

**I&E Statement No. 1  
Witness: Rachel Maurer**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**PHILADELPHIA GAS WORKS**

**Docket No. P-2015-2501500**

**Direct Testimony**

**of**

**Rachel Maurer**

**Bureau of Investigation & Enforcement**

**RECEIVED**  
**2015 NOV -9 PM 12: 16**  
**PA PUC**  
**SECRETARY'S BUREAU**

**Concerning:**

**Waiver of Interest on Overcollections**

I and E Stmt No. 1  
P-2015-2501500  
11/5/15 Jefferson Rm. *fs*

1 **INTRODUCTION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Rachel Maurer. My business address is Pennsylvania Public Utility  
4 Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in  
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial  
9 Analyst.

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

12 A. My educational and professional background is set forth in Appendix A, which is  
13 attached.

14

15 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

16 A. I&E is responsible for protecting the public interest in proceedings before the  
17 Commission. The I&E analysis and testimony in this proceeding is based on its  
18 responsibility to represent the public interest.

19

20 **Q. DEFINE THE "PUBLIC INTEREST."**

21 A. The public interest refers to jurisdictional ratepayers, the regulated utility, and the  
22 regulated community as a whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to address the Petition of Philadelphia Gas  
3 Works (PGW or Company) for Waiver of Provisions of Act 11 to Increase the  
4 Distribution System Improvement Charge (DSIC) Cap and to Permit Levelization  
5 of DSIC Charges (Petition).

6  
7 **Q. HOW IS PGW'S CURRENT DSIC STRUCTURED?**

8 A. PGW's current DSIC is capped at 5% of billed distribution revenues and collects  
9 100% of the cost of facilities placed into service in the previous quarter on a “pay-  
10 as-you-go” basis.<sup>1</sup>

11  
12 **Q. WHAT HAS PGW PROPOSED IN ITS PETITION?**

13 A. PGW has petitioned the Public Utility Commission (Commission) to waive the  
14 current DSIC cap of 5% of distribution revenues and increase the cap to 7.5%,  
15 waive or suspend the requirements of Act 11 of 2012 and permit PGW to use a  
16 levelized and annualized charge, and to waive the requirements of Act 11 to  
17 exempt PGW from the requirement of paying interest on overcollections.<sup>2</sup>

18 Although I agree that increasing the DSIC cap and permitting the use of a  
19 levelized and annualized charge will allow PGW to accelerate the pace of its

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<sup>1</sup> Petition of Philadelphia Gas Works for Waiver of Provision of Act 11 to Increase the Distribution System Improvement Charge Cap and Permit Levelization of DSIC Charges, page 8, paragraph 8.

<sup>2</sup> Petition of Philadelphia Gas Works for Waiver of Provision of Act 11 to Increase the Distribution System Improvement Charge Cap and Permit Levelization of DSIC Charges, page 1.

1 pipeline replacement, I disagree with PGW's request to waive the obligation to  
2 pay interest on overcollections at this time.

3  
4 **Q. WHAT IS PGW'S BASIS FOR REQUESTING AN INCREASED DSIC CAP**  
5 **AND TO PERMIT AN ANNUALIZED AND LEVELIZED CHARGE?**

6 A. PGW claims that its request to increase the present DSIC from 5% to 7.5% and to  
7 submit an annualized and levelized charge is being made in response to the calls  
8 from both national and local levels of utility regulators and government for PGW  
9 to further accelerate the replacement of at risk mains. PGW also specifically cites  
10 to the April 21, 2015 Pennsylvania Public Utility Commission Staff Report:  
11 Inquiry into Philadelphia Gas Works' Pipeline Replacement Program ("Staff  
12 Report") as a basis for its request.<sup>3</sup>

13  
14 **Q. HOW ARE PGW'S REQUESTS FOR AN INCREASED DSIC CAP AND**  
15 **AN ANNUALIZED AND LEVELIZED CHARGE CONSISTENT WITH**  
16 **THE STAFF REPORT?**

17 A. The Staff Report recognized the need for PGW to accelerate its main replacement  
18 program and outlined several options that PGW could use to enable the  
19 acceleration. PGW's requests to increase the present DSIC cap to 7.5% and to

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<sup>3</sup> PGW Statement No. 1, pages 4-5.

1 implement an annualized and levelized charge are two of the options listed in the  
2 Staff Report.<sup>4</sup>

3  
4 **Q. DESCRIBE HOW INCREASING THE DSIC CAP AND IMPLEMENTING**  
5 **AN ANNUALIZED AND LEVELIZED CHARGE WILL ALLOW PGW TO**  
6 **ACCELERATE ITS MAIN REPLACEMENT PROGRAM.**

7 A. According to page 14 of PGW's petition, increasing the DSIC from 5% to 7.5%  
8 would generate approximately \$11 million in addition annual revenue to fund  
9 main replacements. This would have the effect of reducing PGW's overall  
10 timeline of replacing the cast iron mains from 86 years to 48 years. In addition, an  
11 annualized and levelized charge should allow DSIC billings to remain relatively  
12 level throughout the year and pass DSIC costs equally to all customers.<sup>5</sup>

13  
14 **Q. DO YOU SUPPORT PGW'S REQUEST TO INCREASE THE PRESENT**  
15 **DSIC TO 7.5% AND IMPLEMENT AN ANNUALIZED AND LEVELIZED**  
16 **CHARGE?**

