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November 19, 2012

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Rosemary Chiavetta, Esq., Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, Pennsylvania 17120

2012 NOV 27 AM 10:44

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IRRC

**RE: Establishing a Uniform Definition and Metrics For  
Unaccounted-For-Gas (Docket No. L-2012-2294746)**

Dear Secretary Chiavetta:

Enclosed for filing please the Comments of the Energy Association of Pennsylvania's filed in the above-referenced docket.

Sincerely,

A handwritten signature in black ink, appearing to read "Donna M. J. Clark".

Donna M. J. Clark  
Vice President and General Counsel

CC: Robert F. Powelson, Chairman  
John F. Coleman, Vice Chairman  
Pamela A. Witmer, Commissioner  
Wayne E. Gardner, Commissioner  
James H. Cawley, Commissioner  
Nathan Paul, Bureau of Audits ([npaul@pa.gov](mailto:npaul@pa.gov))  
Lawrence F. Barth, Asst. Counsel, Law Bureau ([lbarth@pa.gov](mailto:lbarth@pa.gov))

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2012 NOV 27 AM 10: 44

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Establishing A Uniform  
Definition and Metrics  
For Unaccounted-For-Gas

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Docket No. L-2012-2294746

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**COMMENTS OF THE  
ENERGY ASSOCIATION OF PENNSYLVANIA  
TO THE PROPOSED RULEMAKING ORDER**

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**Introduction**

On June 7, 2012, the Pennsylvania Public Utility Commission (“PUC” or “Commission”) entered a Proposed Rulemaking Order to establish regulations which require the uniform reporting of unaccounted for gas (“UFG”) by natural gas distribution companies (“NGDCs”) certificated in the Commonwealth and which create a metric mandating the reduction of UFG to 3% in incremental amounts over a five (5) year timeframe for those NGDCs whose percent of UFG currently exceeds that goal. Failure to timely meet the new metric as calculated on a calendar basis would preclude recovery of costs associated with that amount of UFG which exceeds the metric unless otherwise approved by the Commission. Application of the standard would commence one year after the effective date of the proposed regulations beginning with the first subsequent PGC or GCR filing by a NGDC.

The Proposed Rulemaking Order, published in the PA Bulletin on October 20, 2012, solicits comments and reply comments from interested parties which are due on November 19, 2012 and December 4, 2012, respectively. The Energy Association of Pennsylvania (“EAP” or “Association”) files the instant comments on behalf of its NGDC members.<sup>1</sup>

The proposed regulations were issued concurrently with the release of an internal PUC report dated February 2012 entitled, “*Unaccounted-for-Gas in the Commonwealth of Pennsylvania*” (“Report”). The Report concludes, *inter alia*, that the lack of a standard definition for UFG in Pennsylvania results in a reporting of data that is not readily comparable between utilities and not easily assessable in the context of rate case proceedings, 1307(e) and (f) filings, and annual reports. See Report at p. 2.

In the Report, staff recommends that the Commission establish a standard industry definition similar to that of the U.S. Department of Transportation’s Pipeline and Hazardous Material Safety Administration (“PHMSA”) to eliminate data discrepancies. Staff further suggests a standard method of calculating UFG for reporting purposes and proposes a uniform statewide metric “to establish and transition to an acceptable level of UFG.” *Id.* The Report provides that while no distribution system can eliminate all UFG, it is essential that gas utilities work to minimize the amount because ultimately the costs of UFG are paid by ratepayers.

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<sup>1</sup> Columbia Gas of PA, Inc.; Equitable Gas Company, LLC; National Fuel Gas Distribution Corp.; PECO Energy Company; Peoples Natural Gas Company; Peoples TWP, LLC; Philadelphia Gas Works; Pike County Light & Power Company; UGI Utilities, Inc.; UGI Penn Natural Gas, Inc.; UGI Central Penn Gas, Inc.; and, Valley Energy, Inc.

## Comments

In early March 2012, EAP and its member NGDCs were invited to review a draft proposal of regulatory changes aimed at standardizing the reporting and calculation of UFG. The proposal included the establishment of a metric by which the amount of UFG would be reduced over time to an amount which staff believed was reasonable taking into account the operational impossibility of eliminating all UFG. The industry welcomed the opportunity to discuss this issue and agreed that the development of a standard definition and method of calculating UFG would aid the Commission, the companies and other stakeholders in assessing the impact of UFG in a variety of rate related proceedings. EAP and its members, however, were not in agreement with the staff proposal to set a single standard for all Pennsylvania NGDCs as a way to determine an acceptable annual level of UFG and believed that the mandated reduction of UFG by a pre-determined amount each year over a period of five years was arbitrary and may not be operationally feasible.

