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State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: ~~January 24, 2025~~ February 20, 2025

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ward, Hampson) CJP
Division of Engineering (Ellis, Sanchez, Thompson) TB
Office of the General Counsel (Sandy) JSC

RE: Docket No. 20240107-GU – Petition for approval of modifications to cast iron/bare steel pipe replacement rider, by Peoples Gas System, Inc.

AGENDA: ~~02/04~~03/04/25 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On July 26, 2024, Peoples Gas System, Inc. (Peoples or utility) filed a petition for the approval to expand the definition of eligible projects under its cast iron/bare steel pipe replacement rider (CI/BS Rider or rider) and rename the rider the Safety of Facilities and Infrastructure Replacement Rider (SAFIR). Peoples asserts that through the proposed SAFIR rider, Peoples is seeking recovery of the revenue requirements of expedited programs to enhance the safety of Peoples' natural gas distribution system, through a 10-year surcharge on customers' bills. The SAFIR surcharge would be calculated annually. The total projected cost for the 10-year SAFIR rider, as shown in staff's fourth data request No. 1, is $470.1 million (which includes the remaining CI/BS costs), and is based on current data.[1]

[1] Response No. 1 in Staff's Fourth Data Request, Document No. 10116-2024.

The proposed SAFIR rider addresses activities summarized under four categories: (1) pipeline safety and compliance-driven pipeline work, (2) replacement of other problematic pipeline, (3) system enhancement projects to reduce the loss of natural gas service to critical customers, and (4) risk-based relocation of pipeline facilities in rear easements.

In 2012, the Commission approved the CI/BS Rider in Order No. PSC-12-0476-TRF-GU (2012 Order) to recover the cost of accelerating the replacement of cast iron and bare steel pipes through a surcharge on customers' bills.[2] In the 2012 Order, the Commission found that, "replacement of these types of pipelines is in the public interest to improve the safety of Florida's natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur."[3] Peoples' current surcharges were approved in Order No. PSC-2024-0511-TRF-GU.[4]

In Order No. PSC-17-0066-AS-GU, the Commission approved a comprehensive settlement agreement between PGS and the Office of Public Counsel (OPC).[5] The settlement agreement, in part, added problematic plastic pipe (PPP) installed in the utility's distribution system to eligible replacements under the rider beginning in 2017 and continuing through 2028.

In Order No. PSC-2023-0388-FOF-GU, the Commission granted in part and denied in part Peoples' petition for a base rate increase.[6] Peoples asserted that all the capital costs proposed for recovery are incremental costs and were not included in the rate case test year.

During the review process of the utility's petition, staff issued four data requests, for which responses were received on September 20, October 7, and December 6. Staff also held an informal meeting with representatives for the utility on November 4, 2024.

Peoples submitted sample SAFIR tariff sheets as part of its petition. The sample tariffs do not require Commission action. If the petition (or any part of the petition) is approved, Peoples would recover the SAFIR costs incurred for 2025 in 2026. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.041, 366.05, and 366.06, Florida Statutes (F.S.).

[2] Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 20110320-GU, *In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.*
[3] Order No. PSC-2022-0405-TRF-GU, issued November 21, 2021, in Docket No. 20220152-GU, *In re: Petition for approval of 2021 true-up, projected 2022 true-up, and 2023 revenue requirements and surcharges associated with cast iron/bare steel replacement rider, by Peoples Gas System.*
[4] Order No. PSC-2024-0511-TRF-GU, issued December 20, 2024, in Docket No. 20240133-GU, *In re: Petition for approval of 2023 true-up, projected 2024 true-up; and 2025 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System, Inc.*
[5] Order No. PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 20160159-GU, *In re: Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE.*
[6] Order No. PSC-2023-0388-FOF-GU, issued December 27, 2023, in Docket No. 20230023-GU, *In re: Petition for rate increase by Peoples Gas System, Inc.*

Discussion of Issues

Issue 1: Should the Commission approve Peoples' proposed modifications to the CI/BS Rider?

Recommendation: Yes, in part. The Commission should approve Peoples' expansion of the rider program to include: (1) maximum allowable operating pressure (MAOP) reconfirmation and material verification, (2) pipeline spans and shallow/exposed pipe, and (3) the relocation of facilities in rear easements. These components of the proposed rider expansion are reasonable additions that are required by recent changes to the United States Pipeline and Hazardous Materials Administration (PHMSA) regulations and/or are consistent with approved items in previous Commission Orders.