17 A. Yes, my agreement is conditioned on the Company's ability to rectify its  
18 Distribution Integrity Management Plan and its Long Term Infrastructure

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<sup>4</sup> *Pennsylvania Public Utility Commission Staff Report, Inquiry into Philadelphia Gas Works' Pipeline Replacement Program, April 21, 2015, pages 5-6.*

<sup>5</sup> *Petition of Philadelphia Gas Works for Waiver of Provision of Act 11 to Increase the Distribution System Improvement Charge Cap and Permit Levelization of DSIC Charges, page 21, paragraph 40.*

1 Improvement Plan as described in witness Cooper Smith's testimony<sup>6</sup> and the  
2 Company's ability to retain a qualified workforce as described in witness  
3 Horensky's testimony.<sup>7</sup>  
4

5 **Q. WHY DO YOU SUPPORT PGW'S REQUEST TO INCREASE THE**  
6 **PRESENT DSIC CAP FROM 5% TO 7.5% AND IMPLEMENT AN**  
7 **ANNUALIZED AND LEVELIZED CHARGE?**

8 A. I support PGW's request to increase the DSIC cap and implement an annualized  
9 and levelized charge for the benefit of the accelerated main replacement that I  
10 described above, but also because the proposed changes are consistent with the  
11 Staff Report.  
12

13 **Q. ARE THERE CHANGES PGW HAS PROPOSED IN ITS PETITION THAT**  
14 **YOU DO NOT AGREE WITH?**

15 A. Yes. I disagree with PGW's request to waive the obligation to pay interest on  
16 overcollections at this time.  
17

18 **Q. WHAT IS THE CURRENT INTEREST REQUIREMENT WHEN DSIC**  
19 **REVENUE EXCEEDS ELIGIBLE COSTS?**

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<sup>6</sup> I&E Statement No. 2.

<sup>7</sup> I&E Statement No. 3.

1 A. As acknowledged in Paragraph 56 of PGW's petition, Act 11 requires PGW to  
2 refund, along with interest payable at the residential mortgage lending rate, any  
3 overcollections that are returned via a reconciliation mechanism, such as a DSIC.

4  
5 **Q. WHAT IS PGW'S REQUEST REGARDING ITS OBLIGATION TO PAY**  
6 **INTEREST ON OVERCOLLECTIONS?**

7 A. PGW has requested that its obligation to pay interest on DSIC overcollections be  
8 waived.

9  
10 **Q. WHAT IS THE BASIS FOR PGW'S REQUEST TO WAIVE THE**  
11 **INTEREST REQUIREMENT?**

12 A. PGW claims that any interest it pays on overcollections will reduce its cash flow  
13 and therefore increase its cash deficiency in its next base rate proceeding.<sup>8</sup>

14  
15 **Q. DO YOU SUPPORT PGW'S REQUEST TO WAIVE THE REQUIREMENT**  
16 **OF PAYING INTEREST ON OVERCOLLECTIONS?**

17 A. No. Requiring interest on overcollections provides incentive for PGW to make  
18 accurate sales and cost estimations for DSIC purposes. Interest should be charged  
19 on overcollections to provide customers with the assurance that PGW has an

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<sup>8</sup> Petition of Philadelphia Gas Works for Waiver of Provision of Act 11 to Increase the Distribution System Improvement Charge Cap and Permit Levelization of DSIC Charges, paragraphs 55-58; and PGW St. 2, page 14, lines 1-18.

1 incentive to accomplish the pipeline replacement and infrastructure improvement  
2 targets that it has set.

3 In addition, requiring interest on overcollections recognizes the time value  
4 of ratepayer money. The time value of money is the idea that a dollar is worth  
5 more today than a dollar in the future; today's dollar has potential earning capacity  
6 while a future dollar does not. The fact that a dollar would be worth more to  
7 ratepayers today than a year in the future should be recognized. If the interest  
8 requirement is waived and PGW then overcollects DSIC-related costs, PGW will  
9 be holding ratepayer money, and potentially earning interest on that ratepayer  
10 money for up to a year. A waiver of PGW's obligation to pay interest on  
11 overcollections would allow PGW to hold ratepayer money and then return it to  
12 ratepayers without recognizing the earning potential of the money.

13  
14 **Q. WHAT OTHER DSIC CHANGES HAS PGW PROPOSED?**

15 A. PGW has also proposed to increase its DSIC cap and implement an annualized and  
16 levelized charge which would change its DSIC filing from one based on actual  
17 costs and estimated sales to a DSIC based on estimated costs and estimated sales.  
18 Although I am not opposing PGW's proposals to implement an annualized and  
19 levelized DSIC charge, those proposals could further impact PGW's future over  
20 and undercollections.

1 **Q. WHAT EFFECT COULD THESE PROPOSED CHANGES HAVE ON**  
2 **FUTURE OVER AND UNDERCOLLECTIONS?**

3 A. The effect of the proposed DSIC changes on accuracy of the DSIC rate is not  
4 known. There are too many unpredictable factors, such as weather, that could  
5 affect the actual amount spent on DSIC projects to guarantee an accurate  
6 estimation. Because there is no historical data and no record of the effect that an  
7 increased DSIC cap and an annualized and levelized charge will have on both the  
8 Company and ratepayers, there is no way to predict the size of an over or  
9 undercollection. Given the uncertainty of the effect of these changes on over and  
10 undercollections it is imprudent to waive PGW's obligation to pay interest on  
11 overcollections at this time.

