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PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1333 H STREET, N.W., SUITE 200, WEST TOWER
WASHINGTON, D.C. 20005

ORDER

March 31, 2014

FORMAL CASE NO. 1093, IN THE MATTER OF THE INVESTIGATION INTO THE REASONABLENESS OF WASHINGTON GAS LIGHT COMPANY'S EXISTING RATES AND CHARGES FOR GAS SERVICE, and

FORMAL CASE NO. 1115, APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR APPROVAL OF A REVISED ACCELERATED PIPE REPLACEMENT PROGRAM, Order No. 17431

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") grants, in part, and subject to conditions as set out in this Order, Washington Gas Light Company's ("WGL" or "Company") Request for Approval of a Revised Accelerated Pipe Replacement Plan ("APRP" or "Revised Plan").[1] This Order also directs WGL to file various matters concerning the Revised Plan and opens a new formal case docket ("*Formal Case No. 1115*") for proceedings and decisions in this matter going forward.[2]

II. BACKGROUND

2. On November 2, 2011, the Commission opened this investigation to review the reasonableness of WGL's base rates because of the time that had elapsed since WGL's last base rate case, the Company's earnings level, and an apparent decrease in WGL's depreciation expense.[3] In response, on February 29, 2012, WGL filed an Application requesting authority to, among other things, increase its existing firm delivery rates and charges for gas service in the District of Columbia.[4] WGL also sought Commission approval to implement the first five years

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[1] *Formal Case No. 1093, In the Matter of the Investigation Into the Reasonableness of Washington Gas Light Company's Existing Rates and Charges for Gas Service* ("*Formal Case No. 1093*"), Washington Gas Light Company's Request for Approval of a Revised Accelerated Pipe Replacement Plan (Public Version and Confidential Version), filed August 15, 2013 ("WGL's Request").

[2] *Formal Case No. 1115*, *Application of Washington Gas Light Company for Approval of a Revised Accelerated Pipe Replacement Program*, originally filed August 15, 2013 at *Formal Case No. 1093* ("*Formal Case No. 1115*") ("WGL's Application").

[3] *Formal Case No. 1093*, Order No. 16596, rel. November 2, 2011.

[4] *Formal Case No. 1093*, Washington Gas Light Company's Application for an Increase in Existing Rates and Charges for Gas Service in the District of Columbia, filed February 29, 2012 ("WGL's Rate Application").

of a 50-year Plan and to recover the costs through a surcharge mechanism called the Plant Recovery Adjustment ("PRA") billed to customers on a monthly basis.[5]

3. In our decision on WGL's rate application, Order No. 17132, issued May 15, 2013, we acknowledged the need for a program to address the aging pipeline infrastructure in the District, but we found, based on the record made in that proceeding, that there were problems with WGL's proposed APRP which required us to reject the program (and the PRA) as submitted.[6] We directed the Company to reconsider certain aspects of its risk assessments (including large diameter/elevated pressure pipe), the timeframe of the proposed APRP and several specific questions and to report back promptly to the Commission, in a filing to be made within three months from the date of the Order, on its revised risk assessments and pipe replacement priorities.[7]

4. On August 15, 2013, pursuant to Order No. 17132, WGL filed its Revised APRP and requested Commission approval to implement the first five years of its 40-year Revised Plan. By Order No. 17236, issued September 6, 2013, the Commission invited all persons interested in commenting on the matters set forth in WGL's Request for Approval of a Revised APRP to submit written comments and reply comments within 30 and 45 days, respectively, from the date of that Order.[8]

5. On September 23, 2013, the Office of the People's Counsel ("OPC" or "Office") filed a Motion for an Extension of Time to File Comments Regarding Washington Gas Light Company's Request for Approval of a Revised Accelerated Pipe Replacement Plan requesting an extension of the deadlines for an additional 45 days.[9] The Commission granted OPC's Motion on September 25, 2013, and established the new deadlines for comments and reply comments as November 21, 2013 and December 5, 2013, respectively.[10]

6. WGL also filed a Motion for Extension of Time on October 22, 2013, in which it requested a further extension of the deadlines for the filing of comments and reply comments to

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[5] WGL's Application at 4-5. *See also*, WGL (A) at 5-7 (Sims); WGL (L) at 3-15 (Buckley); and WGL (G) at 3-18 (Townsend).

[6] *Formal Case No. 1093*, Order No. 17132, ¶¶ 249-271, rel. May 15, 2013 ("Order No. 17132").

[7] Order No. 17132, ¶ 259.

[8] *Formal Case No. 1093*, Order No. 17236, ¶ 6 rel. September 6, 2013.

[9] *Formal Case No. 1093*, Office of the People's Counsel's Motion for an Extension of Time to File Comments Regarding Washington Gas Light Company's Request for Approval of a Revised Accelerated Pipe Replacement Plan, filed September 23, 2013 ("OPC's Motion").

[10] *Formal Case No. 1093*, Order No. 17259, rel. September 25, 2013.

December 5, 2013 and January 8, 2014, respectively.[11] This motion was granted by Commission Order dated November 7, 2013.[12]

7. OPC and the Apartment and Office Building Association of Metropolitan Washington ("AOBA") filed their comments on December 5, 2013.[13] On January 8, 2014, WGL and AOBA filed Reply Comments.[14]

8. We also note that, by letter dated October 15, 2013, and filed with the Commission on October 21, 2013, DCI Utility Infrastructure Services ("DCI"), a business based in the District of Columbia currently providing infrastructure and utility construction services to WGL, expressed its support for WGL's APRP and urged the Commission to approve the Plan.[15]

III. WGL'S REVISED APRP

9. In its Request for Approval, WGL submits its Revised APRP and seeks recovery of the costs associated with that, Revised Plan through a surcharge mechanism described in testimony filed in *Formal Case No. 1093*.[16] The Company states that it has reevaluated its pipe replacement risk assessment criteria and priorities consistent with the Commission's comments in Order No. 17132 and that the Revised Plan addresses the initial five years of a 40-year accelerated pipe replacement program for the District of Columbia with an estimated five-year cost of $110 million and an estimated 40-year cost of approximately $1 billion.[17]

10. To respond to the Commission's comments in Order No. 17132, WGL has modified its Revised Plan to reflect the following:

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[11] *Formal Case No. 1093*, Washington Gas Light Company's Motion for an Extension of Time to File Comments and Reply Comments, filed October 22, 2013 ("WGL's Motion").

[12] *Formal Case No. 1093*, Order No. 17290, rel. November 7, 2013.

[13] *Formal Case No. 1093*, Office of the People's Counsel's Comments Regarding Washington Gas Light Company's Request for Approval of a Revised Accelerated Pipe Replacement Plan (Public Version and Confidential Version), filed December 5, 2013 ("OPC's Comments"); *Formal Case No. 1093*, Comments of the Apartment and Office Building Association of Metropolitan Washington to the Washington Gas Light Company's Revised Accelerated Pipe Replacement Plan, filed December 5, 2013 ("AOBA's Comments").

