1	BEFORE THE	
2	FLORIDA	PUBLIC SERVICE COMMISSION
3	In the Matter of:	
4		DOCKET NO. 150259-GU
5	INITIATION OF SHO	
6	GAS SYSTEM FOR APPARENT VIOLATIONS OF SECTIONS 368.01-05, F.S., AND CHAPTER 25-12, F.A.C.	
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11	PROCEEDINGS:	COMMISSION CONFERENCE AGENDA
12		ITEM NO. 1
13	COMMISSIONERS PARTICIPATING:	CHAIRMAN JULIE I. BROWN
14		COMMISSIONER LISA POLAK EDGAR COMMISSIONER ART GRAHAM
15		COMMISSIONER RONALD A. BRISÉ COMMISSIONER JIMMY PATRONIS
16	DATE:	Thursday, May 5, 2016
17	PLACE:	Betty Easley Conference Center
18		Room 148 4075 Esplanade Way
19		Tallahassee, Florida
20	REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter
21		(850) 413-6734
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PROCEEDINGS

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CHAIRMAN BROWN: Moving to Item 1, which is the show cause.

MS. CORBARI: Good morning, Commissioners.

Kelley Corbari for Commission prosecutorial staff.

Item 1 addresses Docket 150259-GU, initiation of show cause proceedings against Peoples Gas System for apparent violation of *Florida Statute*, Sections 368.01 through 05, and *Florida Administrative Code*, Chapter 25-12.

On April 18th, Peoples Gas filed a proposed settlement agreement, which is joined by the Office of Public Counsel and Commission prosecutorial staff, to resolve the company's violations and all claims set forth in the petition filed by OPC in this docket.

The settlement agreement, which was negotiated by Peoples Gas, OPC, and Commission prosecutorial staff, provides that Peoples Gas will submit a \$1 million penalty payment to the General Revenue Fund; peoples Gas will issue a one-time credit of \$2 million to its cast iron bare steel replacement rider in 2017, which will reduce the monthly surcharge of Peoples Gas customers subject to the rider in 2017; and Peoples Gas will institute certain additional compliance measures to promote compliance with required safety regulations in

the future.

Prosecutorial staff is recommending the

Commission approve the proposed joint settlement

agreement because the agreement provides for a

reasonable resolution of all the issues in this docket.

Moreover, prosecutorial staff believes the agreement to be in the public interest in that it provides for the company's future compliance with Florida Statutes and Commission rules and promotes administrative efficiency by avoiding the time and expense of a hearing.

Mr. Gordon Gillette, President of Peoples Gas
System, is present today for the company, along with
counsel and company representatives. The Office of
Public Counsel is also present today. Staff is
available to answer any questions.

CHAIRMAN BROWN: Thank you, Ms. Corbari.

Before we get to Mr. Gillette, I just want to say I know that Commission staff particularly has spent a great deal of time invested in this matter, and I'd like to commend you for all the diligence and work that you've done on bringing this before us today.

So with that, Mr. Gillette or Mr. Watson.

MR. WATSON: I'm Ansley Watson here for Peoples Gas System, and we urge the Commission's

approval of the settlement agreement. Among the people here from the company today are Mr. Gordon Gillette, the President of Peoples Gas, who would like to address the Commission.

MR. GILLETTE: Chairman Brown, Commissioners, thank you very much for your consideration of this settlement. Safety is our number one priority at Peoples Gas and across the TECO Energy family of companies. At TECO, safety of life outweighs all other considerations and is at the very top of our core values. Working safely not only involves maintaining the safety of our team members, but safety of our customers and the communities that we serve. We realize that safety is not just working to avoid injuries, but it's also ensuring proper documentation and timely inspections to be sure that our equipment is safe and that we're compliant with rules and regulations.

There have been significant changes in the natural gas industry in recent years, and the number of and level of requirements in the area of public safety have increased very significantly. Like all gas utilities, Peoples Gas is working hard to keep pace with those changes. One of our main challenges has been standardization of our processes and procedures and the standards -- as the standards and requirements have

increased.

Another of our challenges has been cultural, ensuring that the right tone at the top -- that we have the right tone at the top in our company and that we're communicating at every level of the organization the importance of customer and community safety.

To address the need to standardize and to change the culture, we've made numerous process and people-related changes. The process changes, which include installing and using new software systems, are complete. We'll obviously be improving those systems as we go forward, but they are complete. The organizational and people changes are complete as well, and they're making a difference.

Cultural changes take the longest to effect, and we've made significant progress with significant increases in communication and training throughout our company, and we'll work to continue improving in that area as well.