12  
13 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE PROPOSED**  
14 **WAIVER OF INTEREST ON OVERCOLLECTIONS?**

15 A. I recommend that PGW's request to waive interest on overcollections be denied.  
16 My recommendation is based on the need to recognize the ratepayer's time value  
17 of money and the uncertainty that a 7.5% cap and an annualized and levelized  
18 charge will have on the accuracy of PGW's DSIC rate.

19  
20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.

**RACHEL A. MAURER**  
**PROFESSIONAL EXPERIENCE AND EDUCATION**

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**EMPLOYMENT:**

Fixed Utility Financial Analyst 2011 – Present	PA Public Utility Commission Bureau of Investigation & Enforcement
Tax Technician 2008 – 2011	PA Department of Labor & Industry Unemployment Compensation Tax Services
Accounts Payable Representative 2007 – 2008	Select Medical Corporation

**EDUCATION/CERTIFICATION:**

Lebanon Valley College, B.S. Accounting – 2007

Society of Utility and Regulatory and Financial Analysts  
Certified Rate of Return Analyst (CRRRA) – May 2015

Advanced Regulatory Studies Program  
Michigan State University – 2013

National Association of Regulatory Utility Commissioners Utility Rate School  
Michigan State University – 2012

**TESTIMONY SUBMITTED:**

Docket No. R-2015-2468056 – Columbia Gas of PA  
Docket No. R-2015-2462723 – United Water Pennsylvania Inc.  
Docket No. R-2014-2428745 – Metropolitan Edison Company  
Docket No. R-2014-2428744 – Pennsylvania Power Company  
Docket No. R-2014-2428743 – Pennsylvania Electric Company  
Docket No. R-2014-2428742 – West Penn Power Company  
Docket No. R-2014-2438304 – Borough of Hanover – Hanover Municipal Water Works  
Docket No. R-2014-2406274 – Columbia Gas of PA  
Docket No. R-2014-2370455 – Penn Estates Utilities, Inc.  
Docket No. R-2013-2390244 – City of Bethlehem  
Docket No. R-2013-2360798 – Columbia Water Company  
Docket No. R-2013-2355886 – Peoples TWP  
Docket No. R-2013-2351073 – Columbia Gas of PA 1307(f)  
Docket No. R-2013-2341534 – National Fuel Gas Distribution Corp. 1307(f)  
Docket No. R-2012-2336379 – York Water Company  
Docket No. R-2012-2321748 – Columbia Gas of PA

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY  
COMMISSION**

v.

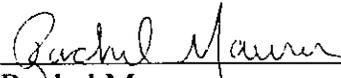
**PHILADELPHIA GAS WORKS**

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**Docket No. P-2015-2501500**

**VERIFICATION OF THE  
BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Rachel Maurer, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the document preliminarily identified as I&E Statement No. 1 was prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

  
Rachel Maurer  
Fixed Utility Financial Analyst  
Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement

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Dated: November 3, 2015

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PHILADELPHIA GAS :  
WORKS FOR WAIVER OF PROVISIONS : Docket No. P-2015-2501500  
OF ACT 11 TO INCREASE THE :  
DISTRIBUTION SYSTEM :  
IMPROVEMENT CHARGE CAP AND TO :  
PERMIT LEVELIZATION OF DSIC :  
CHARGES :

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STIPULATION

Philadelphia Gas Works ("PGW") and the Bureau of Investigation and Enforcement ("I&E") (the "Stipulating Parties") hereby enter into this Stipulation to resolve their differences with regard to the above-captioned proceeding. The Stipulating Parties agree to have this Stipulation admitted as evidence of their agreement and further stipulate and agree as follows:

1. Subject to the additional provisions and modifications set forth herein, the Stipulating Parties recommend and agree to the approval by the Pennsylvania Public Utility Commission ("Commission" or "PUC") of PGW's Petition for Waiver of Provisions of Act 11 to Increase the DSIC Cap to 7.5% (not including reconciliation), to set a cap including reconciliation of 10%, to permit levelization and annualization of DSIC Charges, and to permit PGW to begin to bill customers at the revised level, on or after January 1, 2016 ("PGW Petition"), and agree that the proposed waivers of portions of 66 Pa. C.S. §§ 1358 and 2212(c) should be granted.

A. PGW agrees to withdraw its proposal to waive the requirement to pay interest on overcollections of DSIC charges and shall retain the provision relating to the payment of interest in its Tariff (PGW Gas Service Tariff No. 2, Second Revised Page no. 153, at B).

PGW IDE Exhibit 1  
P-2015-2501500  
11-5-15  
Philadelphia JS

B. (1) By December 31, 2015, or fifteen (15) days after the entry of the PUC's Order approving PGW's Petition whichever is later, PGW shall submit a Petition to the PUC to amend its LTIP<sup>1</sup> which will, *inter alia*,

- (a) Identify how PGW proposes to expend the increased DSIC revenues, including identifying the types and sizes of at risk main PGW proposes to target with the increased revenues;
- (b) Utilize PGW's Distribution Integrity Management Program ("DIMP") risk scores, as modified by PGW to respond to issues raised by the PUC's Gas Safety Division's Non-Compliance letter to PGW dated May 7, 2015; and
- (c) Provide a plan showing how PGW intends to train staff and contractors to meet the Operator Qualification requirements of 49 CFR Subpart N and to otherwise demonstrate that it will have qualified personnel available to accomplish the accelerated main replacement authorized by the PGW Petition.