[14] *Formal Case No. 1093*, Washington Gas Light Company's Reply Comments, filed January 8, 2014 ("WGL's Reply Comments"); *Formal Case No. 1093,* Reply Comments of the Apartment and Office Building Association of Metropolitan Washington to the Washington Gas Light Company's Revised Accelerated Pipe Replacement Plan, filed January 8, 2014 ("AOBA's Reply Comments").

[15] *Formal Case No. 1093*, Letter from Pedro Alfonso, President, DCI Utility Infrastructure Services, addressed to the Public Service Commission of the District of Columbia, filed October 21, 2013 ("DCI Letter").

[16] WGL's Request at 1.

[17] WGL's Request at 2-3, 6.

- The Revised Plan will consist of three (3) programs:
  - Program 1 - Bare and/or Unprotected Steel Service Replacement, with a 15-year completion target. This Program includes 23,600 service lines at an estimated cost of $118 million.
  - Program 2 - Bare and Targeted Unprotected Steel Main Replacement, with a 15- year completion target. This includes 54 miles of steel main and 4,562 service lines at an estimated cost of $97 million.
  - Program 4 - Cast Iron Main Replacement, with a 40-year completion target. The revised Program 4 – Cast Iron Main Replacement – will be expanded to include all of the cast iron main in the District of Columbia, including 66 miles of large diameter cast iron. This Program includes 428 miles of main and 8,625 service lines at an estimated cost of $800 million.
- The Revised Plan excludes two programs: (1) Program 3, for the replacement of vintage mechanically coupled main and services; although replacement of some pipe will continue under the provisions and timeframe provided in *Formal Case No. 1027*; and (2) Program 5, to provide support to enhance the ENVISTA software application.
- The total Revised Plan, after increasing the cast iron main program from 342 miles to 428 miles and reducing the timeframe by 10 years, is estimated at $1 billion, based on current cost estimates.
- Approval is being sought for the initial five-year spend, 2014-2018, at $110 million, which includes the following amounts in the three programs:
  - Program 1 Projects - $40 million to replace an undetermined number of bare and/or unprotected service replacements.
  - Program 2 Projects - $32.5 million to replace 18 miles of bare and unprotected steel main and an undetermined number of services.
  - Program 4 Projects - $37.5 million to replace 20 miles of cast iron mains.

- The Company anticipates that the annual spend for each of the programs will vary year-to-year based on fluctuating risk profiles, changing operational conditions and/or construction efficiency opportunities. However, these spending targets are expected to provide strategic direction for allocating Plan resources on a long-term basis. Year-to-year selections will be developed based on both the short and long-term considerations.[18]

11. The Company addresses concerns raised by the Commission in Order No. 17132, regarding the prioritization of pipe categories, by revising its Plan consistent with the Company's Distribution Integrity Management Program ("DIMP"), as well as the Pipeline and Hazardous Materials Safety Administration's ("PHMSA") "Call to Action" for the accelerated replacement of aging gas piping infrastructure.[19] In addition, the Plan addresses the federal Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 ("Act"), Paragraph 7, which requires an inventory of cast iron main and status reports for its replacement.[20] Similarly, according to WGL, the Revised Plan addresses the PHMSA Advisory Bulletin (ADB-2012-05), whereby owners and operators are urged to "conduct a comprehensive review of their cast iron distribution pipeline systems and replacement programs and to accelerate pipeline repair, rehabilitation, and replacement of aging and high-risk pipe."[21] The Company also explains the methodology used to determine the overall scope, as well as targeted completion timeframes, of the Revised Plan which are all designed to maximize the safety and reliability of the Company's distribution system in the District of Columbia.[22]

12. According to WGL, the Revised Plan continues to reflect the numerous benefits described in the Company's direct and live testimony in *Formal Case No. 1093*, and most features of the Revised Plan will be the same as those previously presented.[23] The Company states that "[i]n addition to replacing high risk pipe, these benefits include adding an Excess Flow Valve to every replaced medium pressure residential service; reducing greenhouse gas emissions; allowing for quicker isolation of gas leaks; upgrading portions of the low pressure system to medium pressure; reducing the level of lost and unaccounted for gas; moving inside

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18 WGL's Request, Attachment A at 1-2.

19 WGL's Request at 2.

20 WGL's Request at 3-4.

21 WGL's Request at 3-4.

22 WGL's Request at 4.

23 WGL's Request at 4.

meters outside, when feasible, to allow for quicker access during emergencies and for routine maintenance; and moving gas main behind the curb, when feasible."[24]

13. The Company's Revised Plan includes three pipe categories specifically identified by PHMSA in its White Paper and the related "Call to Action."[25] As previously referenced, the Revised Plan will address the Act and the PHMSA-issued Advisory Bulletin (ADB-2012-05), which deal specifically with cast iron main, which is by far the largest program in the Company's Plan. However, in addressing the Act and Advisory Bulletin, the Company "does not understand them to mandate priority or to discount other high risk pipe. Instead, they are designed for gas distribution companies, such as Washington Gas, to know their systems and to take proactive steps for the replacement of cast iron main."[26] WGL submits that "[t]he Plan does just that and expands the PHMSA focus by addressing the Company's entire distribution system. In addition, the Plan is consistent with the system knowledge requirements within the DIMP."[27]

14. The Company anticipates that all identified pipe will be replaced in approximately 40 years, as opposed to the original 50-year accelerated timeframe. WGL contends that, "[a]bsent an accelerated pipe replacement plan, the identified pipe will take approximately 120 years to replace."[28] According to WGL, "[t]he Revised Plan reflects annual expenditures of $20 million for years one through three, and then expands to $25 million per year after the completion of vintage mechanical coupling replacements in Formal Case No. 1027. The Revised Plan's total expenditures are estimated at $1 billion, with the increase caused by the increased population of cast iron main targeted for replacement."[29]

15. With respect to the selection of projects during the first five years, WGL maintains that "the selection of specific main projects for replacements will be done year-by-year, based on current circumstances and risk profiles."[30] Because the most recent highest absolute risk scores calculated by Optimain include large diameter cast iron main, the Company expects to include and commits to replacing the top three Optimain projects each year. Other large diameter main projects may also be replaced, according to WGL, in

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24 WGL's Request at 4.