On the people front, in January we named T.J. Szelistowski, who this Commission knows well, to be Vice President of Gas Delivery for Peoples Gas, and that's a new officer position in our company that is solely responsible for gas operations. T.J. is here with me today.

T.J. has made significant organizational changes in the operating areas. He's been communicating regularly with our front line and throughout our organization, and he's been very visible at all of Peoples' 14 divisions that we use to serve customers. In addition, we've established new functions in our audit services department and in our regulatory affairs group to provide independent oversight of our compliance activities.

In addition to recognizing T.J. for his work today, I also want to recognize someone else who's here with us today, and that's Rob Bennett, who is the President and CEO of Emera's U.S. operations. And he's here as -- obviously as we approach the finalization of our merger between TECO and Emera.

TECO/Peoples Gas takes responsibility for the actions of the company and its employees. We've made significant improvements in response to the issues that have been raised. We'll continue to find ways to further improve, update our programs, our processes and our controls, and instill a culture of safety in our company. I would note that the Commission's inspectors recently completed an inspection of our second largest division, which is our Miami division, and there were no violations in that inspection.

We're committed to compliance with all regulations affecting the safety of customers, employees, and the general public, but, further, we're committed to customer and community safety for safety's sake. And we're committed to uphold the trust that our customers have in us as a company as demonstrated by J. D. Power's recognition of us for our customer satisfaction.

This settlement is financially challenging; however, we appreciate the cooperation and professionalism of the Public Service Commission staff and the Office of Public Counsel in working to resolve this issue. Thank you.

CHAIRMAN BROWN: Thank you.

Ms. Roth.

MS. ROTH: Good morning, Madam Chair, Commissioners.

First, the Office of Public Counsel would like to recognize the exceptional job that your staff -- especially Rick Moses and the safety inspectors he supervisors, and Carl Vinson and the auditors he supervisors and works alongside -- did in identifying, pursuing, and enforcing the safety issues that resulted in the settlement that is before you today.

Safety, especially for the gas companies of

Florida, is of the highest importance to OPC, the customers of Florida, and to this Commission. We would also like to thank the prosecutorial staff that you designated to litigate this case. Their diligence and ability to sit down at the negotiating table was essential to developing a settlement that met the public interest needs of the customers you serve and to the company as well.

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Additionally, OPC would like to emphasize the agreement is in the public interest and that it addresses past failures, provides for resolution of these failures, as well as substantive operational commitments by the company, and is a strong message to the public that the Commission is serious about safety.

We would also like to note that the company's agreement to continue to meet its safety obligations does not terminate with the approval of the settlement; rather, it continues throughout and after and confirms their commitment that all PSC and PHMSA rules will continue to be met.

Lastly, OPC would like to commend Peoples Gas

System on its willingness to engage in discussions to

resolve these issues in a fair and equitable resolution.

Several of the commitments that are embodied in this

agreement were underway before the agreement was even

signed, which is a good sign that they were already working to remedy issues.

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OPC believes the settlement is in the public interest as it keeps the cost of litigation down while achieving a fair result, delivers a representational penalty, provides a meaningful compliance -- provides meaningful compliance terms and commitments, and refunds \$2 million to customers of PGS. OPC would urge the approval of the settlement by the Commission. Thank you.

CHAIRMAN BROWN: Thank you, Ms. Roth.

And, Commissioners, before we get into some questions, I would like staff to give an opportunity to highlight some of the key provisions that you find advantageous for the customers.

Mr. Vinson.

MR. VINSON: Yes, Commissioner. There are five key provisions in the settlement agreement that I believe will improve the company's results as to safety compliance. They include provisions such as employee training; continuing implementation and widespread use and application of the electronic tracking, as you heard from Mr. Gillette; also increased involvement in their audit services organization; and returning to a more vigorous operational review program that has been

We will be continuing oversight or, should I

successful in the past but not in recent years.

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say, monitoring. Commission audit staff plans to be in

frequent contact with the senior management in gas

operations and ensuring that these five key action items are fully implemented. There are time frames associated with each, and the Commission has the ability to perform a management audit at any time under our statutory

CHAIRMAN BROWN: And we have.

authorization.

MR. VINSON: Yes.

CHAIRMAN BROWN: But I think one thing that you did leave out that the settlement does is the \$2 million that are going back to customers. Under a show cause action like this, traditionally if we went to hearing, that would not have happened.

MR. VINSON: Right.

CHAIRMAN BROWN: That would have gone back to the general revenue.

MR. VINSON: Right. That's correct. It would not have occurred during a hearing. It would have been fines only to the general revenue. And this provides the 2 million for the customers of PGS.

