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IN REPLY REFER TO:

Ansley Watson, Jr.
P.O. Box 1531
Tampa, Florida 33601
e-mail: aw@macfar.com

March 12, 2012

VIA FEDEX

Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

**Re: Docket No. 110320-GU -- Petition for approval of Cast Iron/Bare Steel
Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System**

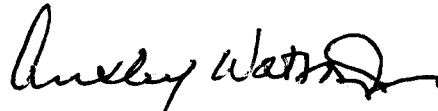
Dear Ms. Cole:

Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original and five (5) copies of Peoples' responses to the Commission Staff's Second Data Request dated February 21, 2012 in the above docket.

Please acknowledge your receipt of the enclosures on the enclosed copy of this letter, and return the same to me in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,



Ansley Watson, Jr.

COM _____
APA _____
ECR 3 Enclosures
GCL 1
RAD _____ cc: Martha C. Brown, Esquire
SRC 1 Ms. Kandi M. Floyd
ADM _____
OPC _____
CLK _____

DOCUMENT NUMBER-DATE

01468 MAR 13 2012

FPSC-COMMISSION CLERK

PEOPLES GAS SYSTEM
DOCKET NO. 110320-GU
STAFF'S SECOND DATA REQUEST
REQUEST NO. 1
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1. In Peoples last rate case, Docket No. 080318-GU, the Commission denied Peoples' proposed Gas System Reliability Rider (GSR Rider). Please refer to pages 42-45 of the rate case Order No. PSC-09-0411-FOF-GU and discuss how the proposed CI/BSR Rider differs from the GSR Rider.

A. See table below:

Components	Rate Case Rider	Proposed Rider
<u>Eligible Infrastructure</u>	<u>GSR</u>	<u>CI/BS</u>
Mains	Yes	Yes
Service Lines	Yes	Yes
Meters	Yes	Yes
Regulators	Yes	Yes
<u>State and Federal Mandates</u>	<u>GSR</u>	<u>CI/BS</u>
Construction / Highway / Road work	Yes	No
Replacements to State Safety Requirements	Yes	No
Replacements to Federal Safety Requirements	Yes	No
Cost associated with Pipeline Integrity Mandates	Yes	No
Projects to Enhance Useful Life of Pipe	Yes	No
Projects to Enhance the Integrity of Pipe	Yes	No
Cast Iron Main and Services	Yes	N/A
Bare Steel Main and Services	Yes	N/A
<u>Company Initiated Replacements</u>	<u>GSR</u>	<u>CI/BS</u>
Cast Iron Main and Services	No	Yes
Bare Steel Main and Services	No	Yes
<u>Recovery Components</u>	<u>GSR</u>	<u>CI/BS</u>
Revenue Requirements	Yes	Yes
Incremental O&M	Yes	No
Depreciation Expense	Yes	Yes
Associated Taxes	Yes	Yes

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2. On page 45 of the rate case Order the Commission found that “We find that the adoption of a GSR Rider is not appropriate in this matter. However, we recognize that PGS may petition this Commission pursuant to 366.076, F.S., for a limited proceeding for the recovery of revenue requirements associated with government-mandated investments for relocation of PGS's facilities and O&M expenditures.” Please discuss why Peoples did not choose to petition for a limited proceeding to recover the cost for the accelerated replacement of the cast iron and bare steel mains.
- A. The above quote for the order in Peoples' last full rate case suggests that the Commission felt approval of the GSR Rider was not appropriate in that case. The recognition that Peoples could file a petition outside of a full rate case seeking approval of the GSR Rider was simply a recognition that not all rate matters are dealt with in full rate cases.