The Commission should deny the inclusion of (1) pipeline pressurization monitoring and management, (2) pipeline damages and leaks, (3) pipeline within casings, (4) undetectable facilities, and (5) system enhancement projects, as they are not required by PHMSA regulations and/or are part of the utility's normal operations and, therefore, more appropriately addressed through traditional ratemaking processes. (Sanchez, Ward)

Staff Analysis:

Overview of the Proposed SAFIR Rider

In its petition, Peoples is requesting to expand its rider to include several capital-intensive categories of activities to improve the safety of its gas infrastructure. These categories include: (1) pipeline safety and compliance-driven pipeline work, (2) replacement of other problematic pipeline, (3) system enhancement projects reducing the risk of loss of service to critical customers, and (4) risk-based relocation of pipeline facilities in rear easements. Each of these are discussed in detail below.

1. Pipeline Safety and Compliance-driven Pipeline Work

a. MAOP Reconfirmation and Material Verification

The utility requests to include eight projects under this modification: four relating to material reconfirmation and four relating to MAOP reconfirmation. These eight projects are estimated to have a total combined cost of approximately $10.9 million over a 3-year period.[7] The utility asserts that this modification is needed due to an amendment to PHMSA's Safety of Gas Transmission Pipeline Rule. This Rule amendment, which became effective in May 2023, requires operators to reconfirm the MAOP and verify the material specifications of all transmission pipeline segments. As part of the requirements of this PHMSA Rule, 50 percent of all reconfirmation activities must be completed by July 3, 2028, and 100 percent must be completed by July 2, 2035.

Based on staff's review, this item appears to be appropriate as a result of a change in PHMSA regulations. Also, this is consistent with a prior Commission decision approving activities needed

[7] The estimated cost for the MAOP projects was updated in Peoples' response to Staff's Fourth Data Request No. 1. The amount in the petition was $10,081,141 and the updated amount is $10,904,000.

to comply with PHMSA regulations.[8] As such, staff recommends approving this activity to be included in the rider.

b. Pipeline Pressurization Monitoring and Management

The utility requests to include the evaluation of its 1,700 district regulator stations to ensure that they contain up-to-date remote monitoring equipment and, if necessary, the upgrade of such equipment for each station. The utility estimates an approximate total cost of $22.3 million over a 10-year period for this project. Staff notes that the total cost is not final, as it is based on current estimates of how many district regulator stations require some form of upgrade.

The utility asserts that this item is necessary due to a proposed rule amendment based on the Pipes Act of 2020, which requires operators to assess and upgrade their district regulator stations in order to minimize the risk of over pressurization. These evaluations will ensure that the station design and monitoring equipment are optimal, in order to prevent an incident similar to the 2018 Merrimack Valley Incident, which was the catalyst for the rule. However, staff notes that the rule revisions were initially proposed on September 7, 2023, and the period for comments closed on November 6, 2023. No final rule or timeline for rule approval is currently available. Furthermore, the utility already utilizes equipment meant to minimize the risk of over pressurization in its system.

Based on staff's review, the federal rule amendments requiring this activity are not in effect and the final rule may differ from earlier proposed versions. Therefore, staff believes that this item is premature and recommends that it is not appropriate to include this activity in the rider at this time.

c. Retirement of Inactive Service Lines

In response to staff's first data request, Peoples stated that it is removing the retirement of inactive service lines from its petition to align with the current CI/BS Rider (which excludes retirement capital expenditures from the eligible replacements recovered through the CI/BS Rider).[9] The retirement amount included in the petition was $143.2 million. Therefore, the retirement of inactive service lines and associated costs of $143.2 million is not addressed in this recommendation.

d. Pipeline Damages and Leaks

The utility requests to include pipeline repairs due to damage caused by third-parties and other damages, such as leaks not associated with third-parties, in the rider. Peoples estimates a total cost of $192 million over a 10-year period to repair damage caused to their pipelines. Peoples states that damages caused by third-parties has increased in recent years as a result of increased construction activities due to Florida's population growth. Peoples further states that these accidental damages to underground pipelines, whether by third party excavations or common leaks, can cause a risk to the safety of the public and the environment, while also requiring replacement of entire sections of pipeline.

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[8] Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 20120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.*

[9] Response No. 4a. in Staff's First Data Request, Document No. 09105-2024.

Based on staff's review, staff believes that this activity is part of the utility's normal operations and, therefore, more appropriately addressed through traditional ratemaking processes such as through a petition for a limited proceeding or base rate proceeding. As such, staff recommends this item be removed from the rider expansion.