CHAIRMAN BROWN: Okay. So could you estimate how many -- the \$3 million, to me, I believe it's the

largest penalty that the Commission has ever assessed; is that correct?

MR. VINSON: I believe so.

\$3 million -- the entire settlement as a whole is punitive in nature and not -- the company suffers a financial impact and there's future compliance; however, with the settlement, we are able to send some of that money back to the customers. And it is the largest fine monetary, both the \$1 million portion and the \$3 million total, that this Commission has ever assessed and the first gas enforcement, gas safety enforcement by this Commission.

CHAIRMAN BROWN: Okay. And to get a barometer or a gauge of how that impact is, how much would 100 basis points be? How much would that calculate in relation to the penalty?

MS. CORBARI: Based on Peoples Gas' December 31st, 2015, earnings surveillance report, 100 basis points or 1 percent change in return on equity equates to about \$5.1 million in an annual revenue requirement.

CHAIRMAN BROWN: And I know that the statute allows for a certain amount -- \$25,000 -- is that correct?

MS. CORBARI: Per day per violation.

CHAIRMAN BROWN: So how much would this total penalty kind of equate to per violation?

MS. CORBARI: If you just took \$25,000 per violation instead of per day, for 140 violations it equates to about \$3.5 million.

CHAIRMAN BROWN: Thank you. Commissioners, I will open it up to questions. I'm sorry. I have a question, though, for Mr. Gillette.

Obviously you've admitted that there were some issues, significant issues, and have been very transparent in the process and cooperative with the Public Service Commission staff, with Public Counsel. How are you going to give reassurance to customers that safety is Peoples Gas' number one priority moving forward?

MR. GILLETTE: Commissioner, as I stated, in our core values as a corporation for TECO, safety is our number one core value of our five core values. And on the customer front, we are very focused on our customers understanding that we are working diligently across the system to do the leak surveys in a timely fashion. And I think obviously this particular event and the timing of where we are right now is somewhat challenging, but I think also the folks that represent the public, the Office of Public Counsel, have acknowledged that we are

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going to move forward and serve our customers in the safest manner. I think we have put together plans and procedures going forward that are going to do just that. And so we would like our customers to understand as a result of this that we're going to put all efforts forward to be sure that customers are served safely in the future.

CHAIRMAN BROWN: Thank you.

Commissioners, questions, comments?

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Madam Chair.

I do have a question I'd like to pose to the company, and I discussed this with staff at our briefing.

Mr. Gillette, in your overview comments, you talked about updating processes and controls continually, of course, but my understanding is that part of the settlement agreement is that Peoples will not ask to recover from customers certain incremental costs that are associated with taking corrective measures that are either required or are required as part of the settlement. Can -- so can you share with me some of the processes or controls that the company will be putting in place to assure that those incremental costs are not requested to be passed on to customers at

some point in the future separate from the KPMG cost?

MR. GILLETTE: Well, obviously we're accounting for all of our compliance costs moving forward. And as we implement the various systems that we have, some of those are capital, some of those are O&M. Clearly some of the provisions of the fines in this proceeding won't be part of our ROE calculation moving forward, and we will track all costs associated with compliance to be assured that we're in compliance with the stipulation.

COMMISSIONER EDGAR: As a non-accountant, when you say "track all costs," again what is the control or process that will be put in place that distinguishes from general O&M separate from those that would be excluded from potential cost recovery?

MR. GILLETTE: I'm going to ask -- in our stipulation -- T.J., why don't you join me for a sec -- the specific costs that are excluded.

MR. SZELISTOWSKI: Good morning,

Commissioners. As we have talked through the

settlement -- Commissioner Edgar, you mentioned the

KPMG, and obviously that would not be recovered. Also

costs associated with if we had to do resurveys of

areas. As an example, part of -- one of the things that

we did last year was we resurveyed some areas where

there was a question about whether those had been done correctly or not. Those types of things would not be --we would not seek recovery of. Normal compliance activities we would as part of the settlement, but things where we are having -- would have to go back as a result of the KPMG work and outflow from that KPMG work on things that we would have to either resurvey or do that would be above and beyond what would be considered normal compliance work are things that we would not seek recovery for.

COMMISSIONER EDGAR: Thank you. That's helpful. I appreciate the clarification.

I have one other unrelated question, and this is unrelated, but -- potentially. But, Mr. Gillette, you did, in your comments, mention an ongoing merger process that is going on. To the extent that you can publicly, since we're just all here in the room and you did mention that, can you very briefly tell us where that is in the process and what the timeline looks like?