Further, with the implementation of Act 11 of 2012 and the opportunity it creates to replace aging infrastructure and concurrently reduce UFG, the Association believes that prior to establishing a new regulatory program consisting of a statewide mandated metric and penalty, the Commission should implement a standardized definition and calculation of UFG and then assess the impact of those changes on UFG in connection with current 1307 proceedings. EAP notes the reference in the Report to other utility established benchmarks such as the Electric Reliability Standard, Telephone Quality Standards or the unaccounted-for-water standard and supports the application of benchmarks for the gas distribution industry but believes the better metric would be to measure improvement against individual company performance from year to year as the Commission currently does in the context of the Electric Reliability Standard.

EAP's comments to the Proposed Rulemaking Order focus on these and other recommendations that seek to establish rules which achieve consistent and standardized reporting of UFG while allowing for flexibility in assessing whether the amount of UFG reported for an individual utility is "excessive" in light of its particular distribution system.

**A. Standardized Definitions Should Reflect UFG as a Measurement and Reconciliation Issue and Recognize Operational Differences among Utilities.**

The instant Proposed Rulemaking Order originated from the above-identified Report wherein the Bureau of Investigation and Enforcement and the Bureau of Audits identified the need for standardization to facilitate consistent reporting and proper evaluation of utility UFG and its resulting impact on utility ratepayers. EAP agrees that a standardized UFG definition will reduce interpretational differences and facilitate reporting that is more consistent and comparable among NGDCs.

In establishing a standardized definition for UFG, EAP suggests alignment with the nationally-recognized and accepted definition of the American Gas Association ("AGA") as set forth below:

*UFG--Unaccounted-for-gas-* The difference between the total gas available from all sources and the total gas accounted for as sales, net interchange and company use. This difference includes leakage or other actual losses, discrepancies due to meter inaccuracies, variations of temperatures and/or pressure, non-revenue producing gas and other variants.<sup>2</sup>

AGA's definition properly captures the appropriateness that UFG is a matter of measurement of quantities of gas moving through a utility's system to be reconciled at the end-point, recognizing that the end-point also comprises gas that is transported (not sold) by a utility to customers. The importance of recognizing and accounting for these types of operational

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<sup>2</sup> <http://www.aga.org/SiteCollectionDocuments/KnowledgeCenter/OpsEng/BestPractices/2009/0910SYSRELD.PDF>

differences between utilities is crucial to achieving accurate and consistent reporting. EAP supports the calculation of unaccounted for gas by system type (gathering, transmission, storage and distribution) and recommends that the proposed definition of “Adjustments” at § 59.111 (a) include “storage losses”. Additionally, EAP suggests the use of “such as” in the definition as a modifier to reflect that there may be other potentially quantifiable adjustments in addition to those listed (these changes would then also be made to section 59.111 (b)(5)).

**B. § 59.111 (c)(2). Metrics for Distribution System % Unaccounted For Gas.**

EAP suggests that the use of an annual 0.5% reduction in distribution system percentages for UFG is arbitrary and should be replaced with a yearly evaluation which examines UFG based on the new standardized definition and method of calculating UFG and compares it to prior performance, looking for a reasonable reduction. As with other reliability and performance benchmarking, EAP asks the Commission to employ its expertise and discretion to determine adequate performance rather than establishing a uniform statewide standard which does not consider differences between distribution systems.

The table below shows the percentage improvement in UFG that must be achieved year-to-year in order to realize the proposed overall reduction of 40% over five years established under the proposed regulations.

Year	Percent UFG	Annual % Reduction	Cumulative Reduction Percentage
1	5.00%		
2	4.50%	10.00%	
3	4.00%	11.10%	
4	3.50%	12.50%	
5	3.00%	14.20%	-40.0%

The proposed standards seem to presume that a “fix” can be identified, implemented and the results obtained within a year’s time; and, that progressively additional “fixes” can be uncovered and implemented each year to achieve a precise mathematical reduction. EAP submits that, to the extent a NGDC’s UFG exceeds the metric, it is unlikely that the NGDC can employ mitigation measures each year over a five year period that reduces UFG by the precise target amounts identified in the proposed regulation at §59.111(c)(1). This circumstance will inevitably require the Commission to consider under §59.111(c)(3) whether to approve for recovery the amount of UFG in excess of the metric.