25 WGL's Request at 5.

26 WGL's Request at 6.

27 WGL's Request at 6.

28 WGL's Request at 6.

29 WGL's Request at 6.

30 WGL's Request at 5.

addition to the top three Optimain projects based on their relative risk, economics or other operating considerations.[31]

16. WGL's Request for Approval also includes the Company's responses to questions set forth by the Commission in Order No. 17132. Responding to the Commission's questions for the Company to explain what constitutes a normal pace of pipe replacement and how and why the Company defines "normal" in terms of miles of pipe installed each year and in terms of retirement dollars expended each year on pipe replacement, WGL stated:

> The Company's Revised Plan reflects annual expenditures that are nearly three times the normal pace of replacement. In determining what represents "normal pace" of replacements, the Company considered the seven-year period from 2005 through 2011. As described below, the Company spent an average of $8.4 million in the District of Columbia for the normal replacement of main and services during that time period, compared to a projected annual spend of $25 million per year under its accelerated plan. The historic level of replacements reflects a combination of replacements, both on a reactive basis to remediate an existing leak condition and on a proactive basis, addressing the replacement of pipe that has an elevated leak risk due to prior leaks and operating conditions.
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> In determining what constitutes normal spend, the Company excluded dollars associated with mechanical coupling replacements, as well as replacements generated from other construction activities in the District of Columbia and replacement activities driven by the Company's new business program. The related capital expenditures for those years totaled $10.6 million. After eliminating those amounts, the normal pace for the 7-year period was $59.1 million, or an average of $8.4 million per year. The miles of main and number of services corresponding to the replacement dollars described above are provided in the [Attachment B of the Request for Approval]. In total, the Company replaced approximately 25 miles

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31 WGL's Request at 5. Optimain is the Company's major risk assessment model for selecting specific projects each year. It is a complex dynamic tool focused on WGL's operations, continuously updated, and using over 80 input factors to calculate a relative risk score for each segment of pipe based on the probability and consequence of a leak. *Formal Case No. 1093*, Order No. 17132, ¶ 235, n.482, rel. May 15, 2013.

> of main and 6,500 services, or an average of 3.5 miles of main and 900 services, per year.[32]

17. The Company explained how and on what schedule its pipe replacement priorities and plans fit together with the Optimain-generated list of the 100 highest priority projects as follows:

> A confidential updated list of the 100 main segments with the highest project risk scores, as calculated by the Company's Optimain risk assessment tool, is [in Attachment C of the Request for Approval]. It should be noted that these are main segments only, which do not necessarily constitute a complete project. Risk scores are not calculated/included for individual or groups of services in Optimain; therefore, no similar listing is available regarding services. However, to address prioritization of services, the Company will utilize a geographic leak scoring system based on quad map leak history. Attached is a confidential list of the highest priority service replacement projects in the District [Attachment D of the Request for Approval].
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> In addition, the Optimain rankings and service group rankings are based on relative risk scores, without considering relative economics or operational considerations. To maximize reductions in risk associated with main projects, the Company utilizes a combined approach in identifying projects for replacement based on both their absolute risk score and their risk reduction on a per dollar basis, in addition to other operational considerations.[33]

18. While the specific details of the Company's Revised Plan are in Attachment A of its Request for Approval, WGL summarized the main features of the Plan as follows:

> - Exclusion of vintage mechanically coupled main and services. Replacement of such pipe will be continued under the provisions and timeframe provided in Formal Case No. 1027.
>
> - Expansion to include all of the cast iron main in the District of Columbia, including 66 miles of large diameter cast iron. Based on the relatively high risk score of large diameter cast iron main, projects from this category of pipe will be included annually for replacement as part of the Plan.

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32 WGL's Request at 7-8.

33 WGL's Request at 8.

- Recognition of the impact that corrosion is having on bare steel pipe, manifesting itself in Grade 1 priority leaks.

- Inclusion of replacement projects that may arise as a result of Pepco reliability efforts, DDOT road improvement projects, or FERC-directed transmission projects.

- Targeted completion timeframe of 15 years for bare and/or unprotected steel services (Program 1); 15 years for bare and targeted unprotected steel main (Program 2); and 40 years for cast iron main (Program 4). The Revised Plan's timeframe considers the probability and consequence of a leak, average leak rates by material type and the relative priority risk score, and relative economics for individual projects.

- Targeted annual expenditures for the first three years of $20 million, increasing to $25 million per year once replacement work is completed in Formal Case No. 1027.

- Targeted five-year spend, by program, which is consistent with the targeted timeframes for each project. This approach results in nearly equal spend for the three programs during the first five years, with cast iron main expenditures increasing to 40% beginning in Year 4 after the completion of mechanically coupled pipe replacements in Formal Case No. 1027.

- As described further for each program, the targeted timeframe approach reflects the desire to address: a) bare and/or unprotected steel services, which have the highest average leak rate due primarily to corrosion and a corresponding higher risk profile due to the proximity to the building wall (services are not included in Optimain); b) unprotected bare and targeted unprotected steel main, which have the highest average leak rate due primarily to corrosion and which have seen an increase in the number of leaks in recent years; and c) cast iron main, with the second highest average leak rates and the highest risk scores for individual projects. Due to the sheer magnitude of the cast iron main population (80% of total estimated Plan spend), cast iron main replacements will begin in Year One and continue throughout the 40-year Plan. The timeframe targets will provide a primary focus on projects that address the highest risks to public safety and reduce the risk of a catastrophic incident.

- The Company anticipates that the resulting dollar spend by program will vary on a year-to-year basis, due to fluctuating risk profiles, changing operational conditions, replacement work in conjunction with Pepco reliability activity and DDOT road improvement projects and/or other construction efficiency opportunities. However, the completion timeframes are expected to provide strategic direction for allocating Plan resources over the life of the Plan. Year-to-year selections will be developed based upon both the short and long-term considerations.

- The timeframe targets consider the effects on safety and reliability for services and main. For services, recognition is given to historic leak rates, the risk related to gas migration due to the proximity of the pipe to the building wall, and the resulting consequence associated with a leak on the service. Due to these concerns, corrosion leaks on bare steel services generate the largest percentage of Grade 1 leaks. For main, the Optimain risk assessment tool is utilized in conjunction with field assessments and operational considerations. The annual selection of specific main projects will include both large and small diameter cast iron main and bare and unprotected steel main, based on their relative risk scores and economics.

- For any given year, the Company anticipates replacing, at a minimum, the top 3 segments included on the Optimain listing. Other main segments identified by Optimain will be included based upon their relative risk economics in combination with other factors, and, therefore, may or may not be the top ranking projects when considering only their relative risk scores.[34]

19. WGL explains that the dynamics of the Optimain risk assessment tool recognize the risk of injury to people and buildings for main only, *i.e.*, it does not calculate a risk score for services. The Optimain risk priority score is calculated based on the probability of a leak occurring on a particular category of piping (the expected value of a failure ("EV")), multiplied by the consequence of a leak ("Risk Profile"). The resulting product results in a relative risk ranking for a particular project.[35] According to WGL, the segment risk scores provide a quantified approach to facilitate review by the Company's engineering staff for decision-making to determine which projects will be replaced. The relative risk among segments allows the pipe replacement decision-making process to give consideration to public safety.[36] The Company cautions that "[t]he risk score is not an

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34 WGL's Request at 9-12.