(2) To the extent feasible, PGW shall consult with I&E about the contents of its revised LTIP prior to its formal filing with the Commission.

(3) The Stipulating Parties will request that the PUC rule on PGW's Petition to Amend its LTIP on or before May 1, 2016.

(4) PGW agrees that it shall not undertake any main replacement made possible by the incremental DSIC funding (\$11 million) authorized by the PGW Petition unless and until the PUC has approved PGW's Amended LTIP.

C. PGW's Annual Asset Optimization Plan filings shall include, *inter alia*:

(1) A description that specifies all eligible property repaired, improved and replaced in the immediately preceding 12-month period pursuant to the LTIP, and, in

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<sup>1</sup> PGW's current LTIP is a five-year plan and the amended LTIP will maintain that time period, and be for the period ending FYE 2020.

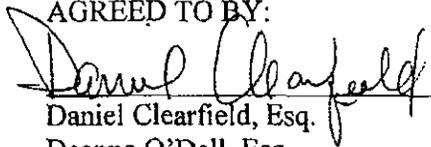
particular, those portions replaced as part of the accelerated main replacement authorized by the PGW's Petition; and

(2) Information on its success in training qualified staff and contractors to satisfy those goals.

- D. Quarterly Reports. PGW will provide to I&E on a quarterly basis:
- (a) all quarterly reconciliation updates and shall agree to honor all appropriate requests for back-up information;
  - (b) for a period of three years from the date the PUC approves PGW's Amended LTIP (or a shorter time period by mutual, PGW/I&E agreement), the actual number of: a) personnel (by job description); and b) contractors that are OQ qualified to work on live gas, compared to the numbers for each identified in PGW's Amended, approved LTIP.

2. The Stipulating Parties agree that PGW's DSIC, as modified by the terms and conditions of this Stipulation, includes and/or addresses all of the elements prescribed by Act 11, the Commission's regulations, and the Commission's policies for a DSIC.

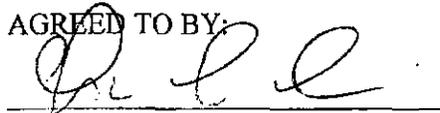
AGREED TO BY:



Daniel Clearfield, Esq.  
Deanne O'Dell, Esq.  
Carl Shultz, Esq.  
Eckert Seamans  
For Philadelphia Gas Works

Dated: November 4, 2015

AGREED TO BY:



Gina L. Lauffer, Esquire  
Carrie B. Wright, Esquire

For the Bureau of Investigation &  
Enforcement, Pennsylvania Public Utility  
Commission

Dated: November 4, 2015

**I&E Statement No. 2**  
**Witness: Terri C. Cooper Smith**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**PHILADELPHIA GAS WORKS**

**Docket No. P-2015-2501500**

**Direct Testimony**

**of**

**Terri C. Cooper Smith**

**Bureau of Investigation & Enforcement**

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**SECRETARY'S BUREAU**

**Concerning:**

**Distribution Integrity Management Plan**  
**And**  
**Long Term Infrastructure Improvement Plan**

I and E Stmt No.2  
P-2015-2501500  
11/5/15 Jefferson Rm. *ls*

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
2 **ADDRESS.**

3 A. My name is Terri C. Cooper Smith. I am a Gas Safety Engineer in the Gas Safety  
4 Division of the Pennsylvania Public Utility Commission's ("Commission")  
5 Bureau of Investigation and Enforcement ("I&E"). My business address is  
6 Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA  
7 17105-3265.

8  
9 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT**  
10 **EXPERIENCE?**

11 A. I attended the Massachusetts Institute of Technology and earned a Bachelor's of  
12 Science Degree in Civil Engineering with a concentration in Architecture in 1985.  
13 I joined the Pennsylvania Public Utility Commission's Gas Safety Division in  
14 September of 2008.

15  
16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

17 A. The purpose of my direct testimony is to address the relationship between  
18 Philadelphia Gas Work's (PGW or Company) Distribution Integrity Management  
19 Plan (DIMP) and Long Term Infrastructure Improvement Plan (LTIIP) and the  
20 Petition of Philadelphia Gas Works for Waiver of Provisions of Act 11 to Increase  
21 the Distribution System Improvement Charge (DSIC) Cap and to Permit  
22 Levelization of DSIC Charges (Petition). More specifically, the purpose of my

1 testimony is to address the dependence of PGW's DSIC on its DIMP in  
2 connection with its LTIP with respect to pipeline replacement with respect to  
3 pipeline replacement of bare steel, cast iron, wrought iron, and vintage plastic pipe  
4 also known as first generation pipe.

5 My direct testimony addresses the following:

- 6 i. Federal regulations that PGW is required to be compliant with;
- 7 ii. PGW's DIMP;
- 8 iii. The accuracy of PGW's LTIP;
- 9 iv. The correlation between the DIMP plan and the LTIP.