Section 366.076(1), F.S., as pertinent to Peoples' petition in this docket, provides that the Commission “may” conduct a limited proceeding to consider and act on “any matter within its jurisdiction, including any matter the resolution of which requires a public utility to adjust its rates to consist with the provisions of this chapter.” Use of the words “any matter” in this section suggests that a “limited proceeding” (*i.e.*, something less than a full revenue requirements proceeding or rate case) can be conducted by the Commission “[u]pon petition or its own motion” to resolve any matter over which it has jurisdiction under Chapter 366. (emphasis supplied)¹

The Commission has for many years, without referencing this section, conducted numerous “limited proceedings.” The petitioners in virtually none of these proceedings have actually “petitioned” for such proceedings pursuant to Section 366.076(1). A few examples are reflected in Order No. PSC-05-1040-PAA-GU, Docket No. 041441-GU, *In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company*; Order No. PSC-07-0530-TRF-GU, Docket No. 070260-GU, *In re: Petition for approval of standby generator rate schedules RS-SG and CS-SG, by Peoples Gas System*; and Order No. PSC-06-0772-PAA-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.* Peoples saw no need

¹ This grant of statutory authority would likely extend, by virtue of the language used in the provision, to all chapters of the Florida Statutes under which the Commission is granted jurisdiction (*e.g.*, telecommunications, water, etc.).

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to specifically request a limited proceeding or to reference Section 366.076(1) as a basis for its petition to recover the cost for the accelerated replacement of its cast iron and bare steel mains in this docket. The Commission's jurisdiction to consider and approve Peoples' petition is conferred by Chapter 366 in its entirety.

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- 3.** How does People envision that the Commission will approve the CI/BSR surcharges each year, i.e., hearing process similar to adjustment clauses, tariff recommendation, etc.?
 - A.** Peoples envisions the CI/BSR will be administered in a manner similar to the energy conservation cost recovery clause, with an annual true-up reflecting the previous year expenses filed in and around the 2nd quarter, and a projection of costs for the subsequent year filed in the 3rd quarter, with a hearing being conducted if necessary. Peoples is willing to discuss with the Commission other viable options for establishing and reconciling the costs to be recovered and charges to be collected under the rider.

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- 4.** Please provide a copy of the USDOT March 28, 2011, letter referred in paragraph 5 of the petition.

- A.** See attached letter from USDOT Secretary Ray LaHood to Governor Rick Scott.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

The Honorable Rick Scott
Governor of Florida
Tallahassee, FL 32399

March 28, 2011

Dear Governor Scott:

Recent pipeline failures around the country have elevated concerns about pipeline safety. Neighborhoods in Allentown, Pennsylvania, and San Bruno, California, were rocked by fatal explosions caused by natural gas pipeline failures. These tragic events took lives, shook communities, and raised serious questions about the safety of some of our aging pipeline infrastructure.

These and other recent pipeline incidents, such as the one last summer in Marshall, Michigan, causing a large oil spill into sensitive waters, underscore the need to develop a comprehensive solution that will prevent accidents like these from recurring. The U.S. Department of Transportation (DOT) will host a Pipeline Safety Forum on these issues on April 18 in Washington, DC, and I invite you or your representative(s) to participate. This forum will bring together key stakeholders, including pipeline companies, State and Federal agencies, technical experts, public safety advocates, and the public, to tackle these issues head-on and discuss workable solutions. You or your representative(s) may RSVP for the Pipeline Safety Forum at pipelineforum@dot.gov.

We appreciate your State's partnership on pipeline safety inspection and enforcement. In 2009, the Pipeline and Hazardous Materials Safety Administration provided the majority of the funding for your pipeline safety program, trained your State's inspectors alongside our own, and worked with them to enforce your State pipeline safety laws.

Now, we want to partner with you again to ensure that all pipeline companies in your State, both public and private, are correctly analyzing the risks to their pipeline systems and using the appropriate assessment technologies. Your pipeline safety staff can help make this happen. We ask you to urge your staff to encourage companies and the State utility commission to accelerate pipeline repair, rehabilitation, and replacement programs for systems whose integrity cannot be positively confirmed. This is one of the best ways to help protect your citizens from accidents like those in Allentown, Marshall, and San Bruno.

