

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110320-G

PETITION FOR APPROVAL OF CAST  
IRON/BARE STEEL PIPE REPLACEMENT  
RIDER (RIDER CI/BSR), BY PEOPLES  
GAS SYSTEM.

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PROCEEDINGS: COMMISSION CONFERENCE  
ITEM NO. 6

COMMISSIONERS  
PARTICIPATING: CHAIRMAN RONALD A. BRISÉ  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER ART GRAHAM  
COMMISSIONER EDUARDO E. BALBIS  
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, August 14, 2012

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

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## P R O C E E D I N G S

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2           **CHAIRMAN BRISÉ:** Moving on to Item Number 6.

3           **MS. DRAPER:** Good morning, Commissioners.  
4 Elizabeth Draper with staff.

5           Item Number 6 is a petition by Peoples Gas  
6 for the approval of a cast iron/bare steel pipe  
7 replacement rider. I believe the company is here to  
8 speak and so is OPC.

9           **CHAIRMAN BRISÉ:** All right. Thank you very  
10 much. I guess I would like to hear from Mr. Watson or  
11 Ms. Floyd.

12           **MR. WATSON:** Good morning, Commissioners. I  
13 scribbled out some notes last night about what to say  
14 this morning, and I would really rather say nothing at  
15 all but to indicate that I'm here, Kandi Floyd is here,  
16 Carlos Aldazabal is here, and Rick Wall is here to  
17 answer any questions that any of you might have today  
18 about the proposed cast iron/bare steel replacement  
19 rider.

20           And I'd prefer to answer questions because  
21 your staff has done, what I believe is made an  
22 excellent presentation in its recommendation that this  
23 rider be approved. I am going to make a few comments,  
24 because I think this is a great program, but I will try  
25 to be brief.

1 I would note, however, the gentleman on my  
2 right is here today, and the Office of Public Counsel  
3 intervened in this docket quite some time ago. And I  
4 doubt seriously that he's here today to support the  
5 staff's recommendation. So I, therefore, would like to  
6 ask if I might be permitted to respond to any comments  
7 Mr. Rehwinkel might make after he has made them.

8 **CHAIRMAN BRISÉ:** Okay. Mr. Rehwinkel.

9 **MR. REHWINKEL:** Thank you, Mr. Chairman and  
10 Commissioners. My name is Charles Rehwinkel on behalf  
11 of the Office of Public Counsel.

12 Mr. Watson is correct that we did intervene  
13 in this awhile back, and I want to commend Peoples Gas  
14 for taking -- I think going to great pains to keep us  
15 informed, communicate with us about what was going on,  
16 include us in meetings with the staff, in my opinion,  
17 even maybe when they didn't have to. So I think they  
18 do it right, and I really appreciate the way they  
19 approach regulation.

20 He's partly right that I'm not here entirely  
21 to support the staff's recommendation, but I don't know  
22 that the Public Counsel's Office is intending to stand  
23 in the way of either program of Peoples or FPUC. But I  
24 am here to state a fundamental objection of our office  
25 to the concept of the surcharge or rider or tracker as

1 these programs have been called around the state.

2 In Peoples' last rate case, the 2008 case,  
3 the Public Counsel's Office took the position that the  
4 creation of these mechanisms was more properly in the  
5 realm of the legislature. We take a cautious approach  
6 to whether the Commission should be creating clauses or  
7 trackers or riders of this sort, so we state our  
8 objection to that.

9 I will say to you, though, to the extent that  
10 language in your order addressing this issue, the PAA  
11 order, sufficiently walls off this type of program and  
12 keeps it from becoming a precedent that grows without  
13 control, you would minimize or diminish our reasons for  
14 asking for a hearing on this item. So I would just  
15 state that up front. I am not here to unequivocally  
16 state our opposition to this program. I think there  
17 are a lot of safety benefits and potentially some  
18 long-term customer benefits to what the company  
19 proposes. It's really more the mechanism that is being  
20 proposed.

21 And in that regard there are two items with  
22 respect to the mechanics of this that we have a concern  
23 about. What is being proposed here will have some  
24 beneficial effect on depreciation expense and O&M  
25 expense over the course of this ten-year program. It

1 will affect expense levels that were really considered  
2 when you set base rates for both of these companies in  
3 the recent years. Those expense levels, O&M expenses  
4 and depreciation expenses are not necessarily factored  
5 into the setting of the surcharge amount. They  
6 probably aren't at this time either readily  
7 identifiable or material. But, nevertheless, from a  
8 conceptual standpoint, when you create a mechanism like  
9 this out of base rates, your goal should be to pull out  
10 everything that is going to be considered in the  
11 setting of that surcharge out of base rates so you have  
12 a clean break there.