10  
11 **Q. WHAT IS THE RELATIONSHIP BETWEEN THE DSIC AND LTIP?**

12 A. In order for a utility to implement a DSIC an LTIP must be filed and approved by  
13 the Commission. The LTIP should address the replacement of aging  
14 infrastructure and must be sufficient to ensure safe and reliable service. The  
15 DSIC provides infrastructure improvement recovery in rates and the LTIP  
16 provides information on the infrastructure replacements and repairs that are  
17 needed.

18  
19 **Q. WHAT HAS PGW REQUESTED IN ITS PETITION CONCERNING THE**  
20 **LTIP?**

1 A. PGW has requested that the Commission authorize the filing, on one days' notice,  
2 of a revised LTIP.

3

4 **Q. WHAT IS THE RELATIONSHIP BETWEEN THE DIMP AND LTIP?**

5 A. A DIMP provides the framework for a utility to prioritize investment in pipeline  
6 improvements in the utilities' LTIP. A DIMP is a mechanism to analyze and rank  
7 pipeline types and replace pipeline based on the highest ranking risk.

8

9 **Q. WHAT FEDERAL REGULATIONS RELATED TO PIPELINE  
10 REPLACEMENT IS PGW REQUIRED TO COMPLY WITH?**

11 A. In part, PGW is mandated by federal regulations to adhere to the Distribution  
12 Integrity Management Program under Chapter 49 Part 192.1001-192.1015 of the  
13 Code of Federal Regulations.

14

15 **Q. WHAT ARE THE SAFETY REQUIREMENTS THAT COMPRISE A  
16 DIMP?**

17 A. DIMP requires a natural gas utility to perform the following risk management  
18 strategies:

19

1. Identify the threats to its facilities;

20

2. Evaluate and rank the risks of threats to the facilities;

21

3. Identify and implement measures to reduce risk;

- 1 4. Measure performance, monitor the results, and evaluate
- 2 effectiveness;
- 3 5. Periodically evaluate and make improvements to the program; and
- 4 6. Report the results.

5 Therefore, DIMP regulations require PGW to identify the risks to its pipeline  
6 facilities and to create a plan or plans to mitigate and reduce these risks. PGW  
7 determines pipeline replacements by risk ranking the different pipeline types and  
8 then replacing the pipe based on the highest risk ranking.

9

10 **Q. WHY MUST A NATURAL GAS OPERATOR COMPLY WITH DIMP?**

11 A. The Pipeline and Hazardous Materials Safety Administration (PHMSA) created  
12 DIMP regulations to reduce the number of (DOT) reportable incidents which are  
13 defined at 49 C.F.R. §191.3<sup>1</sup>. Pipeline leaks from corrosion and third party  
14 damages are two of the main causes of reportable incidents.

15

16 **Q. WHEN WAS THE MOST RECENT PGW DIMP INSPECTION**  
17 **CONDUCTED BY THE COMMISSION'S GAS SAFETY DIVISION?**

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<sup>1</sup> *Incident* means any of the following events:

(1) An event that involves a release of gas from a pipeline, or of liquefied natural gas, liquefied petroleum gas, refrigerant gas, or gas from an LNG facility, and that results in one or more of the following consequences:

(i) A death, or personal injury necessitating in-patient hospitalization;

(ii) Estimated property damage of \$50,000 or more, including loss to the operator and others, or both, but excluding cost of gas lost;

(iii) Unintentional estimated gas loss of three million cubic feet or more;

(2) An event that results in an emergency shutdown of an LNG facility. Activation of an emergency shutdown system for reasons other than an actual emergency does not constitute an incident.

(3) An event that is significant in the judgment of the operator, even though it did not meet the criteria of paragraphs (1) or (2) of this definition.

1 A. The Commission's Gas Safety Division performed DIMP inspections for PGW on  
2 January 28 and 29, 2015, February 5, 6, and 17, 2015 and March 4, 2015.

3

4 **Q. WHAT WERE THE RESULTS OF THE DIMP INSPECTION?**

5 A. The Gas Safety Division discovered that PGW was in violation of the following  
6 Federal Regulations:

7 i. 49 CFR §192.1007 - What are the required elements of an integrity  
8 management plan?

9 ii. 49 CFR §192.1009 - What must an operator report when a  
10 mechanical fitting fails?

11 The Gas Safety Division issued a Non-Compliance letter to PGW on May 7, 2015,  
12 notifying PGW that they were out of compliance.

13

14 **Q. WHAT DOES THE NON-COMPLIANCE LETTER REQUIRE PGW TO**  
15 **DO IN ORDER TO BECOME COMPLIANT?**

16 A. The Gas Safety Non-Compliance letter required PGW to perform the following  
17 actions in order to be compliant with the federal code:

- 18 1. Update the applicable procedures in the DIMP;
- 19 2. Develop a thorough review process of the DIMP effectiveness based  
20 on quantitative benchmark measures;
- 21 3. Develop a thorough strategy to achieve risk reduction thresholds and  
22 review;

- 1 4. Schedule quarterly DIMP meetings to review statistics;
- 2 5. Detailed minutes and follow up actions should be recorded;
- 3 6. Reevaluate the composition, or topic experts, and number of Subject
- 4 Matter Experts (SME's) used on the DIMP team;
- 5 7. Schedule follow-up inspection by the Pennsylvania Public Utility
- 6 Commission of the revised Distribution Integrity Management Plan
- 7 (DIMP).
- 8