35 WGL's Request at 12.

36 WGL's Request at 12-13.

'Absolute Value' and, therefore, does not have a specific meaning, nor is it meant to trigger a specific action."[37]

20. WGL used its Optimain tool to develop a confidential "DC Top 100 Optimain Pipe Projects" to assist with its project selection and explains how the "Top 100" list will be used:

> In the District of Columbia, there are over 33,000 pipe segments/projects in the Optimain model, including nearly 13,000 segments of targeted high risk pipe. Concentrating on a "Top 100" list would limit a review to only the top 0.3% of all pipe segments with the highest risk scores. The relative score is an important factor for determining what pipe segments should be replaced but should not be considered the absolute decision driver. As stated in the Optimain configuration manual, "Optimain OS cannot replace sound engineering and management judgment, but it is meant to provide a consistent framework for distribution integrity and support to gas personnel who are involved in the gas main repair/replacement decision-making process." Accordingly, the Company uses Optimain as a tool in developing the overall replacement strategy.[38]

21. In response to the Commission's question in Order No. 17132 as to why the depreciation allowances the Company received in the past (approximately $14 million per year) were not used to replace aging pipe at a faster pace through the normal replacement process, WGL states:

> Depreciation expense, regardless of whether it is considered in the context of a base rate case or an infrastructure surcharge recovery mechanism, is simply the return of investor-provided capital to Washington Gas. Depreciation expense does not have an 'earmarked component' to fund asset replacement. More generally, pipeline replacement is funded, not through depreciation but through various sources of funds, including issued debt and shareholder provided capital. To the extent depreciation is used to fund capital expenditures as the question poses, it would make the funds unavailable to return to investors the capital they provided. The underlying regulatory definition of depreciation and the function of depreciation expense support the return of investment concept and demonstrate that it is unnecessary and inappropriate to

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37 WGL's Request at 13.

38 WGL's Request at 13.

> link the allowance for depreciation approved in past rates to the replacement of facilities.[39]

Based on several treatises and court cases, WGL concludes that "depreciation expense is quite simply the return to investors of investor-provided capital over a period of time. There are no 'monies' associated with depreciation expense that are returned to ratepayers. It is based on these definitions of depreciation expense and depreciation accounting that the Company has not considered depreciation expense as anything other than a return of investor-supplied capital."[40]

22. In answer to the Commission's question whether WGL's pipe replacement activities should focus primarily on projects that address high risks to public safety and the avoidance of catastrophic consequences, the Company stated:

> The Plan and the Company's prioritization of replacement projects incorporate the elements of public safety and the avoidance of catastrophic consequences. This is accomplished by the following: first, service and main replacement projects are both included in the Plan, but the methodology for selecting individual projects differs. For main, the Company utilizes a combined approach in identifying projects for replacement, based upon both their absolute risk score and their risk reduction on a per dollar basis, in addition to other operational considerations. The risk score is based on the Optimain risk assessment tool that considers over 80 factors, which include pipe-related factors such as pipe size, material, pressure, vintage, proximity of the pipe from buildings, and building classification/Places of Public Assembly. The Optimain risk priority score is calculated based on the probability of a leak occurring on a particular category of piping (EV multiplied by the Risk Profile). The resulting product results in a relative risk ranking for a particular main segment. The elements of public safety and the avoidance of catastrophic consequences are, therefore, addressed in the Risk Profile of a particular segment of main. The Company uses the resulting risk score as a tool for managing its main replacement program, in addition to considering relative economic risk reduction and field assessments, as well as other operating considerations.
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> Optimain, however, does not calculate a risk score for service replacement projects. Instead, the Company's engineering staff considers leak history, leak trends, material type and the

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39 WGL's Request at 13-14.

40 WGL's Request at 17.

> concentration of like services in determining which projects should receive priority.[41]

23. Concerning the question whether replacing larger diameter/elevated pressure cast iron pipe in heavily populated areas should be given priority over steel pipe replacements in proposed Programs 1 and 2, WGL asserts:

> [T]he Company will utilize a combined approach in determining which projects will be replaced each year and commits to replace the top three main segments as measured by the Optimain risk score. However, because, on average, bare steel main has a leak rate nearly twice that of cast iron and has seen the number of leaks increase in recent years primarily due to age-related corrosion, the Company's targeted completion timeframe for bare steel main is 15 years. Cast iron main projects will be replaced each year throughout the 40-year Plan, reflecting the entire population of this category. The Company has significantly expanded the level of cast iron replacement to include the total population, based on the Commission's comments in Order No. 17132.[42]

IV. COMMENTS IN RESPONSE TO WGL'S REVISED APRP

24. Two parties, OPC and AOBA, filed extensive Comments. WGL and AOBA filed Reply Comments. We have summarized the highlights below.

A. OPC's Comments

25. OPC's primary comment is that the Company's Revised Plan does not address the Commission's reasons and concerns for rejecting the original APRP in Order No. 17132, to wit: (1) the slow pace of WGL's pipe replacement; (2) questions/concerns about how replacement priorities would be set; and (3) questions/concerns about how those priorities meshed with elimination of the top 100 riskiest pipe segments.[43] "Plainly stated," according to OPC, "the revised APRP is nothing more than the original APRP 'déjà vu.'"[44]

26. OPC claims that "[t]he proposed pace of pipe replacement during the first five years of the APRP, as revised, is essentially the same as the original APRP."[45] Although the

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[41] WGL's Request at 18.

[42] WGL's Request at 19-20.

[43] OPC's Comments at 3.

[44] OPC's Comments at 3.

[45] OPC's Comments at 3.

Office recognizes that, beyond the first five years, the pace of replacements in the revised APRP has increased compared to the original APRP, it asserts that the Company has not laid a foundation to support its adjustment of the initial timeframes.[46] OPC also asserts that WGL has not addressed how it would proceed with its plan and what the impacts of its proposal would be beyond the first five years.[47] Further, according to OPC, "the Company's explanation of how it would set priorities is nebulous and does not provide any meaningful insight to that issue."[48] The Office also contends that "the Company did not adequately address the Commission's directive to explain how those priorities fit with the Optimain-generated priorities."[49]

27. The Office alleges that it has also become clear that a substantial portion of the revised APRP consists of two program elements that are not appropriate for inclusion in an APRP: (1) "normal" replacements; and (2) replacements made in conjunction with roadway or other facility improvement projects.[50] OPC claims that "[t]hese types of replacements are a regular part of operating a gas system. They do not meet any definition of "accelerated"; thus, such replacements should not be included in an APRP."[51] According to OPC, "[t]raditional ratemaking, not an APRP, is the appropriate mechanism pursuant to which the Company can seek to recover such costs."[52]

28. OPC provides a synopsis of its comprehensive analysis of WGL's revised APRP as follows:

(a) The revised APRP is substantially the same as the original and suffers from the same problems as the original;

(b) The pace of replacements during the first five years of the revised APRP program is essentially the same as that in the original, which the Commission already found to be inadequate. Also, the Company has failed to provide cogent justifications for the currently proposed replacement timeframes;

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46 OPC's Comments at 3.