MR. GILLETTE: Yes. The New Mexico Public
Regulation Commission has approval authority on this
merger, and a settlement has been reached between the
parties in New Mexico. And it's moving through the
Commission processes to move before the Public
Regulatory Commission in New Mexico by probably early

July at this point. And after that approval is
received, that's the last condition required for -- to
be met before the merger to be approved or for the

COMMISSIONER EDGAR: Thank you.

CHAIRMAN BROWN: Commissioner Patronis.

COMMISSIONER PATRONIS: Thank you, Chairman.

This is more, I guess, directed to staff.

merger to close.

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Could you just go over with us what the training changes that are proposed that are part of the agreement?

MR. VINSON: Yes, Commissioner. There are really two components of training. One being the completing training and retraining on the, what's called the GL Essentials program or system. That is the electronic tracking system that Peoples Gas has implemented as a major improvement and step forward in being able to schedule the numerous inspections and in-the-field remedial actions that are required under safety regulations and rules.

The -- another component of implementing

Essentials is to bring the contractors on board. PGS

uses contractors to do some of the inspection

activities, and that has been kind of the last phase of

completely implementing Essentials. So that will be

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done. And we understand from PGS management that actions are already underway to bring those contractors into training and to bring them into use of the system.

CHAIRMAN BROWN: Commissioner Brisé.

COMMISSIONER BRISÉ: Thank you. Just as a follow-up to Commissioner Patronis's question, but this one is to T. J. The issue of culture was brought up by Mr. Gillette. What is the company doing to address the challenges that existed within the culture to ensure that the culture is different moving forward?

MR. SZELISTOWSKI: Sure. Thank you for the question.

Several items. One in terms of management and visibility, and these are some of the things that had been started before I started my work at Peoples Gas earlier this year, but time, face time with people all the way from — on the operation centers from the front line all the way through the management. That's one of the things, the local management. So I actually have a day a week that I've started to tag for being out in the field to spend face—to—face time with those employees to share my thoughts and vision about compliance and the importance of it. That's one item.

Another thing is we have established expectations of all the local management in terms of

monitoring compliance and verifying that we are doing all those things and reinforcing it. We have spent significant time in the field reinforcing. It -- a little bit related to the training where we're sitting down with the front line and explaining to them here are the reasons for -- and we actually are referring to it less as compliance and more as pipeline safety, because that's ultimately what it is is pipeline safety, and spending a lot of time reinforcing that with the front line. So a number of cultural items such as that to just stress not only the message from the top.

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And I will say that I think our front line folks and the management folks are very committed to making that happen. And as I have spent -- I've been to all the divisions, as Gordon had mentioned, since I started at PGS and will continue to be out there. And the message that I hear back as I talk about compliance and I talk about safety are the things that I want to hear in terms of the commitment from those employees to do what we need to do to be compliant to have pipeline safety.

MR. VINSON: Madam Chairman, could I make an addition to our prior answer?

CHAIRMAN BROWN: Absolutely, Mr. Vinson.

MR. VINSON: In further response to

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Commissioner Patronis, I knew there was one other item I was trying to remember. And Mr. Szelistowski mentions the training, the reorientation for the culture change, and that is a component of the action items in the settlement agreement. So that's another form of training or reorienting employees.

MR. SZELISTOWSKI: Yeah. One other item in addition to that is we are asking every management employee to recommit in writing their commitment to diligent oversight, vigilant oversight of all levels of compliance.

CHAIRMAN BROWN: Thank you. And obviously actions absolutely speak louder than words, so -- and safety is our paramount concern. It is obviously your mission. It is something that must occur. Change in culture and practices have to occur, and I think that you are -- you acknowledge that, you're aware of that.

There's a follow up to one of Commissioner Edgar's questions actually about some of the costs for compliance, the processes. Mr. Gillette, you talked about installing new software systems.

I know previously a lot of it comes from the top up to instill a new culture of importance about safety, and there's -- you talked about installing new processes for compliance, and I wanted to understand.

wasn't sure about your response to Commissioner Edgar's questions about whether these costs will be held below the line like the KPMG audit or are they going to be later sought?

MR. GILLETTE: I think T.J. spoke some to the costs that will be excluded and will be out of the settlement. Obviously, as part of our general capital investment and O&M costs going forward, we're going to be spending a lot, and we've already spent a lot.

During the three-year period between 2013 and 2015, we spent about \$8 million in combined capital and O&M, and our plan moving forward is to spend probably about 12 million.

And those costs, we believe, are very important for us to continue to improve our systems and our culture moving forward, and we believe that those are part of meeting the PHMSA regulations as they're evolving and the standards. And so we see those as part of our general costs that we incur, capital moving into rate base and O&M expense on a regular basis.