EAP believes that the benchmarking sought by the Commission can be achieved without establishing an arbitrary reduction value and then conducting a proceeding to determine whether cost recovery is appropriate where the target is missed. Instead, EAP suggests that the proposed regulations adopt a standardized definition and method of calculating UFG and then use those tools to collect information and compare the results against data collected under the new regulations. Staff has already recognized that the new regulations cannot be immediately applied. Likewise, the approach advocated here would gather data on an annual basis for purposes of comparison in each succeeding year. Rather than establish a new and arbitrary metric, the suggestion here is to standardize the definition and method of calculating UFG, collect data based on those new criteria and benchmark performance against that data, leaving the issue of cost recovery to the 1307 proceedings in which it is currently considered.

The regulatory mandate for NGDCs to uniformly achieve a statewide 3% UFG over five (5) years by requiring a .5% reduction per year does not consider the numerous variables and drivers that impact UFG measurements and data reporting by individual NGDCs in their annual

reports to the PUC and DOT. The identity of the drivers as well as the difficulty in measuring UFG attributable to a specific driver(s) has been acknowledged by the Commission's own staff in various venues and presentations. A presentation given at the 2007 Winter NARUC meetings<sup>3</sup> by PA PUC staff affirmed that there are "17 or more conditions that may contribute to unaccounted-for gas" (e.g., time of year, temperature change, meter age and functionality, pipeline material and depth, measurement errors, etc.). These variables contribute to the differences and variations in UFG measurements by Pennsylvania's natural gas utilities and underscore the need for a careful balance provided by standardization in definition and reporting together with individualized examination and analysis in the course of existing 1307(f) proceedings. The same Commission presentation recognized and acknowledged vast differences among NGDCs and their operating systems by stating that "there are no two systems exactly the same as to piping and customer mix". *Id.*

Likewise, mandating a single statewide goal that does not take into account the variables and differences in individual NGDC operating systems will likely not produce accurate and meaningful results. Rather than a statewide one-size-fits-all target, the Commission should consider evaluating individual utility UFG reductions against its own benchmarks which together with a standardized definition and uniform reporting will result in consistent and meaningful data that clearly measures each NGDC's UFG improvement while facilitating apples-to-apples comparisons and analyses on a statewide basis.

EAP further recommends the following minor revisions and modifications to the proposed regulations:

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<sup>3</sup> *Technical Losses in Natural Gas Transportation, Distribution, and Storage*, a presentation by Paul Metro to the National Association of Regulatory Utility Commissioners (NARUC) at the 2007 Winter NARUC meetings (page 3).



- The calculation at § 59.111(b)(2) should be corrected by placing the parentheses as follows:  
  
(2) %UFG<sub>x</sub> = (UFG<sub>x</sub> / Gas Received) \* 100
- If the Commission determines to use the single statewide target, when utilities experience small increases in UFG year-to-year, but the UFG remains below 3%, additional justification should not be required.
- The distribution UFG metric should be calculated on a summer-to-summer basis (e.g., July) instead of a calendar year basis. See, §59.111 (c)(2). This will prevent NGDCs from having to make large unbilled adjustments in their UFG calculations as are necessary when using a calendar year basis.

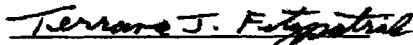
**C. Commission discretion for UFG Amounts in Excess of Proposed Standard.**

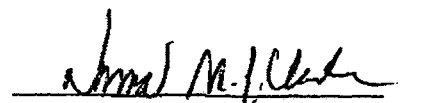
Lastly, if the proposed reduction metric remains in place, EAP strongly supports a process whereby the Commission has discretion to determine that, despite failure to meet the percentage reduction, cost recovery is still allowable based on individual NGDC circumstance. As discussed above, each utility distribution system is unique and impacted by a number of variables both operational and weather related which should be considered prior to any determination that recovery is not allowed. In situations where an excess occurs, additional review should be undertaken in conjunction with the traditional 1307(f) recovery process. A mandatory disallowance would deny the NGDC the right to recover its reasonable costs of providing service.

**Summary**

EAP appreciates the opportunity to provide input to the Proposed Rulemaking Order for standardizing reporting of unaccounted-for-gas and encourages the Commission to consider the modifications and recommendations contained herein.

Respectfully submitted,

  
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