13 By the nature of this process, that break is  
14 not necessarily so clean. What would help us, again,  
15 in evaluating whether to ask for a hearing on this, and  
16 I think would resolve this for us, would be if after,  
17 say, the second year of this mechanism being in place,  
18 to ask the companies at least annually, and that would  
19 be sufficient for our purposes, to identify O&M and  
20 depreciation expense savings. And I think this will be  
21 essentially after it's in effect for two full years.

22 I don't know that it would be material, but  
23 certainly at that time if the company could report that  
24 that would be helpful to us. And the same remarks I am  
25 making here today would apply to FPUC with respect to

1 our philosophical objection to the surcharge as well as  
2 to these two expense items and the tracking mechanism.  
3 Thank you.

4 **CHAIRMAN BRISÉ:** Thank you, Mr. Rehwinkel.

5 I think there's a question for you from  
6 Commissioner Balbis. Okay. So you'll wait.

7 Mr. Watson.

8 **MR. WATSON:** With respect to Mr. Rehwinkel's  
9 last suggestion; that is, that we track whatever the  
10 O&M savings are that may result from the replacement of  
11 this aged infrastructure and report that, I assume we  
12 would do it about the same time we file our annual  
13 surveillance report, beginning after the second year  
14 the program has been in effect, Peoples is willing to  
15 do that.

16 He questioned whether the savings would be  
17 material. I do, as well, after having spoken with the  
18 engineering folks that know a lot more about the  
19 engineering side of this than I do. You still have to  
20 do leak surveys on all your pipe. So we would be  
21 doing, for example, leak surveys on the new replacement  
22 infrastructure the same as we do on the cast iron and  
23 bare steel pipe that is being replaced. But whatever  
24 those savings are, we are perfectly willing to capture  
25 and report those annually during the time period this

1 program is in effect.

2 **MR. REHWINKEL:** And if I might, Mr. Chairman,  
3 add one thing. I think that with regard to Mr.  
4 Watson's remarks, to the extent there's an intervening  
5 rate case, that obligation would cease, because then  
6 this expense impact would be evaluated and taken into  
7 effect. And with the depreciation, if there is a  
8 depreciation study, I don't know that it would be  
9 necessary after that. So I think there would be an  
10 opportunity to terminate this obligation after an  
11 intervening rate case for certain.

12 **CHAIRMAN BRISÉ:** Mr. Watson.

13 **MR. WATSON:** That is obviously acceptable, as  
14 well. With respect to the general objection to these  
15 riders in general, Mr. Rehwinkel and I have had this  
16 discussion before in the context of Peoples' last rate  
17 case, and I recall we had a rider proposed. We had two  
18 rider, actually, one of which was, I thought, a very  
19 good thing; the other one was a little iffy. And Mr.  
20 Rehwinkel made similar objections to both. The main  
21 objection was that all of this should be handled in a  
22 rate case. We could do that.

23 Peoples committed back in the 1990s to spend  
24 approximately \$1 million a year to replace this aging  
25 infrastructure. If we were to continue along those

1 lines, it would take 70 years to replace this pipe that  
2 we hope to replace in ten years. There's simply no  
3 real incentive to take the limited capital expenditure  
4 budget that the company has and divert it to the  
5 replacement program as opposed to revenue producing  
6 projects that can grow the revenue of the company.

7 The second thing, Mr. Rehwinkel expressed  
8 some grave concerns, I recall, in his brief in the 2008  
9 rate case about the Commission's jurisdiction to  
10 approve a rider like this. That brief, however,  
11 suggested no precedence or statutory language that  
12 suggested that was indeed the case. This Commission's  
13 ratemaking authority is extremely broad, not only in  
14 366.06, but other sections of the Florida Statutes.  
15 You have the power to set just and reasonable rates.  
16 That's what we are doing here, but it's for a ten-year  
17 period. This won't go on and on forever. And if he  
18 really believed that there was no jurisdiction, right  
19 after he intervened he could have filed a motion to  
20 dismiss, and we could have argued that right up front  
21 before we went through all the staff discovery and the  
22 time that has passed since this petition was filed late  
23 last year.

24 So, anyway, we are agreeable to the  
25 conditions that Mr. Rehwinkel has proposed, and I



1 assume the staff would be willing to incorporate that  
2 in an order. Thank you very much.

3 **CHAIRMAN BRISÉ:** Commissioner Balbis has a  
4 question.

5 **COMMISSIONER BALBIS:** Thank you, Mr.  
6 Chairman.

7 And, first of all, I'd like to commend  
8 Peoples Gas for moving forward with this program. I  
9 think that on a nationwide basis, I know this  
10 Commission is focused on this issue, and there have  
11 been several disasters in San Bruno where there were  
12 eight fatalities, and Allentown where there were five  
13 fatalities, and even in the State of Florida what  
14 happened in Perry. And so I want to commend Peoples  
15 Gas for recognizing that investment in this  
16 infrastructure that will benefit the health, safety,  
17 and welfare of its customers is important, and so I  
18 want to applaud you for that.