2. Replacement of Other Problematic Pipelines

a. Pipeline Spans and Shallow/Exposed Pipe

The utility is requesting the inclusion of pipeline spans and shallow/exposed pipes in its rider. "Pipeline spans" or "spans" are segments of pipe that cross over geographical features such as rivers, creeks, drainage ditches, and roadways. Peoples estimates an approximate total cost of $4.7 million over a 10-year period for capital work on pipeline spans and an additional approximate $1 million over a 1-year period for at least one area of shallow pipelines needing replacement.

Because these spans are not underground, the pipelines are more susceptible to damage and corrosion. In a similar way, shallow and exposed pipes that are no longer safely buried due to erosion or other changes to the environment are also susceptible to damage and corrosion. Staff notes that the Commission has previously approved a similar activity in Order No. PSC-2023-0235-PAA-GU (GUARD Order).[10] These improvements are also a planned addition to the utility's next Distribution Integrity Management Program (DIMP),[11] as per a recommendation from a third-party consultant, which will assist the utility in prioritizing projects based upon various risk factors.

Based on staff's review, staff believes that the replacement of these spans and shallow/exposed pipe sections through a surcharge is a reasonable approach to improve the safety of Florida's natural gas infrastructure and to the public. Therefore, consistent with the Commission's GUARD Order, staff recommends that this component of the rider expansion should be approved.

b. Pipeline within Casings

Peoples states that there are 21 sections of steel distribution main within steel casings that need to be improved or replaced. The utility states that this item is necessary, as the use of casings is both a benefit and a detriment. These pipeline casings are sleeves fitted around a carrier pipeline that serve to protect a section of pipeline from threats such as structural damage and accidental excavation damage. These protective casings, while capable of preventing certain types of damage to pipeline, may also cause other types of damage such as corrosion, electrical isolation of the casing, or unintended contact between the metal casing and the pipe causing leaks that are costly to maintain. For the replacement or improvement of these sections within casings, the utility estimates an approximate total cost of $23.3 million over a 10-year period with an estimated two to three casing projects annually.

[10] Order No. PSC-2023-0235-PAA-GU, issued August 15, 2023, in Docket No. 20230029, *In re: Petition for approval of gas utility access and replacement directive, by Florida Public Utilities Company.*

[11] Pursuant to Chapter 49, Section 192.1005 Code of Federal Regulations (2023), a gas distribution operator must develop and implement an integrity management program. The DIMP program is a comprehensive plan of pipeline risk assessments that determines the priority of qualifying facilities replacement by ranking risk.

Staff notes that in response to staff's data requests, the utility stated that its DIMP did not determine that these cases are in need of accelerated replacement and that replacements have been occurring as needed to address corrosion issues that could result in shorted casings. Furthermore, the utility states that the installation of casings is no longer a standard practice and expects the majority of the 21 identified sections to require replacement of the pipeline and elimination of the casing.

Based on staff's review, this activity is part of the utility's normal operations and, therefore, more appropriately addressed through traditional ratemaking processes such as through a petition for a limited proceeding or base rate proceeding. As such, staff does not believe that this modification to the rider is appropriate and recommends this item be removed from the rider expansion.

c. Undetectable Facilities

The utility requests for the remediation of approximately 244 miles of currently identified undetectable facilities, repairs to damaged tracer wires of these facilities, and the installation of new locating devices in the rider. Peoples estimates an approximate total cost of $19.2 million over a 5-year period for this activity.

Typically, underground plastic pipelines are located by the use of a transmitter connected to a tracer wire installed with the pipeline. Damage to this tracer wire, through excavation or otherwise, causes the pipeline to become undetectable by locaters, and therefore increases the chance of damage to the pipeline. The utility asserts that this increased risk of damage to both the underground pipeline and excavators is why this modification is a necessary addition to the rider. However, this project is not required by PHMSA's federal regulations. The utility instead asserts the regulatory requirement is based on Section 556.105(7)(2) F.S., which requires gas utilities, if facilities cannot be located, to provide best available location data and for excavators to use reasonable care and detection equipment or other means to find facilities.[12] These undetectable facilities can still be located by the utility, but would require additional equipment and excavation through nondestructive means, such as vacuum excavation or by hand, to reconfirm a facilities location.

Based on staff's review, this activity is part of the utility's normal operations and therefore is not in need of accelerated recovery. As such, staff does not believe that this modification to the rider is appropriate and recommends this item be removed from the rider expansion. PGS may address the proposed project by availing itself of other traditional ratemaking processes such as through a petition for a limited proceeding or base rate proceeding.