9 **Q. BY WHAT DATE WAS PGW REQUIRED TO COMPLETE THE**  
10 **REQUIREMENTS OF THE NON-COMPLIANCE LETTER?**

11 A. The Gas Safety Division requested PGW submit a plan to correct the non-  
12 compliance issues by June 4, 2015.

13  
14 **Q. DID PGW RESPOND TO THE NON-COMPLIANCE LETTER WITHIN**  
15 **THE ALLOTTED TIMEFRAME?**

16 A. Yes. A response was received by the Gas Safety Division on June 4, 2015.

17  
18 **Q. DID PGW'S RESPONSE SATISFY THE REQUIREMENTS OF THE NON-**  
19 **COMPLIANCE LETTER?**

20 A. No. PGW remains non-compliant because a revised DIMP has not, to date, been  
21 submitted to the Gas Safety Division.

1 **Q. IN YOUR OPINION, CAN PGW'S CURRENT DIMP JUSTIFY ITS**  
2 **LTIIIP?**

3 A. No. The DIMP does not document adequately that PGW has assigned risk  
4 rankings based on the data that is available to it. The documentation presented to  
5 the Gas Safety Division did not clearly show at what rate the current pipeline  
6 replacement program reduces risk. Furthermore, all threats to their pipeline system  
7 were not documented adequately. These two findings, along with others outlined  
8 in the non-compliance letter, need to be resolved in order to confirm which PGW  
9 pipe is at the highest risk of failing. Once confirmed, the findings can be utilized  
10 to support a comprehensive and effective LTIIIP which ultimately will reduce the  
11 overall risk of pipeline failure. An LTIIIP executed without supported and  
12 comprehensive data from a compliant DIMP could ultimately lead to exorbitant  
13 expenditures for pipe replacement and the DIMP/LTIIIP would not have the  
14 eventual outcome associated with risk reduction as expected through the  
15 mitigation plan.

16  
17 **Q. IN YOUR OPINION, WHAT NEEDS TO BE IN PLACE FOR A**  
18 **SUCCESSFUL LTIIIP?**

19 A. In order for PGW to conduct a successful replacement program, the DIMP must be  
20 based on thorough and accurate risk assessment which is required by a compliant  
21 DIMP. PGW's LTIIIP is driven by its DIMP plan. If the DIMP plan is non-  
22 compliant, PGW's LTIIIP is most likely inaccurate and, at best, incomplete.

1 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

2 A. Yes. It is my opinion that PGW should submit the revised DIMP and make sure it  
3 is compliant before its revised LTIP is fully executed and approved by The  
4 Commission. However, the lack of a compliant DIMP should not halt any  
5 pipeline replacement in which PGW is currently undertaking.

6  
7 **Q. WHAT DO YOU RECOMMEND REGARDING THE COMPANY'S DSIC  
8 PETITION AS A RESULT OF THE DIMP AND LTIP DEFICIENCIES?**

9 A. Given the Company's petition to increase its DSIC percentage from 5% to 7.5%,  
10 the fact that the Company has an inaccurate and possibly incomplete LTIP should  
11 be resolved immediately and before additional DSIC monies are spent. As stated  
12 earlier, spending DSIC monies using a poor LTIP as a guide can only lead to  
13 unnecessary expenditures, because the repair and replacement decisions were  
14 based on incomplete and unsupported data. More important than the financial  
15 cost, repair, and replacement decisions based on a poor LTIP jeopardize risk  
16 reduction and public safety unnecessarily. Granting the Company's DSIC petition  
17 without first remedying the DIMP and LTIP would allow the Company to risk  
18 both ratepayer monies and ratepayer safety.

19 Therefore, the Commission should not authorize the filing, on one days'  
20 notice, of a revised LTIP, unless and until the DIMP insufficiencies are remedied.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY  
COMMISSION**

v.

**PHILADELPHIA GAS WORKS**

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**Docket No. P-2015-2501500**

**VERIFICATION OF THE  
BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Terri C. Cooper Smith, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the document preliminarily identified as I&E Statement No. 2 was prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

  
\_\_\_\_\_  
Terri C. Cooper Smith  
Gas Safety Engineer  
Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement

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PA PUC  
SECRETARY'S BUREAU

Dated: 11/3, 2015

**I&E Statement No. 3  
Witness: Robert Horensky**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**PHILADELPHIA GAS WORKS**

**Docket No. P-2015-2501500**

**Direct Testimony**

**of**

**Robert Horensky**

**Bureau of Investigation & Enforcement**

**RECEIVED**  
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**SECRETARY'S BUREAU**

**Concerning:**

**Operation Qualification**

I and E Stmt No. 3  
P-2015-2501500  
11/5/15 Jefferson Rm. *lh*

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
2 **ADDRESS.**

3 A. My name is Robert D. Horensky. I am a Gas Safety Engineer in the Gas Safety  
4 Division of the Pennsylvania Public Utility Commission's ("PA PUC") or  
5 ("Commission") Bureau of Investigation and Enforcement ("I&E"). My business  
6 address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg,  
7 PA 17105-3265.

8  
9 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

10 A. I attended Wilkes University and earned a Bachelor's of Science Degree in  
11 Environmental Engineering in 1997. I joined the Pennsylvania Public Utility  
12 Commission's Gas Safety Division in December of 2011. Prior to 2011, I worked  
13 as a Fixed Utility Valuation Engineer with the Bureau of Technical Utility  
14 Services of the Pennsylvania Public Utility Commission.

