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November 19, 2012

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Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17101

Re: Establishing A Uniform Definition and
Metrics for Unaccounted-For-Gas
Docket No. L-2012-2294746

Dear Secretary Chiavetta:

Enclosed for filing please find the Office of Consumer Advocate's Comments in the above-captioned proceeding.

Sincerely,

Aron J. Beatty
Assistant Consumer Advocate
PA. Attorney ID# 86625

Enclosures

cc: Nathan Paul, Bureau of Audits (E-Mail Only)
Lawrence F. Barth, Law Bureau (E-Mail Only)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Docket No. L-2012-2294746

COMMENTS OF THE
OFFICE OF CONSUMER ADVOCATE

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Dated: November 19, 2012

I. INTRODUCTION

On June 7, 2012, the Pennsylvania Public Utility Commission (PUC or Commission) issued a Proposed Rulemaking Order (Rulemaking) establishing a uniform definition and metrics for unaccounted-for-gas (UFG). As set forth in the Rulemaking, UFG is the difference between the amount of gas delivered to a natural gas distribution company (NGDC) and that used or sold by the NGDC's customers. Rulemaking Order at 1. The Commission receives information on UFG based upon individual NGDC's definition of UFG, however, the PUC's regulations do not contain a definition for UFG. As a result of this lack of consistency, the Commission asserts that current reported levels of UFG are not comparable and hinder its ability to effectively monitor UFG levels and their corresponding financial burden to ratepayers (customers of NGDCs pay the costs of UFG). *Id.* Therefore, the Commission has made a determination that all UFG be treated in a uniform manner which would entail a standard definition and a standard set of metrics that will set a maximum level of financial recovery of these costs. Rulemaking Order at 2. Consequently, in accordance with Section 501 of the Public Utility Code, 66 Pa. C.S. § 501(b), the Commission initiated the instant rulemaking process to establish regulations regarding UFG reporting requirements, standards and maximum limits at 52 Pa. Code § 59.111 pursuant to proposed language attached as Annex A to the Rulemaking.

The proposed regulations will apply to any filing made by NGDCs to the Commission and the UFG metric will be established to set the maximum level of financial recovery of UFG for NGDCs. Rulemaking at 2. Further, the Commission intends to use the new standardized reports as the basis for future action in the safety area and may also require NGDCs to file plans or perform additional remediation in conjunction with a rate proceeding or similar

settlement if the NGDC's level of UFG is worsening. *Id.* at 2-3. As set forth below, the OCA fully supports the Commission's efforts to establish a uniform definition of UFG and metrics to govern UFG losses.

As set forth in the Rulemaking, the Commission's Bureau of Investigation and Enforcement and the Bureau of Audits internally released a report to the Commission in February of this year. Rulemaking at 3. This report was captioned "UNACCOUNTED-FOR-GAS In the Commonwealth of Pennsylvania" (Report) and was appended to the instant Rulemaking. As set forth in the Report, there are numerous UFG definitions utilized for the annual Section 1307(f) filings made by Pennsylvania NGDCs since the calculation is based upon industry or company specific definitions. Report at 6. Therefore, the ambiguity of an actual UFG definition provides an inconsistent and often incomparable metric. *Id.* at 7. As a result, differences within the calculation of UFG lead to different reported UFG percentages to the Commission. Although the Report does not identify the exact impact of UFG on ratepayers in the Commonwealth, it does conservatively estimate that the total cost of lost natural gas for NGDCs in the Commonwealth (excluding UGI—Central Penn Gas) is between \$25.5 million and \$131.5 million per year. Report at 11. These estimated losses are significant. As a result, the OCA commends the PUC for taking the initiative on this issue. As set forth below, the OCA recommends that the Commission adopt certain minor modifications which would further strengthen the proposed regulations. These modifications are shown in redline format on Annex A attached hereto.

The OCA fully supports the Commission in its endeavors to identify, and ultimately reduce, UFG levels of the NGDCs operating in the Commonwealth.

II. COMMENTS BY INDIVIDUAL SECTION

A. Section 59.111 (c)

1. Introduction

The Rulemaking specifies that whenever possible, UFG shall be computed and reported by system type, e.g., distribution, transmission, storage or production/gathering. And, although the Rulemaking only establishes caps for distribution UFG, the Report states that cap metrics for production and gathering facilities (under Commission jurisdiction) should be reviewed after more data is collected. Report at 2. The OCA submits that it logically follows that future consideration of cap metrics for production and gathering facilities would be reasonable. Further, Section 59.111 (c)(3) also states that amounts of UFG in excess of the standard may not be recovered within the current or a future PGC or GCR filing unless approved by the Commission. The OCA fully supports this provision as well. There are minor additions that the OCA recommends be included in the Rulemaking. These are set forth below.

In Section 59.111(c), the Commission sets forth its proposed metrics for UFG losses on the distribution systems of NGDCs. The first subpart of this Section specifies that the metric commences with a 5% cap on such losses in the first year and concludes with a 3% cap in the fifth year. The second subpart states that the metrics shall be applied on an annual basis for the year ending December 31. As set forth below, the OCA supports the provisions of Section 59.111(c), but proposes minor modifications to the first two subparts of this Section which the OCA submits will further enhance the effectiveness of Section 59.111(c).