3. System Enhancement Projects

Peoples is also requesting to include two system enhancement projects as part of its proposed modifications. These capital projects are to address the risk of loss of service to what the utility identifies as some of its critical customers. Peoples states that these projects would allow the utility to sectionalize the system in order to reduce the risk caused by third-party damage, and to more immediately stop the escape of gas into the atmosphere. The utility has also stated that the completion of these projects will allow them to repair damages to their respective pipelines

[12] Response No. 2 in Staff's Third Data Request, Document No. 09399-2024.

without interrupting gas service to the respective areas. The utility estimates a combined total of approximately $28 million for both projects.

The first capital project consists of the construction of an additional 6-inch steel main feed in the Dade-Broward service area in order to remove a single failure point near the Miami River. The utility identified that this area of its system serves 5,300 total customers; this includes 21 customers classified as critical by the utility, and estimates the capital cost of this project to be approximately $17 million over a 2-year period.

The second capital project consists of the construction of an additional 5-mile feed in the Southwest Florida service area, running south of the utility's Fort Myers gate station, in order to remove a single failure point. This area of its system services 27,000 customers, including 194 critical customers, and estimates the capital cost of this project to be approximately $11 million over a 1-year period.

Staff notes that neither of the system enhancement projects discussed above are included in Peoples' DIMP, nor are they the result of PHMSA federal regulations. Staff also notes that the Commission has previously denied similar system reliability projects in the GUARD Order.

Based on staff's review, these activities are a part of the utility's normal operations and are more appropriately addressed through traditional ratemaking processes such as through a petition for a limited proceeding or base rate proceeding. As such, staff does not believe it is appropriate to include the System Enhancement Project under a long-term, safety-related program with accelerated recovery. Therefore, consistent with the Commission's prior Orders, staff recommends that this item be removed from the rider expansion.

4. Relocation of Facilities in Rear Easements

The utility estimates that approximately 3,000 miles of main and other pipeline assets it maintains are located in rear easements across the state. The utility estimates an approximate total cost of $42.4 million over a 10-year period to relocate these facilities to front easements or other more accessible locations.

The utility states that the resulting difficulty accessing these facilities due to existing fencing, vegetation growth, or constructed buildings, causes delays in facility location, conduction of compliance activities, regular maintenance, and emergency response efforts, and therefore, is a safety risk for customers and utility team members. The areas of highest risk include an approximate 161 miles of main and 4,620 service connections that have been identified as historically difficult to access for maintenance, compliance, and repair activities. The Commission has previously approved a similar activity for FPUC in the GUARD Order and for Florida City Gas' Safety, Access, and Facility Enhancement (SAFE) program.[13]

Based on staff's review, staff believes that the relocation of mains and service connections would improve system safety and operations for both customers and Peoples employees. Therefore,

[13] Order No. PSC-2015-0390-TRF-EI, issued September 15, 2015, in Docket No. 20150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery method, by Florida City Gas.*

consistent with the Commission's prior Order, staff recommends that this modification to the rider be approved for expedited recovery to address these safety concerns.

Remaining CI/BS Costs

In its petition, Peoples estimates costs of $126.3 million for the 5-year period ending in 2029 for the replacement of the remaining CI/BS and PPP eligible under the rider. If approved by the Commission, Peoples would recover these costs under the SAFIR rider. Peoples would begin recovery of costs related to the expansion of eligible projects under the SAFIR rider in 2026, if approved.

Staff believes it is appropriate for any remaining CI/BS Rider amounts to be rolled into the SAFIR rider for cost recovery. Accordingly, there would be no CI/BS Rider surcharge on customers' bills starting January 1, 2026; the proposed SAFIR surcharge would replace the CI/BS Rider surcharge. If the Commission denies the SAFIR rider in totality, Peoples should continue the CI/BS Rider.

Determination of SAFIR Revenue Requirement

Peoples is seeking cost recovery of an estimated ~~$342.8~~$343.8 million for the 10-year (2025-2034) SAFIR rider as summarized in the table below:

Table 1-1
Projected 2025-2034 Total SAFIR Capital Investment
Utility Proposed and Staff-Recommended
(in millions)

SAFIR Project Type	Utility Proposed	Staff Recommended
Pipeline Safety & Compliance		
MAOP Reconfirmation	$10.9	$10.9
Pipeline Pressurization Monitoring	$22.3	n/a
Pipeline Damages & Leaks	$192.0	n/a
Replacement of Other Problematic Pipelines		
Pipeline Spans & Shallow/Exposed Pipe	$5.7	$5.7
Pipeline within Casings	$23.3	n/a
Undetectable Facilities	$19.2	n/a
System Enhancement Projects	$28.0	n/a
Relocation of Facilities in Rear Easements	$42.4	$42.4
Total New Activities	$343.8	$59.0
Remaining CI/BS and PPP Costs	$126.3	$126.3
Total SAFIR Investment	$470.1	$185.3

Source: Response to Staff's Fourth Data Request No. 1.