In addition, there are several other actions you could take to prevent other types of pipeline accidents in your State. These include the following:

Issue a Proclamation on Safe Digging Month. You can help raise awareness about the importance of calling before you dig by issuing a State proclamation and holding a public awareness event. As you may know, April is National Safe Digging Month, and DOT will be highlighting our *811 Safe Digging Initiative*. Since establishing the 811 number in 2007 and

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The Honorable Rick Scott

raising awareness among excavators and do-it-yourselfers alike of the importance of calling 811 before digging, the number of gas distribution leaks caused by excavation damage has dropped by more than 45 percent. Even with this progress, excavation damage remains the number one cause of pipeline failures causing serious injuries and deaths. Your State proclamation will help raise awareness about this critical safety issue.

Enforce One-Call Laws. One of the critical components of a strong damage prevention program is fair and effective enforcement of the one-call laws. Governors play a vital role in supporting improved pipeline safety and a sound infrastructure, and we encourage your support for improvements in one-call laws and programs. Effective damage prevention laws are characterized by few or no exemptions from participation in the safe digging process, balanced enforcement that holds all parties accountable, and clearly defined responsibilities.

Encourage Better Land Use and Development. Another important damage prevention initiative is aimed at helping your cities and towns make better decisions about land use and development around existing pipelines. We have published a report on suggested practices and model legislation to help town planners and local officials coordinate with pipeline companies to ensure the safety of people and the environment. This report, called the Pipeline Informed Planning Alliance Report, can be found on our Web site at <http://www.phmsa.dot.gov>. Please help us by referring land use planners in your State to this report so they can make informed decisions about the best use of land near pipelines transporting natural gas or hazardous liquids.

I look forward to working with you on this critical safety issue. If the Office of the Secretary or DOT's Pipeline and Hazardous Material Safety Administration can be of any assistance to you, please contact Administrator Cynthia L. Quarterman at 202-366-4831.

Sincerely yours,

Ray LaHood



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- 5.** Please refer to the footnote on page 4 of the petition and provide an update, if any, on any pipeline safety regulations.

- A.** On January 3, 2012, President Obama signed into law the Pipeline Safety Reauthorization Act that will reauthorize federal safety programs through 2015. This bill worked its way through the House and Senate with momentum after the tragic natural gas incidents occurring in California and Pennsylvania. The reauthorization act addresses areas, among others, such as: civil penalties, incident notifications, automatic and remote controlled shut-off valves for transmission lines and excess flow valves for certain distribution lines. Section 7 of the act specifically addresses cast iron gas pipelines and requires the Department of Transportation (DOT) to conduct a follow-up biannual survey on whether operators have adopted plans to manage and replace cast iron pipe, and to report the status of those plans to various House and Senate Committees by December 31, 2012. It also requires DOT to submit a report by December 31, 2013 to these same Committees on the total mileage of cast iron gas pipelines in the United States, and operators' progress in implementing plans.

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- 6.** Please refer to paragraph 12 of the petition and explain how Peoples recovered its replacement cost for the period 2000 – 2008 (i.e., prior to the 2009 test year in Peoples' last rate case)
 - A.** During 2000 – 2008, Peoples recovered its replacement cost for cast iron and bare steel pipe replacements through its base rates.

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- 7.** The petition states in paragraph 10 that Peoples has about 550 miles of cast iron and bare steel mains and in paragraph 12 that Peoples has replaced about 200 miles. So is it correct that about 350 miles are left to replace?

- A.** No, Peoples has approximately 550 miles of cast iron and bare steel mains remaining in its system.

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- 8.** Will Peoples' employees or contract labor (or a combination of both) perform the accelerated replacements? Will Peoples have to hire an additional workforce to perform the accelerated replacements, and if so, how will Peoples recover the costs of the additional workforce and how many additional employees does People project to hire over the 10-year period?
- A.** Peoples will use a combination of internal employees and external contractors to perform the accelerated replacements according to the Company's construction standards. At this time, Peoples does not anticipate hiring additional labor for the replacement program, and will utilize internal labor where practical, but will also utilize outside contractors for the construction and inspection process. Peoples will capitalize the costs of any internal or contract labor dedicated to the replacement program. A by-product of this program will almost certainly be an economic development boost to all areas where cast iron and bare steel replacements are made as local labor will be needed.