

I'm Morgan O'Brien President & CEO of Peoples Natural Gas in Pittsburgh. I have been part of the utility industry here in Pennsylvania for more than two decades. However, I've only been in the gas utility business since February of 2010. I came to Peoples Natural Gas with the acquisition of the company from Dominion Power by SteelRiver Infrastructure Fund of North America. Prior to my current role, I was CEO of Duquesne Light for 8 years and spent over 20 years there in various leadership roles. I have spent my entire life in Western Pennsylvania and am actively involved in helping the community improve and prosper from an economic and a quality of life stand point.

At Peoples Gas, we serve over 360,000 customers in Western Pennsylvania including 100,000 customers in the Greater Pittsburgh Area. My ask today is for legislation which will allow and encourage gas utilities to invest a significant amount of much needed capital in modernizing our gas infrastructure system.

The Peoples system, like most of the infrastructure in Western PA, is a very old system. Nearly 1/3 of our system is made of cast iron and unprotected steel. Cast iron pipe ceased being installed by our industry by 1940 and unprotected steel pipe was stopped around 1960.

I have one sole issue that this legislation would address that our current system doesn't allow for. I'm asking that you authorize the PUC to allow gas utilities to implement a rider to recover incremental rate base that is badly needed.

First it must be understood that utilities don't generate enough cash flow to pay for these large investments needed to modernize our systems. In order to make necessary infrastructure improvements, utilities must be able to borrow and raise additional equity from investors to pay the large amounts needed.

The current rate making system doesn't work well for encouraging accelerated capital investments and without changes, it will never work to that end. And it's quite simple why it doesn't. Financial investors and lenders find the current rate case process lengthy, expensive and with a great deal of uncertainty as to the results.

1. The length of time necessary to litigate a rate case. It takes utilities 4-6 months to prepare the rate case filing and supporting testimony and data required. The burden of proof is on the utility to make its case for any rate increase. Once it's filed, the PUC has 9 months to act upon the filing. And with the administrative process, it almost always takes the full 9 months.
2. The issues brought up in a rate case can be extensive. Any party wanting to participate can. And, judges generally allow most issues parties raise to be included in the case. Many of the issues decided in a rate case have little to do with the revenue requirements of the case. These issues can drag on the case and make settlements of the case more difficult for the utility.

3. The financial results of the case are not easily estimated by financial markets as to the timing of the increases and the amounts. While similar rate cases typically derive similar rate increases, there is no clear transparent methodology for outside parties to understand the results. Nearly every rate case filed in the last 2 years has been settled by the parties before the PUC makes its decision. These “black box settlements” do not leave clear as to how the revenues were agreed upon. Settlements can be complex and multiple issues are traded against each other in coming to a final answer.

Thus, having a gas DSIC would eliminate each of these issues. Eliminating these concerns for investors and lenders would allow utilities to raise the necessary capital in an economically efficient manner which would allow us to accelerate our investment for pipeline repairs and replacements in this state under the least costly plan possible for consumers.

While the events this year in Philadelphia and Allentown brought clear the safety risks associated with this old pipe, customers throughout this state pay the added expense of managing old systems with significant challenges for the gas utilities.

The cost of managing a system with old pipe brings three main areas of challenges for the utility company.

1. Line leaks. Quite understandably, there are more leaks with an older system. Gas utilities spend significant monies each year surveying their system for leaks and identifying leak issues. The costs associated with repairing these identified leaks grow each year. And, at Peoples, the back-log of gas leaks grows each year as our systems gets older and older. Gas that is lost through leaks is both dangerous and costly to Pennsylvania consumers.
2. Internal corrosion. Locally produced gas, while cheaper for consumers, has significantly more moisture in it than gas from the interstate pipelines. As more and more of the gas burned by Pennsylvanians are locally produced, this brings with it more moisture in the gas moving through our pipes. This moisture is causing these old metal pipes to corrode faster from the inside of the pipe. Detecting and testing for internal corrosion is expensive and can be challenging, particularly on the smaller distribution lines. Peoples Natural Gas already purchases about 70% of its gas supply locally and is facing this challenge.
3. Line location. While leaking pipes are of deep concern to everyone, the reality is that most of the catastrophic accidents with natural gas are caused by line hits. This is where someone is digging up earth and hits a pipe. A major challenge is knowing the exact locations of these older pipes in order to mark those lines for people. Clearly maps and records aren't as complete the longer you go back in history for the original placement of a particular pipe.

Replacing the old pipe with new plastic pipe will dramatically reduce each of those concerns and factors over time. And we believe that after some period of time of rapidly replacing these older pipes, our systems will not only be significantly safer and more reliable, but cheaper to operate as well.

As I think about all the questions that people would have with this legislation, I'd like to address some of the more obvious questions with my company's position on those issues.

Customer safeguards – I clearly believe that over time this program will not only make our gas systems in this state safer and more reliable but also cheaper to operate in the long run. But, we need to ensure customer interests are being protected.

1. The revenue calculation created by the rider needs to equate to the identical rate increase that our current rate systems allows. That is, it must factor into consideration the current amount of depreciation included in current rates and only allow for the net increase in capital to be recovered,
2. There should be some requirement that utilities need to file rate cases to factor in whatever efficiencies the new pipes create in the gas operations. I believe it will take a few years before we experience any meaningful impacts on the cost of operating our systems. But requiring a gas utility to file a rate case after a 3 to 5 year period of implementing the gas DSIC would make sense to me. And the same in subsequent periods of time until the program is completed.
3. I think utilities should file a three year plan every three years with the PUC describing where and how the capital program will be implemented. I believe we need to prioritize the higher risk areas of our state where larger populations are impacted and higher pressured lines are impacted.

Peoples Natural Gas Company is not asking for one more dollar of revenue that wouldn't be achievable under the current law. But rather, we are asking for expediting and clarifying the process in return for our investors and lenders making significant investments in modernizing our state's gas systems. A modern system means fewer main breaks, fewer service interruptions and increased safety for our customers.

Not only would this rider promote safety, it would also create new jobs for people to work on these large infrastructure improvements projects. Our company would hire skilled union employees to perform this important construction work. A significant portion of the dollars would be for the labor necessary to replace the old pipe with newer safer pipe. As such, our company will commit to only using skilled Pennsylvania union workers to do this pipe replacement program. We have all the skill sets existing today in our union workforce. We don't need to go outside the state for these new jobs.

Nearly any protection that reasonable folks would deem necessary to protect customers can be addressed either in this bill or through PUC regulations. But we will only be able to raise the

necessary capital if we don't address the issues around the timing of the rate relief and we make that process simpler and more predictable. I believe all of us need to do everything we can to make this state the safest and best place for our families to live and for our industries to do business.

The state should now authorize this bill for natural gas companies so that Pennsylvania will soon enjoy the benefits of a truly modern infrastructure system.