But as you know, Peoples has been earning well within its range of return on equity. The company is healthy from a financial point of view. Obviously this settlement is painful to us and we talked about the impact in terms of basis points and those kinds of

things. But the company is well positioned to meet our consumers' and community safety needs moving forward, and we'll put forth the dollars and make the investments that we need in the infrastructure, in the people, in the organization to do what's necessary to keep our customers and our employees safe.

And -- but I do think that those expenses, both capital and O&M, are part of being in the gas business these days. All of us in the gas business are dealing with an awful lot of change.

I'm on the American Gas Association board of directors. We regularly talk about the changing PHMSA regulations. We're actually -- this week we have a peer review where the American Gas Association has sent a number of people from other gas companies to come in and review what we're doing in Peoples Gas. And we ask for that, we welcome that, that feedback from other gas companies.

And -- but in our discussions just this week with the other gas companies, they're dealing with the very same issues that we're dealing with right now.

They're dealing with the balance between employee safety and consumer safety. And the reality is both are extraordinarily important; both are, you know, our number one priority. But as we've talked with some of

the other companies, there's a lot of resources and a lot of time and money that's required to comply with the

CHAIRMAN BROWN: Thank you. I appreciate that dialogue.

Commissioner Graham.

changing regulations.

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COMMISSIONER GRAHAM: Thank you, Madam Chair.

I just want to move staff recommendation on this item.

CHAIRMAN BROWN: Before we do that,

Mr. Rehwinkel has just come here. I appreciate that
too, but I think Mr. Rehwinkel would like to say
something.

MR. REHWINKEL: Yeah. I just -- listening back there, Charles Rehwinkel, Deputy Public Counsel, and I assisted Ms. Roth in this case, I just wanted to confirm one thing because I detected there might be a little bit of confusion about the Essentials software, is that we did not -- we think that that's an important thing for them to spend to be -- to come into and to stay in compliance. We also believe there are some additions to that software, that they may be borrowing ideas from New Mexico to improve the leak detection uses of that software. So it was not our intention in the settlement that that -- those costs be below the line, and I just wanted to --

CHAIRMAN BROWN: That was really clear. 1 2 you. MR. REHWINKEL: Okay. 3 CHAIRMAN BROWN: Very clear. Thank you. 4 MS. CORBARI: Madam Chairman. 5 CHAIRMAN BROWN: Yes. 6 7 MS. CORBARI: Staff would concur with Mr. Rehwinkel. And before we close, I would like to say 8 9 a few words too. This entire process -- I didn't get involved until very late in the game, unlike Rick Moses 10 and Carl Vinson, who have been dealing with this for 11 12 four -- three, four years. We wouldn't be in this 13 position where we are today without the hard work and 14 dedication of our audit staff and our field inspectors and Rick Moses. And prosecutorial staff as a whole 15 would also like to thank Peoples Gas and OPC for their 16 17 great cooperation in getting this done today. 18 CHAIRMAN BROWN: I'm so happy you said all of 19 Thank you very much for saying that. 20 And, Commissioner Graham, I think we're in a 21 posture now. 22 COMMISSIONER GRAHAM: Now? 23 CHAIRMAN BROWN: Now. 24 COMMISSIONER GRAHAM: Well, then I'd like to 25 once again make a motion.

CHAIRMAN BROWN: On all issues. Okay. 1 2 There's been a motion to approve the settlement 3 agreement. COMMISSIONER BRISÉ: Second. 4 CHAIRMAN BROWN: Okay. All those in favor, 5 6 say aye. 7 (Affirmative vote.) 8 Thank you very much. Thank you again for all 9 of this work. With that, before we adjourn, I just want to 10 11 say thank you, staff, thank you, everybody, for your patience here. And there's been a lot of time that has 12 been put forth on some of these items. 13 And I wish all of the mothers in the room a 14 15 happy Mother's Day in advance, and we are adjourned. 16 Thank you. (Proceeding adjourned at 10:30 a.m.) 17 18 19 20 21 22 23 24 25

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1	STATE OF FLORIDA) : CERTIFICATE OF REPORTER		
2	COUNTY OF LEON)		
3			
4	I, LINDA BOLES, CRR, RPR, Official Commission		
5	Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein		
6	stated.		
7	IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the		
8	same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.		
9			
10	I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor		
11	am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I		
12	financially interested in the action.		
13	DATED THIS 12th day of May, 2016.		
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15	Linda Boles		
16	LINDA BOLES, CRR, RPR		
17	FPSC Official Hearings Reporter (850) 413-6734		
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