15  
16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

17 A. The purpose of my testimony is to address Philadelphia Gas Works' ("PGW") or  
18 ("Company") Petition for Waiver of Provisions of Act 11 to Increase the  
19 Distribution System Improvement Charge Cap and to Permit Levelization of DSIC  
20 Charges ("Petition"). Specifically, my testimony will address PGW's proposal to  
21 increase the amount of miles associated with pipeline replacement and the  
22 compliance with federal regulations regarding the training of additional workforce

1 members to perform construction and related tasks needed for the planned  
2 accelerated infrastructure replacement tied with its proposal to increase its  
3 Distribution System Improvement Charge (“DSIC”) cap.  
4

5 **Q. HAVE YOU REVIEWED PGW WITNESS MR. MURRAY’S DIRECT**  
6 **TESTIMONY AS IT RELATES TO PGW’S PLAN TO ACCELERATE**  
7 **THE REPLACEMENT OF CAST IRON AND UNPROTECTED STEEL**  
8 **MAINS?**

9 A. Yes. Mr. Murray provides detail of PGW’s plan to accelerate the replacement of  
10 cast iron and unprotected steel mains. He also discusses how the proposed  
11 acceleration, and possible further acceleration, can enhance safety, reliability,  
12 and is cost effective while PGW maintains adequate, efficient, reliable and  
13 reasonable service.  
14

15 **Q. WHAT IS YOUR REACTION TO PGW’S TESTIMONY REGARDING**  
16 **PLANNED ACCELERATED PIPELINE REPLACEMENT?**

17 A. Neither Mr. Murray nor any other PGW witness addresses any additional staffing  
18 requirements regarding training and construction. PGW must show that the  
19 additional workload proposed by the accelerated replacement is achievable.  
20 PGW has a process to prioritize, design, manage main replacement projects and  
21 train the current level of the work force; however, PGW has not yet performed  
22 main replacement at the proposed increased level.

1 **Q. WHAT KEY FEDERAL REGULATIONS MUST PGW COMPLY**  
2 **WITH IN ITS ACCELERATION OF PIPELINE REPLACEMENTS?**

3 A. In order for PGW to increase the pipeline replacement rate, PGW will need to  
4 follow the regulations contained in Title 49 of the Code of Federal Regulations,  
5 Part 192, “Transportation of Natural and Other Gas by Pipeline: Minimum Federal  
6 Safety Standards.” Specifically, PGW will need to have trained additional  
7 personnel compliant with 49 CFR 192.801, .803, .805, .807 and .809. These  
8 sections, referred to as Subpart N- “Qualification of Pipeline Personnel”, prescribe  
9 the minimum requirements for Operator Qualifications of individuals  
10 performing covered tasks on a pipeline facility.

11

12 **Q. WHAT IS A “COVERED TASK” UNDER THE FEDERAL**  
13 **REGULATIONS?**

14 A. Subpart N prescribes the minimum requirements for Operator Qualification of  
15 individuals performing covered tasks on a pipeline facility. Per 49 CFR 192.801,  
16 a covered task is an activity, identified by the operator, that:

- 17 1) Is performed on a pipeline facility;
- 18 2) Is an operations or maintenance task;
- 19 3) Is performed as a requirement of this part; and
- 20 4) Affects the operation or integrity of the pipeline.

1 **Q. WHAT ARE THE REQUIRMENTS OF AN OPERATOR**  
2 **QUALIFICATION PROGRAM?**

3 A. Per 49 CFR 192.805: Each operator shall have and follow a written qualification  
4 program. The program shall include provisions to:

- 5 a) Identify covered tasks;
- 6 b) Ensure through evaluation that individuals performing covered tasks  
7 are qualified;
- 8 c) Allow individuals that are not qualified pursuant to this subpart to  
9 perform a covered task if directed and observed by an individual that  
10 is qualified;
- 11 d) Evaluate an individual if the operator has reason to believe that the  
12 individual's performance of a covered task contributed to an incident  
13 as defined in Part 191;
- 14 e) Evaluate an individual if the operator has reason to believe that the  
15 individual is no longer qualified to perform a covered task;
- 16 f) Communicate changes that affect covered tasks to individuals  
17 performing those covered tasks; and
- 18 g) Identify those covered tasks and the intervals at which evaluation of  
19 the individual's qualifications is needed.
- 20 h) After December 16, 2004, provide training, as appropriate, to ensure  
21 that individuals performing covered tasks have the necessary

1 knowledge and skills to perform the tasks in a manner that ensures  
2 the safe operation of pipeline facilities; and

- 3 i) After December 16, 2004, notify the Administrator or a state agency  
4 participating under 49 U.S.C. Chapter 601 if the operator  
5 significantly modifies the program after the Administrator or state  
6 agency has verified that it complies with this section.

7  
8 **Q. WHAT ARE THE REQUIREMENTS OF THE EVALUATION PROCESS**  
9 **FOR OPERATOR QUALIFICATION?**

10 A. Per 49 CFR 192.803, an evaluation means a process, established and documented  
11 by the operator, to determine an individual's ability to perform a covered task by  
12 any of the following:

- 13 a) Written examination;  
14 b) Oral examination;  
15 c) Work performance history review;  
16 d) Observation during:  
17 1) Performance on the job,  
18 2) On the job training, or  
19 3) Simulations; or  
20 e) Other forms of assessment.