2. Applicable calendar year

NGDCs in Pennsylvania use cycle billing wherein customer meters are read and bills are issued on each business day during the month. As such, customer bills are based on

billing cycles that overlap calendar months. To accurately determine UFG, billed volumes must be adjusted to reflect the amount of gas used by customers between the last date their meter was read and the last day of the calendar month used to determine UFG. This adjustment associated with unbilled volumes must be estimated and can have a significant impact on the UFG calculation. Subpart (2) specifies that the distribution metrics shall be applied on an annual basis for the year ending December 31. However, the OCA submits that August 31 should be used rather than December 31. By using the month of August, i.e., a late-Summer month, UFG fluctuations due to unbilled volumes will be minimized.

3. Transmission system losses

Section 59.111(c) is captioned "Metrics for distribution system losses." The OCA submits that this Section should also apply to transmission losses for several reasons. First, a goal of this proposed rulemaking is to ensure NGDCs do not have unreasonable UFG levels. Transmission and distribution mains make up the network of pipes used to deliver gas to customers. Since there is little functional and physical distinction between transmission and distribution mains, there is no reason to exclude transmission UFG. Second, although industry standards exist, not all Pennsylvania NGDCs use the same definitions when classifying mains as being either distribution or transmission. For example, Peoples TWP classifies certain of its mains as transmission, although they do not meet the industry standard definition. Including transmission UFG in the calculation would ensure that UFG for each NGDC is calculated on a level playing field. Third, it is unclear that NGDCs could actually distinguish between transmission and distribution UFG because all of the necessary metering may not be in place. Finally, it is likely that transmission facilities do not significantly contribute to an NGDC's UFG

and, therefore, including these facilities in the UFG calculation should not cause undue hardship for NGDCs.

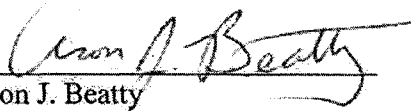
4. Conclusion

The OCA submits that these two proposed modifications to the first two subparts of Section 59.111(c) will further the Commission's goal of uniformly identifying and reducing UFG levels in the Commonwealth.

III. CONCLUSION

The OCA appreciates the opportunity to comment on the Commission's proposed regulations. As set forth herein, the OCA submits that the Commission's proposed regulations are only in need of minor modifications as shown on the attached Annex A. The OCA urges the Commission to adopt the modifications proposed by the OCA in these Comments.

Respectfully Submitted,



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November 19, 2012
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OCA Proposed Changes
to
Annex A

ANNEX A

TITLE 52. PUBLIC UTILITIES

PART I. PUBLIC UTILITY COMMISSION

Subpart C. FIXED SERVICE UTILITIES

CHAPTER 59

§ 59.111. Unaccounted-for-gas.

- (a) *Definitions.* The following words and terms, when used in this section, have the following meanings, unless the text clearly indicates otherwise:

Adjustments- All gas used by a NGDC or city natural gas distribution operation for safe and reliable service, such as company use, calculable losses from construction, purging, other temperature and pressure adjustments, and adjustments for heat content of natural gas. Adjustments shall be supported by metered data, sound engineering practices, or other quantifiable results that clearly support the utility's need for the adjustment and shall be consistent from filing to filing.

Gas delivered- Any gas provided by the distribution, transmission, storage or production/gathering facilities of a NGDC or city natural gas distribution operation, regardless of use, adjusted for any temperature or pressure variations. This category includes quantities of gas consumed by an end user, exchange gas supplied to another utility, gas delivered to transportation customers, or any other gas delivered to a user other than the utility. When bill timing issues arise, an effort shall be made to reasonably estimate consumption.

Gas received - Any gas that is supplied to the distribution, transmission, storage, or production/gathering facilities of a NGDC or city natural gas distribution operation, regardless of use, adjusted for any temperature or pressure variations. This category includes gas for sales, storage, transportation quantities, exchange gas received, or any other quantity of gas that otherwise enters the utility's facilities.

UFG--Unaccounted-for-gas - The calculation for all gas lost by the system, including gas lost due to breaks, leaks, theft of service, unmetered consumption, meter inaccuracies, or any other point of lost, unidentifiable, or non-revenue producing gas.

(b) *Calculation.*

(1) $UFG_x = \text{Gas Received}_x - \text{Gas Delivered}_x - \text{Adjustments}_x$

(2) $\%UFG_x = (UFG_x) / (\text{Gas Received}) * 100$

(3) X denotes the system type (distribution, transmission, storage, or production/gathering). Whenever possible, UFG shall be computed and reported by system type.

(4) Gas received, gas delivered and adjustments shall represent actual gas quantities. Estimates may be provided but shall be clearly identified and have supporting justification, assumptions and calculations.

(5) Adjustments shall be individually identified by category (that is, company use, calculable losses from construction, purging, other temperature and pressure adjustments, and adjustments for heat content of natural gas).

(6) The definition of UFG in section (a) and the calculation pursuant to section (b) shall apply to all UFG filed with the Commission.

(c) *Metrics for distribution and transmission system losses.*

(1) Each NGDC and city natural gas distribution operation shall, at a minimum, reduce distribution and transmission system loss performance in accordance with the metrics in the table below, commencing with its first subsequent PGC or GCR filing 1 year after the effective date of this regulation. The metric starts with 5% in the first year and decreases by 0.5% every year in the subsequent years until it reaches 3% as shown in the table below:

Year	Percent UFG
1	5.00%
2	4.50%
3	4.00%

4	3.50%
5	3.00%

(2) The distribution and transmission metrics shall be applied on an annual basis for the year ending August ~~December~~ 31.

(3) Amounts of UFG in excess of the standard may not be recovered within the current or a future PGC or GCR filing unless approved by the Commission.