47 OPC's Comments at 3.

48 OPC's Comments at 3.

49 OPC's Comments at 4.

50 OPC's Comments at 4.

51 OPC's Comments at 4.

52 OPC's Comments at 4.

(c) A substantial portion of the revised APRP consists of program elements that are inappropriate for inclusion in such a program - such as, "normal " pipe and service line replacements, as well as the replacement of service lines and mains in conjunction with roadway and other facility-improvement projects. ''Normal" replacements are not "accelerated" nor are replacements done in conjunction with roadway-and facility-improvement projects. The latter category consists of replacements that are triggered by events beyond the Company's control and do not necessarily correlate to elimination of the riskiest pipe. There are existing mechanisms built into base rates to fund those replacements;

(d) How the Company will set replacement priorities remains a mystery, despite the Commission's directive that the Company must more clearly explain how it will do so;

(e) The Company has ignored the Commission's directive to explain – in a meaningful way - how its priorities fit together with the Optimain-generated Top 100 riskiest pipe segments. The Company should explain how it will weigh the various factors that it has identified in determining priorities and provide concrete examples of the impact of those factors on the priority results;

(f) The Company needs an Implementation Plan for the efficient and effective management of the revised APRP. The elements of a proper implementation plan should include the packaging of replacement targets for bidding, the bidding process, and the contractual approach (*e.g.*, inclusion of incentives for the efficient completion of the work on budget and schedule);

(g) The Implementation Plan should address how all work will be completed over the proposed replacement timeframes; and

(h) The Company needs to explain its proposed costs. The Company should provide details of the components of the proposed unit-replacement costs, explain how the proposed costs relate to historic costs, and describe how unit costs respond to replacement volume. The Company should also update the inventory of replacement targets to reflect actual remaining inventory. Finally, the Company needs to address potential O&M savings.[53]

[53] OPC's Comments at 13-14.

29. OPC asserts that the list of inadequacies in the Company's filing is long, and "the Company's lack of responsiveness to the Commission's concerns and directives is troubling."[54] Nonetheless, OPC recognizes the Commission's interest in accelerating replacement of potentially risky pipe, and, therefore, recommends that if the Commission wants to proceed with an APRP at this time, at a minimum, it should:

> (a) Require the Company to update the revised APRP to eliminate 'normal' replacements and replacements made in conjunction with roadway and other facility improvement projects;
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> (b) Require the Company to update the revised APRP to accelerate the replacement of targeted pipe over the next five years to the satisfaction of the Commission;
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> (c) Require the Company to explain and provide concrete examples of how it will set replacement priorities and how those priorities will relate to the Optimain- generated Top 100 targets;
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> (d) Require the Company to provide a detailed explanation of the basis of the estimated costs of its revised APRP;
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> (e) Require the Company to file a detailed Implementation Plan explaining, in practical terms, how the revised APRP will proceed, how replacement work projects will be packaged and bid, and what cost controls and incentives the Company will employ to manage the plan and ensure that replacements will occur in a timely and economical manner; and
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> (f) Require the Company to assume a portion of the risk for cost overruns or replacement under-achievements.[55]

30. OPC also recommends that:

> [T]he Commission consider stronger measures to increase the Company's responsiveness to the Commission's concerns. For example, the Company should be required to commit to achieving replacement targets within budgets, and, as an incentive to do so, bear some cost responsibility for any cost increases or Company underperformance. The need to ensure the inclusion of cost-control incentives is particularly important because OPC

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[54] OPC's Comments at 4.

[55] OPC's Comments at 4-5.

> understands that WGL intends to use third parties for all of the replacement work; consequently, the Company must be held accountable in the event it fails to manage or exercise appropriate oversight of those contracts. Additionally, if WGL fails to provide information requested or perform as mandated by the Commission, OPC respectfully requests that the PSC implement its penal authority, as set forth in the D.C. Code.[56]

31. In conclusion, OPC recommends that, in addition to its six recommendations set forth in Paragraph 29 herein, the Commission:

> (a) Begin an investigation of the Company's cash flow management to address WGL's failure to illustrate how the depreciation funds are being used;
>
> (b) Institute a management audit to ensure WGL has proper staffing in vital areas; and
>
> (c) Implement its penal authority, as set forth in the D.C. Code, if WGL fails to provide information requested or perform as mandated by the Commission.[57]

B. AOBA's Comments

32. AOBA comments that it supports a comprehensive review of WGL's Revised APRP and proposed surcharge through a traditional rate case proceeding, which the Company's request does not afford. It asserts that, consistent with Commission policy on regulating distribution rates and ratemaking adjustments, any implementation of a cost recovery surcharge should be deferred until after the issuance of a Commission Order in WGL's next base rate proceeding. AOBA, therefore, requests that the Commission to deny the instant request.[58]

33. AOBA points out that the Commission stated in Order No. 17132 that it would revisit these issues upon request when WGL filed a revised APRP, "but the Company was expected to 'move forward with its pipeline replacement activities in the District, in accordance with the testimony of WGL witness Roberta W. Sims' in which Ms. Sims testified that the Company 'would move forward to continue to make [its] system safe irrespective of the outcome of its request for approval of a surcharge cost recovery mechanism.'"[59] According to AOBA,

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56 OPC's Comments at 5.

57 OPC's Comments at 34-35.

58 AOBA's Comments at 1.

59 AOBA's Comments at 2.

"[c]learly, there is no urgency that requires expedited Commission approval of the Company's request for approval of WG's revised APRP and PRA."[60]

34. AOBA claims that "[a]pproval of the Company's revised APRP and any PRA, outside of a traditional base rate proceeding, would constitute single issue ratemaking" and that "[t]he Commission has consistently rejected single issue ratemaking where there is inadequate information on which to base its decision making."[61] AOBA submits that "the Commission lacks the necessary information required in order to determine if the Company's revised APRP and proposed PRA surcharge request is just and reasonable. This determination, in view of the concerns raised by AOBA and OPC reflected in the Commission's order in this proceeding, can only be made through a traditional rate case proceeding, including the filing of testimony by the Company and interested parties, discovery, and evidentiary hearings.[62] AOBA submits that formal evidentiary hearings are warranted even if the Commission decides to act on the Company's request as a single issue ratemaking proceeding, and it cites *Formal Case No. 1027* as an example of where the Commission established formal evidentiary proceedings to consider WGL's pipe replacement plan, hexane strategy, and cost recovery through a surcharge.[63]

35. AOBA cites the Commission's policy statement made in *Formal Case No. 1093*[64] as further support to have a formal evidentiary hearing to consider the Company's revised APRP.[65] AOBA submits that "the comprehensive review of the Company's revised APRP and request for cost recovery through a surcharge mechanism recommended by WGL in this proceeding can only occur through a formal evidentiary hearing proceeding consistent with the Commission's ruling on setting distribution rates in *Formal Case No. 1093*."[66]

36. According to AOBA, among the issues to be considered during a rate case proceeding is "the Company's reduced risk associated with the approval of any surcharge cost

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[60] AOBA's Comments at 2.