In its petition, the utility states that the annual investment will be much lower in the latter half of the program upon completion of the cast iron/bare steel and problematic plastic pipe

replacement. Staff notes that the numbers shown above are estimates and actual costs will be evaluated and reviewed in the annual filings. Staff believes that if the Commission approves the proposed SAFIR projects in this Issue, the utility should include any projects that started in 2025 for cost justification in ~~its September 2025 petition for the SAFIR surcharge to be effective January 2026~~ a separate petition to be filed with the Commission.

Peoples asserts that the proposed methodology to calculate the SAFIR rider surcharges is the same as that utilized for the approved CI/BS Rider. Specifically, the utility is proposing to continue the procedures and structure laid out in the 2012 Order, while expanding the definition of eligible replacements under the Rider. Staff believes that the proposed expenses are consistent with the approved CI/BS revenue requirements and are reasonable with the exception of the projects discussed above for which staff did not recommend approval. However, the revenue requirements for the approved projects should be reviewed in the annual petitions. Peoples should also quantify any operations and maintenance and depreciation cost savings resulting from the new replacement pipes and use the savings to offset the SAFIR rider revenue requirement. Any savings should be shown as a separate line item in the filings. If no savings can be identified, Peoples should provide an explanation in its annual SAFIR petitions.

The annual filings should provide the Commission with oversight to ensure that projected expenses are reasonable and only actual costs are recovered. The SAFIR rider and associated surcharges should terminate when all replacements have been made and the revenue requirement has been rolled into rate base. If Peoples wishes to continue the SAFIR rider beyond the 10 years requested in this petition, Peoples should file a petition with the Commission seeking approval to continue or modify the SAFIR rider.

As with the current CI/BS Rider, Peoples should be required to file its annual SAFIR petitions to revise the surcharge on, or before, September 1 of each year and implement the revised surcharge effective January 1 through December 31 of the following year. ~~The first~~ A petition for 2026 factors should be filed on September 1, 2025, for SAFIR factors to be effective January 1 through December 31, 2026. The annual SAFIR petitions should include all calculations to show a final true-up, actual-estimated true-up, projected year investments and associated revenue requirements, and the calculations of the SAFIR factors by rate class. The annual petitions should also include a report including the location, date, description, and associated costs of all replacement projects completed and all projects scheduled for the following year.

SAFIR Rate Impacts

In response to staff's second data request, Peoples provided SAFIR rate impacts based on the requested $470.1 million increase associated with the new activities for 2025 through 2034, assuming there is no rate case in the next 10 years in which the SAFIR rider revenue requirement would be rolled into rate base and the SAFIR surcharge would be reset.[14] A residential customer on the RS-2 rate schedule, using 20 therms a month, would have in 2025 an expected monthly bill impact of $0.16 or $1.90 annually. In 2034, the projected impact on a residential customer on the RS-2 rate schedule, using 20 therms a month, would be $2.11 or $25.26 annually. Staff notes that Peoples' calculation was based on the assumption that a SAFIR surcharge would be effective in 2025. The bill impacts were calculated using the estimated costs for all of the

[14] Response No. 6 in Staff's Second Data Request, Document No. 09106-2024.

proposed projects under the SAFIR rider. If the Commission were to deny any of the requested projects as recommended by staff, the bill impacts would be less.

Conclusion

The Commission should approve Peoples' expansion of the rider program to include: (1) maximum allowable operating pressure (MAOP) reconfirmation and material verification, (2) pipeline spans and shallow/exposed pipe, and (3) the relocation of facilities in rear easements. These components of the proposed rider expansion are reasonable additions that are required by recent changes to the United States Pipeline and Hazardous Materials Administration (PHMSA) regulations and/or are consistent with approved items in previous Commission Orders.

The Commission should deny the inclusion of (1) pipeline pressurization monitoring and management, (2) pipeline damages and leaks, (3) pipeline within casings, (4) undetectable facilities, and (5) system enhancement projects, as they are not required by PHMSA regulations and/or are part of the utility's normal operations and, therefore, more appropriately addressed through traditional ratemaking processes.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Sandy)

Staff Analysis: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.