1 **Q. MR. HORENSKY, IN YOUR OPINION, SHOULD PGW BE REQUIRED**  
2 **TO DEMONSTRATE ITS ABILITY TO ACHIEVE ADEQUATE**  
3 **OPERATOR QUALIFICATION TRAINING IN BOTH ITS LONG TERM**  
4 **INFRASTRUCTURE IMPROVEMENT PLAN (“LTIIP”) AND IN ITS**  
5 **WAIVER PETITION?**

6 A. Yes. In my opinion, PGW needs to demonstrate to the Commission that PGW has  
7 taken measures to ramp up training of staff and contractors to meet the Operator  
8 Qualification requirement of 49 CFR Subpart N to conform with its proposed  
9 accelerated pipeline replacements. PGW should be required to submit a detailed  
10 plan to demonstrate how PGW will develop and implement the increased training  
11 needs for additional personnel. This plan should include a five-year blueprint of  
12 anticipated projects and a staffing study that marries the accelerated pipeline  
13 projects and timing with the necessary level of PGW laborers, foremen, inspectors,  
14 and subcontractors.

15

16 **Q. WHY IS GAS SAFETY CONCERNED WITH THE OPERATOR**  
17 **QUALIFICATION TRAINING CAPACITY AT PGW?**

18 A. In my opinion, construction cannot commence or continue to accelerate without a  
19 trained workforce. A trained workforce is established over time, and planning is  
20 needed to increase the workforce, as there is a time lag from hiring inexperienced  
21 laborers to training these laborers to a level where they are qualified to perform  
22 certain gas related tasks in pipeline replacement and construction projects as per

1 the federal regulations pertaining to Operator Qualification. The increased  
2 training will be an additional expense for PGW whether performed in house or  
3 through a third party. As PGW and surrounding gas distribution companies are  
4 ramping up the pipeline replacement rates, there is competition for contractors to  
5 perform this work. The contractors must be available to perform the work and  
6 must be trained to perform the covered tasks and comply with the requirements of  
7 49 CFR Subpart N and PGW's construction standards. Requesting a plan and  
8 updates of staffing and associated training is necessary to monitor PGW's  
9 accelerated main replacement program funded through, as proposed, an increased  
10 DSIC.

11  
12 **Q. WHAT SHOULD THE FIVE-YEAR PLAN INCLUDE?**

13 A. The five-year plan should detail the in-house PGW staffing necessary to safely  
14 perform the accelerated pipeline construction. The plan should identify the  
15 construction workers' roles in the projects and identify the staffing level of  
16 subcontractor crews needed to augment the PGW construction crews. The plan  
17 should also address PGW's training demand and the capacity of its training  
18 facility. PGW should explain the method it will use to timely achieve the  
19 required training. PGW should determine and indicate whether its staff training  
20 will continue in-house or whether outside training of PGW crews and  
21 subcontractors will be required.

1 **Q. WHAT SHOULD BE REQUIRED OF PGW AS THE CONSTRUCTION**  
2 **COMMENCES?**

3 A. It is my recommendation that PGW should provide the Commission's Gas Safety  
4 Division with an annual update detailing the measures that PGW implemented  
5 to meet its five-year plan. The annual update should include, but not be limited to,  
6 the calculation of staffing needed to meet the projected year's accelerated pipeline  
7 construction, Operator Qualification training performed and required (for both  
8 PGW workers and sub-contractors) , and steps taken to satisfy the training school  
9 demands. I would also recommend that PGW establish a baseline immediately, to  
10 show the staffing and training needs and PGWs capacity to provide the Operator  
11 Qualification training tied to these staffing needs. The annual update should be  
12 divided into groups, at a minimum, for PGW laborers, foremen and inspectors  
13 and for subcontractors.

14  
15 **Q. HOW SHOULD PGW BE REQUIRED TO DEMONSTRATE ITS**  
16 **ABILITY TO HIRE AND RETAIN SUBCONTRACTORS AS THE SCOPE**  
17 **OF ITS CONSTRUCTION PROJECTS INCREASE?**

18 A. As part of the five-year plan that I explained above, it is also my recommendation  
19 that PGW should present a plan to the Gas Safety Division showing the number of  
20 subcontractor crews needed as the accelerated main replacement is rolled out at  
21 PGW. The plan should include the length of contracts secured with the  
22 contractors, the number of crews required by year and the amount of main to be

1 installed by these contractors. There is a concern regarding the availability of  
2 contractors as not only PGW, but also other localized gas distribution companies  
3 are increasing their rates of pipeline replacements. PGW should provide the  
4 Commission's Gas Safety Division with an annual update that specifies the  
5 number of subcontractor crews working versus the amount of main installed,  
6 proposed and actual.

7  
8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A. Yes.**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
	:	
v.	:	<b>Docket No. P-2015-2501500</b>
	:	
<b>PHILADELPHIA GAS WORKS</b>	:	

**VERIFICATION OF THE  
BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Robert D. Horensky, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the document preliminarily identified as I&E Statement No. 3 was prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

  
\_\_\_\_\_  
Robert D. Horensky  
Gas Safety Engineer  
Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement

Dated: November 4, 2015