[61] AOBA's Comments at 2.

[62] AOBA's Comments at 3.

[63] AOBA's Comments at 3.

[64] The cited policy statement is as follows: "That because the Commission is mandated to set rates for distribution only, WGL is directed to submit future rate case filings in such a manner that distribution-only rate base, revenue, and expenses (and any adjustments thereto) are easily discernible from the Company's other regulated matters, such as purchased gas and transmission rate base, revenues, and expenses. WGL may continue to present its adjustments as the Company has in this case, but it must prepare a separate schedule that starts with the District's totals, and then it must remove all non-distribution items and provide the adjustments made to derive the distribution rate items, along with all associated work papers." Order No. 17132, ¶ 340 (lll).

[65] AOBA's Comments at 3.

[66] AOBA's Comments at 4.

recovery mechanism and the corresponding need to reduce WGL's return on equity."[67] AOBA asserts that "District of Columbia ratepayers are entitled to express their views on these important rate issues," and it cites D.C. Code § 34-909 as requiring "[p]ublic notice of rate applications or changes in conditions of service; opportunity for public response; notice to utility; setting time and place for hearing and investigation."[68]

37. AOBA maintains that the Commission has long recognized the need to set just and reasonable rates in accordance with the principles and precedents that were restated by the Commission in Order No. 17132 as follows:

> The District of Columbia Court of Appeals, in *Metropolitan Board of Trade v. Public Service Commission of the District of Columbia*, 432 A.2d 343, 350 (D.C. 1981), set out the standards for setting rates as follows:
>
> The Commission, not this court, has the responsibility for establishing rate designs and for setting specific utility rates. *** Rate design principles and specific rates approved by the Commission, however, must be "reasonable, just, and nondiscriminatory." *** This statutory authority is deliberately broad and gives the Commission authority to formulate its own standards and to exercise its ratemaking function free from judicial interference, provided the rates fall within a zone of reasonableness which assures that the Commission is safeguarding the public interest that is, the interests of both investors and consumers. *** From the investor standpoint, courts have defined the lower boundary of this zone of reasonableness as "one which is not confiscatory in the constitutional sense." *** From the consumer standpoint, the upper boundary cannot be so high that the rate would be classified as "exorbitant." Order No. 17132, ¶ 40.[69]

38. AOBA argues that, consistent with these precedents, a formal evidentiary proceeding is the best mechanism to ensure a thorough review of the Company's revised proposal. In addition, AOBA reiterates WGL witness Sims' testimony that the Company "would move forward to continue to make [its] system safe irrespective of the outcome of its request for approval of a surcharge cost recovery mechanism" in support of its assertion that "there are no safety and reliability issues that impact the Company and its ratepayers that either require expedited consideration of the Company's request or impede a thoroughgoing examination of

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67 AOBA's Comments at 4.

68 AOBA's Comments at 4.

69 AOBA's Comments at 5.

WG's revised request."[70] Thus, AOBA requests the Commission to deny WGL's Request for Approval and to "[c]onduct evidentiary proceedings on the Company's request consistent with *Formal Case No. 1027*, but withhold implementation of any cost recovery through a surcharge until WGL files a formal rate case to ensure proper consideration of a surcharge in that proceeding consistent with the Commission's policy statement on setting distribution rates."[71]

C. WGL's Reply Comments

39. WGL responds to OPC's assertion that the Revised Plan is identical to the Company's initial pipe replacement plan and that "the Commission's directives and concerns have largely been ignored." The Company states that OPC's assertions are completely false. It argues that the Revised Plan specifically addresses the Commission's comments in Order No. 17132 and is significantly different from the original plan in the following respects:

> (a) Scope. Three programs are proposed, instead of the original five programs. Program 3, vintage mechanically coupled pipe, was deleted consistent with Order No. 17132 and will be addressed in Formal Case No. 1027. Program 5, Envista Enhancement, was similarly deleted as directed by the Commission;
>
> Additionally, Program 4, cast iron main, was expanded to include all cast-iron main, including large diameter, consistent with the Commission's Order;[72]
>
> (b) Cost update. All program costs were updated to reflect current cost experience; and[73]
>
> (c) Timeframe. The Revised Plan reduced the overall timeframe from 50 years, as originally filed, to 40 years. In addition, the three programs in the Revised Plan each have a shorter duration than the original plan. This reflects normalization of annual spend, rather than a decline in spend once programs are completed, as was contemplated in the original plan.[74]

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[70] AOBA's Comments at 6.

[71] AOBA's Comments at 6.

[72] WGL's Reply Comments at 4.

[73] WGL's Reply Comments at 4.

[74] WGL's Reply Comments at 4.

(d) Prioritization. The original Plan did not provide an allocation of funds during the initial five-year term, as the Company was requesting the flexibility to concentrate its efforts on completing the vintage mechanically coupled pipe as settled in Formal Case No. 1027 and then front-load the replacement of bare and/or unprotected steel services because of the higher leak profiles and close proximity to dwellings of these services. The Revised Plan lays out the targeted dollar amount to be spent for each program during the initial five-year term. In addition, the Company provided a detailed description of how projects would be selected during each year and a commitment to annually replace the top three main projects based on Optimain risk scores.[75]

40. WGL states that in response to the Commission's questions, OPC raised, and the Company addressed, the following points in its Application:

(a) Pace. Normal replacement for the seven years, 2005-2011, averaged $8.4 million annually, compared to a going-level spend under the Revised Plan of $25 million per year, or three times the normal spend;

(b) Prioritization. The Application, including the Revised Plan, fully describes the basis for and the methodology to prioritize pipe replacement during both the initial five years and throughout the entire 40-year plan; and

(c) Top 100 projects. The Company provides significant details regarding its selection criteria used to minimize risk and address the probability and consequence of leaks through its Optimain risk assessment model. Services, due to their proximity to customers' premises and resulting migration risk, will be addressed based upon historic quad leak rates, for which the Company provided a project prioritization (Schedule D). In addition, the Company committed to annually replace the top three main projects, as determined by the Optimain risk score.[76]

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75 WGL's Reply Comments at 5.