19 And I appreciate the Office of Public Counsel  
20 with the recommendation for the monitoring. You know,  
21 speaking for myself, that's something that seems  
22 acceptable. Because obviously if an asset is  
23 depreciated over a certain period of time and then you  
24 are replacing it perhaps ahead of its expected life,  
25 then there should be some adjustment. So I think that

1 is a good solution.

2 I do have one question for Peoples concerning  
3 the cost of the program. With the past ten years and  
4 having replaced 200 miles of pipe for one million a  
5 year, which works out to be 20 miles per year, that  
6 cost just seems a little low. Are there other funds  
7 being used? Did this cover the total cost of it?  
8 Because you are accelerating the program albeit at a  
9 cost per mile, but are you comfortable with that amount  
10 being adequate to run the program?

11 **MS. FLOYD:** Are you referring to the \$80,000  
12 per mile that we have included?

13 **COMMISSIONER BALBIS:** Yes. Page 3 of the  
14 recommendation indicates that approximately 200 miles  
15 of cast iron pipe was replaced over a period of ten  
16 years, so about 20 miles per year at a million dollars  
17 per year. And I just want to make sure that that -- it  
18 just seems low to me. I mean, I don't have information  
19 on that, but I just want to make sure that if we do  
20 recognize it is a program that we want to move forward  
21 with, that you are not coming back to us in a year or  
22 two not having adequate funds.

23 **MS. FLOYD:** Right. And the \$80,000 per mile  
24 that we have used in our filing is simply a number that  
25 we have looked at over the past several years, and I

1 think one thing to realize is that when you are  
2 replacing this infrastructure, Peoples is a  
3 statewide -- our infrastructure is statewide. And  
4 depending on the geographical area of the replacement,  
5 you might have higher cost per mile of main in a more  
6 nonmetropolitan area versus a higher cost, per se, down  
7 in Miami or somewhere like that.

8           So our actual -- our average costs that we  
9 have looked at really has been more or less due to  
10 pipeline replacement in less metropolitan areas, so  
11 where we feel like we are okay with this is that we  
12 will have annual true-ups where we can account for the  
13 different costs that might be forthcoming when we do  
14 replace this cast iron and bare steel, and we'll be  
15 able to true-up annually and reset the surcharge based  
16 on the actual costs that we have spent over the last  
17 year. So the 80,000 might be a lower number right now,  
18 but it is based on our historical replacement  
19 activities which have been in less metropolitan areas.

20           **COMMISSIONER BALBIS:** Okay. Thank you.

21           And, again, I want to thank Peoples and the  
22 Office of Public Counsel. I can't think of a better  
23 use of customer dollars than to protect their health  
24 and safety. So I full support staff's recommendation  
25 on this and look forward to any comments from the other

1 Commissioners.

2 **CHAIRMAN BRISÉ:** Commissioner Edgar.

3 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

4 I do have a brief comment, but first I would  
5 like to ask our staff if they have any response or  
6 comments to the request that Mr. Rehwinkel has made,  
7 and that the company has agreed to from our staff role  
8 perspective.

9 **MS. DRAPER:** We fully agree with the  
10 suggestions by OPC.

11 **MS. BROWN:** And we'll reflect that in the  
12 order.

13 **COMMISSIONER EDGAR:** Then, Mr. Chairman, I  
14 agree with Commissioner Balbis. I think this sounds  
15 like an excellent program. The purpose of the program  
16 is important. I'm glad that the companies in Florida  
17 are taking the initiative.

18 As to the OPC concern about the approach, I  
19 do understand that. I also do believe strongly that  
20 this Commission approaches these types of  
21 implementation, rate implementation decisions on a  
22 case-by-case factual basis. And my understanding of  
23 this issue is that this is an effective and efficient  
24 rate mechanism to address the need that has been  
25 identified. And I appreciate OPC working with the

1 company to find a way to implement it that adds  
2 additional transparency and will help make the program  
3 work better. So I am also supportive at the  
4 appropriate time.

5 **CHAIRMAN BRISÉ:** Okay. Any further comments?

6 Seeing none, we're in the posture to  
7 entertain a motion.

8 Commissioner Balbis.

9 **COMMISSIONER BALBIS:** Thank you, Mr.  
10 Chairman.

11 I move staff's recommendations on this item,  
12 and also to have the order reflect the recommendations  
13 from the Office of Public Counsel for the annual  
14 monitoring.

15 **COMMISSIONER EDGAR:** Second.

16 **CHAIRMAN BRISÉ:** Okay. It is moved and  
17 seconded.

18 Any further discussion?

19 Seeing none, all in favor say aye.

20 (Vote taken.)

21 **CHAIRMAN BRISÉ:** Okay. Thank you very much.  
22 I think we found a good resolution on this matter.

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STATE OF FLORIDA )

: CERTIFICATE OF REPORTER

COUNTY OF LEON )

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 18th day of September , 2012.

  
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