementation Order. The OCA notes that its recommendations are relatively specific, however, and are not intended to be critical of a LTIP filing, which the OCA considers to be very comprehensive, particularly with regard to the Company's efforts to establish acceleration.

B. OCA Recommendations

The OCA submits that the following supplemental information may assist the Commission and its staff in their review of PGW's LTIP:

1. information on the expected incidental reduction in bare steel services due to the acceleration of the smaller diameter cast iron main replacements;
2. PGW's DOT 7100 reports for the last five years;

3. clarification whether mains and services will be replaced in conjunction with one another;
4. clarification whether PGW proposes to install all needed gate boxes and valves for shut offs during the proposed main replacements and service tie overs;
5. further support for including 30" cast iron main in its accelerated replacement plan, for segments where there is no known active corrosion;
6. clarify how PGW will determine that any 12 and 30-inch high pressure mains are redundant or underutilized and, if warranted, how the Company will provide for any existing customers receiving service from mains that are targeted for abandonment; and
7. a calculation of avoided costs attributable to replacing 25 miles of cast iron pipe a year.

The OCA also recommends additional reporting going forward:

8. results of system network analysis before and after the segment installation to confirm that each main project that is not a "like-for-like" pipe diameter replacement is DSIC-eligible.

1. Acceleration

With regard to the required acceleration component, the Company proposes to increase the rate of replacement for certain categories of cast iron mains. PGW LTIP at 9. PGW does not address bare steel mains because its distribution system does not contain any. PGW LTIP at 4. The Company, however, has a significant population of bare steel services (Company-owned service lines). PGW LTIP at 7, 1, n.2. The Company has not provided any information on the expected incidental reduction in bare steel service lines due to the acceleration of the smaller diameter cast iron main replacements. As discussed in the following section, PGW should inform the Commission how it plans to replace service lines and other appurtenances in conjunction with main replacements to ensure the most cost-effective and timely deployment. The OCA recommends that PGW submit this additional information to the Commission for review.

In addition, it may be helpful for the Commission to have basic performance information for PGW's system, such as leak rates per 1,000 services by material type or leaks per mile of main by pipe material type, to consider this information together with the Company's selected

approach. This information is available in the DOT 7100 reports the Company must file annually with the Office of Pipeline Safety, Pipeline and Hazardous Materials Safety Administration. 49 C.F.R. §§ 191, et seq. Having this information would allow the Commission to begin to gauge the effectiveness of current programs. The OCA suggests that PGW submit copies of these reports for the last five years.

2. Cost-Effectiveness

With regard to the cost effectiveness requirement, 66 Pa. C.S. § 1352(a)(5), the OCA submits that PGW should provide additional detail to address several issues identified by the OCA. As noted above, PGW's LTIP proposes to replace customer service lines associated with the cast iron mains being replaced. PGW LTIP at 6. If these services are replaced at the same time as the mains, the process would avoid redeploying crews later to reopen the streets to tie service lines over to the new mains. PGW does not specify that the mains and services will be replaced in conjunction with each other. The OCA recommends that the Commission direct PGW to clarify this point. The Company should also clarify whether it proposes to install all needed gates boxes and valves for shut offs when it replaces the mains.

The OCA identified a potential concern with PGW's plan to accelerate the replacement of 30" cast iron pipe. The benchmark studies provided with the filing do not make a recommendation for replacement of that diameter main. It appears that the Company relied on the discovery of localized corrosive conditions on one segment (PGW LTIP at 5) and generalized that finding to the trench wall conditions for all 545 other large diameter cast iron segments (PGW LTIP at 10). The Company should provide further support for including 30" cast iron main in segments without known active corrosion.

With regard to abandonments, the Company states that it reviews all cast iron inventory for high pressure mains between 12 and 30-inches for redundancy or underutilization and, where appropriate, target them for abandonment. PGW LTIP at 5. The OCA suggests that PGW clarify how the Company will make this determination and, if warranted, how the Company will provide for any existing customers receiving service from those mains.

The benchmark studies attached to PGW's filing discuss percentage reduction in breaks/incidents. PGW LTIP, App. B at 8, App. D at 5. The OCA recommends that PGW be directed to provide a calculation of avoided costs attributable to replacing 24 miles of cast iron pipe a year so that these figures can be reviewed.

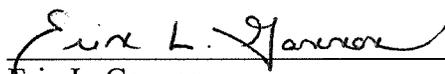
Finally, based on statements on page 5 of its plan, the Company seems to be removing one 2,400 foot section of 12" pipe and replacing it with 20" pipe, which would significantly increase the delivery capacity of the line. On a going-forward basis, for each main project that is not a "like-for-like" pipe diameter replacement, the Commission should have the Company provide the results of system network analysis before and after the segment installation to confirm that the project(s) are DSIC-eligible.

For the reasons discussed, the foregoing supplemental information may assist the Commission and its staff in reviewing PGW's LTIP.

### III. CONCLUSION

The OCA submits that, while it is not requesting a hearing in this proceeding at this time, the Company should provide additional information with its filing to allow the Commission to determine if PGW's LTIP accelerates infrastructure repair and replacement in a cost effective manner as required by Act 11.

Respectfully submitted,



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Dated: December 24, 2012  
163810

CERTIFICATE OF SERVICE

Petition of Philadelphia Gas Works :  
for Approval of its Long Term : Docket No. P-2012-2337737  
Infrastructure Improvement Plan :

I hereby certify that I have this day served a true copy of the foregoing document, Comments of the Office of Consumer Advocate, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 24th day of December 2012.

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