76 WGL's Reply Comments at 5.

Thus, WGL contends, it has provided detailed responses to the Commission's specific questions and directives in its Application.[77]

41. Concerning OPC's position that "'normal' replacements" and "replacements made in conjunction with roadway or other facility improvement projects" should be excluded from the Revised Plan; that these replacements are a "regular part of operating a gas system," the Company argues that OPC's recommendation should be denied.[78] WGL contends that the Revised Plan seeks to accelerate the replacement of pipe that has been identified as higher risk; that it is a proactive approach to replace the pipe before a leak occurs, as opposed to a reactionary approach which is typically the case for "normal replacements."[79] WGL claims that OPC's concern regarding pipe replacements in conjunction with roadway projects misses the point. It asserts that higher risk pipe is included under the Revised Plan regardless of the circumstances under which the pipe is replaced, such as in conjunction with a roadway project. To avail itself of construction efficiencies and/or to minimize public disruptions, the Company says that a project may be replaced sooner than it otherwise would be due to a roadway project. However, according to WGL, the project/pipe is still part of the overall Revised Plan. What has changed is merely the priority/timeframe for the replacement. Thus, the Company submits that "no exclusions to the Revised Plan are appropriate."[80]

42. In response to OPC's assertion that service replacements will be performed as a result of roadway projects, which are part of normal activity and, therefore, not accelerated, WGL contends that OPC fails to properly quote the Company's statement that "[t]he majority of the services will be replaced in conjunction *with main replacement projects* or District Department of Transportation ("DDOT") roadway projects."[81] According to the Company, OPC's exclusion of service replacement costs associated with main replacement projects greatly understates the amount that should be included as accelerated replacements.[82]

43. WGL addresses OPC's suggestion that the Company should be required to commit to achieving replacement targets within budget and bear some cost responsibility for cost increases or under-performance, especially due to the use of outside contractors. The Company asserts that OPC unreasonably equates cost over-runs or under-performance to the Company's failure to manage or exercise reasonable oversight of contractor performance.[83] WGL submits

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77 WGL's Reply Comments at 6.

78 WGL's Reply Comments at 6.

79 WGL's Reply Comments at 6.

80 WGL's Reply Comments at 6.

81 WGL's Reply Comments at 7.

82 WGL's Reply Comments at 7.

83 WGL's Reply Comments at 7-8.

that, "as is the case with any construction project, unforeseen costs may arise due to uncontrollable factors, including, but not limited to, additional permit fees or restoration requirements imposed by regulatory bodies or restricted working hours imposed by these same regulatory bodies that would require different pricing arrangements with the qualified contractors."[84] Additionally, WGL contends, the timing of replacement work may be delayed due to unforeseen/uncontrollable factors, including weather and permitting; the proposed surcharge will be affected by any such delay and resulting delay in construction costs; and "the Company should not be required to assume this cost responsibility."[85]

44. Responding to OPC's statement that the Commission found the Company's pipe replacement pace to be inadequate, WGL states:

> As previously explained, from 2005-2011, the Company spent an average of $8.4 million annually on normal pipe replacements, as compared to the going level amount under the Revised Plan of $25 million annually which is three times the normal amount spent per year on pipe replacements. The Company clarified the misunderstanding regarding replacements under the plan and the historic pace of installations in its Application for Reconsideration and/or Clarification of Opinion and Order No. 17132, wherein the Company fully described the inconsistency between the pace of replacements under the accelerated plan compared to historic installation rates. In sum, OPC relied on a calculation by AOBA that compared the historical "average of 15.7 miles per year" of mains installed to "7 miles of main per year" that AOBA computed the Company would replace under the proposed accelerated plan (this rate, as discussed below, is also erroneous and not supported by the record). However, the rate of replacement has no correlation to a rate of installation and is, therefore, meaningless.[86]

45. Responding to OPC's recommendation that the Commission begin an investigation into the Company's cash flow management, WGL asserts that such an investigation is unwarranted, stating:

> The Company's funding and cash flow management are prudent and fully recognize the concepts described above. In describing the factors considered in developing the Company's financing plan, Company Witness Nee states that capital requirements "will be partially satisfied by additions to retained earnings and non-cash

[84] WGL's Reply Comments at 8.

[85] WGL's Reply Comments at 8.

[86] WGL's Reply Comments at 9-10.

> charges to income." Again, non-cash charges (*e.g*., depreciation expense) are "added back" to reconcile the difference between accounting retained earnings (i.e., net income minus dividends declared) and cash available for funding. For all of these reasons, OPC's recommended investigation into the Company's cash flow management should be rejected.[87]

46. With regard to OPC's assertion that WGL may prioritize leak rates over safety concerns to people and buildings, WGL states that this disregards the Company's explanation in its Application on the manner in which it prioritizes pipe replacements and uses Optimain as a tool for identifying and prioritizing main replacement projects. The Company adds that the Application further describes the selection criteria, in detail, and specifically discusses Optimain factors affecting probability and consequences to people and buildings.[88]

47. As for OPC questioning the justification for the project completion timeframes provided in the Revised Plan, stating that it is unclear how the Company derived these timeframes, WGL retorts that, as it stated previously, "the Revised Plan assumes a normalized annual spend of $25 million per year throughout the 40 years of the Revised Plan, which would cover the $1 billion overall estimate. The original plan reflected a decline in annual spend as programs were completed.[89]

48. Concerning OPC's comments that that the Revised Plan does not update for replacement work performed subsequent to the Company's originally filed accelerated pipe replacement plan, WGL states that it limited revisions to those necessary to address the Commission's Order and left all other data consistent with the original filing. The Company agrees that any replacement activity previously performed will reduce the overall scope of the work to be performed.[90]

49. WGL asserts that the Revised Plan explains how the Company's replacement priorities fit together with the Optimain projects. It submits that, as described in its Application, the Company manages its replacements based on a combined approach, which can result in concurrent replacement of material types. By taking this combined approach, the Company will reduce risk on both an economic/risk basis and on a pure risk score basis.[91] The Company also

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[87] WGL's Reply Comments at 11-12.

[88] WGL's Reply Comments at 12.

[89] WGL's Reply Comments at 12.

[90] WGL's Reply Comments at 13.

[91] WGL's Reply Comments at 15-16.

states that its estimated costs are based on current costs, which is reasonable and supported by the record.[92]

50. Contrary to OPC's argument that the Company is unwilling to accept responsibility for its performance under the Revised Plan, WGL admits that it does accept responsibility for incurring prudent costs; it will provide oversight of the contractors' work; and it will monitor and report on its progress to the Commission both in terms of units and costs, and will manage to a budget as is done currently.[93] In reply to OPC's conclusion that, because the Company did not provide a detailed cost breakdown for the 40 years of the Revised Plan, then the Company must have no plan beyond the first five years, WGL states that it has provided the cost breakdown by program for the first five years, which is the initial term of the Revised Plan, the only approval sought in this case.[94]

51. WGL claims that OPC's request that the Commission conduct a management audit is unreasonable.[95] The Company states that it has been both responsive and forthcoming with information in support of the Revised Plan; that "[s]imply because OPC may not have understood the Company's responses to some of its discovery questions does not demonstrate an unwillingness or inability to respond to questions associated with the Revised Plan."[96] Moreover, the Company argues, it has an approved pipe replacement plan in Virginia, has an authorized plan in Maryland, and has managed the vintage mechanical coupling replacement program in the District of Columbia over a number of years, demonstrating its ability to handle large-scale replacement programs. It concludes that OPC fails to provide any basis or support for requesting a management audit and that OPC's request should be denied.[97]

52. Replying to AOBA's Comments, WGL submits that AOBA's efforts to delay approval and implementation of the Revised Plan until the Company's next base rate case is contrary to the Commission's decision in Order No. 17132, which directed the Company to respond to a number of questions and to reassess its risk assessments and priorities and report back to the Commission.[98] WGL also argues that the instant proceeding is a base rate case in which the Commission is examining this issue; therefore, AOBA's argument that "[a]pproval of the Company's revised APRA and any PRA, outside of a traditional base rate proceeding, would constitute single issue ratemaking" is not reasonable. The Commission has examined

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92 WGL's Reply Comments at 16.

93 WGL's Reply Comments at 16-17.

94 WGL's Reply Comments at 17-18.

95 WGL's Reply Comments at 18.

96 WGL's Reply Comments at 19.

97 WGL's Reply Comments at 19.

98 WGL's Reply Comments at 19-20.

ratemaking issues in this case and has further extended its investigation of the Revised Plan in this proceeding. Therefore, the Company concludes that this is not a single issue rate case as AOBA has suggested.[99] In addition, WGL points out that the Commission has adopted surcharge mechanisms outside of base rate proceedings in other proceedings, citing *Formal Case No. 1027* as an example. Thus, the Company argues, to suggest that a surcharge mechanism adopted outside of a base rate case is inconsistent with Commission policy is simply wrong.[100]

53. The Company opposes AOBA's request for a formal hearing on its Revised Plan on the grounds the Company has already, in this proceeding, filed testimony supporting an accelerated pipe replacement plan, provided extensive discovery responses and responses to Commission questions, and filed the detailed Revised Plan which addresses the Commission's comments in Order No. 17132. In addition, the parties have had the opportunity to file comments and reply comments on the Revised Plan.[101] Thus, WGL concludes that there is an extensive record upon which the Commission can base a decision and can seek additional information if needed without the need for an evidentiary hearing.[102]

54. Finally, WGL asserts that, "[w]hile AOBA downplays the need for 'expedited consideration' of the Revised Plan, the Commission's decision in Order No. 17132 reflects the Commission's desire to speed the process of replacing higher risk pipe in the District. [The Company claims that] the Revised Plan will achieve this objective."[103] Furthermore, WGL states that its

> commitment to move forward with its pipe replacements in the District, regardless of the outcome of the Commission's decision on the surcharge mechanism, does not suggest that the Company will pursue pipe replacements on an accelerated basis irrespective of an approved cost recovery mechanism. A surcharge will facilitate the Company's ability to move forward with an accelerated plan. Nonetheless, the Company will continue to provide safe and reliable service to its customers.[104]

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99 WGL's Reply Comments at 20.

100 WGL's Reply Comments at 20.

101 WGL's Reply Comments at 20.

102 WGL's Reply Comments at 21.

103 WGL's Reply Comments at 21.

104 WGL's Reply Comments at 22.

D. AOBA's Reply Comments

55. In its brief Reply Comments, AOBA supports OPC's recommendations and states:

> AOBA supports the primary recommendation of OPC that the Commission deny WG's request. In the event that the Commission takes further action on WG's proposal, at a minimum, the concerns and recommendations made by OPC in its December 5, 2013 comments should be strongly considered by the Commission in an evidentiary proceeding. We reiterate that a formal evidentiary hearing is necessary before approval of any revised APRP and any surcharge cost recovery mechanism. AOBA also submits that there is no urgency that requires expedited Commission approval of the Company's request or the Commission's assessment of WG's revised APRP. As WG witness Roberta W. Sims testified in the Company's rate case, the Company "would move forward to continue to make [its] system safe irrespective of the outcome of its request for approval of a surcharge cost recovery mechanism."[105]

V. DISCUSSION

A. Miscellaneous Procedural Matters

56. AOBA has questioned, without citing any authority, whether the Commission can proceed with its review of the Revised APRP and any PRA outside of a traditional base rate proceeding, claiming that it would constitute single issue ratemaking and arguing that the Commission has consistently rejected single issue ratemaking where there is inadequate information on which to base its decision making. Although not addressing that issue head-on, the courts in the District of Columbia have held that a "rate case" under the District's public utilities statutes "could refer to either a general rate case or to a special rate case, *i.e.*, a proceeding in which only some of the rates of a given utility are set."[106] The Commission has also pointed out in the past that "there may be circumstances in which a single issue rate case is appropriate."[107] We think this case, where the proposed rate to be set would be a formula-based

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[105] AOBA's Reply Comments at 3.

[106] *Office of the People's Counsel of the District of Columbia v. Public Service Commission*, 572 A.2d 410, 413 (D.C. 1990).

[107] *See Formal Case No. 1079, In the matter of Washington Gas Light Company's Application for Revenue Normalization Adjustment*, Order No. 16220, ¶ 9, rel. February 28, 2011 ("Although there may be circumstances in which a single issue rate case is appropriate, we simply do not have enough information on the record in this case to avoid a distortion in the ratemaking structure that could lead to understatement or overstatement of WGL's revenue requirement.")

surcharge that relies upon rates and cost of service information established in the recently decided base rate proceeding of *Formal Case No. 1093,* is an appropriate circumstance for a single issue rate case.[108] Our research also shows that some commissions in other states have engaged in single issue ratemaking, depending on the circumstances.[109]

57. Additionally, because WGL is seeking to implement its Revised Plan with a change to its existing PRA surcharge, we are classifying this case as a rate case for special franchise tax deposit purposes under D.C. Code § 34-912 (a)(3) (2001). In order to proceed in the determination of WGL's Application, we think it best to go forward on a clean slate and make a new record that will not be burdened by, or confused with, the record made in *Formal Case No. 1093*. We, therefore, open a new docket, *Formal Case No. 1115*, for all matters pertaining to WGL's proposed Revised APRP going forward. All documents from this point forward will be captioned and filed in the new docket, and the *Formal Case No. 1093* caption shall no longer be included on the filings in this new proceeding. Any documents previously admitted into evidence in *Formal Case No. 1093* may be referred to or submitted into the record in this proceeding, as necessary, as long as they are properly identified by the *Formal Case No. 1093* docket number.

58. Finally, part of AOBA's opposition to proceeding with this case outside of a general rate case proceeding appears to rest on whether the Commission can approve a surcharge, which is a form of a rate, without a hearing which is required in a rate case. WGL's PRA was an issue in *Formal Case No. 1093*, so the Commission has already received some testimony on the PRA. WGL indicated in its Request that it was incorporating its PRA testimony from *Formal Case No. 1093* into this record. However, for reasons that we discuss later in this order, we intend to hold an evidentiary hearing on the details of the PRA as it applies to the Revised Plan.

B. WGL's Request

59. Aging pipeline infrastructure that results in an increase in the number of gas leaks is a serious problem in the District. Although the Commission does not believe that a recent

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108 We note that the Commission has adopted a surcharge mechanism outside of a base rate proceeding in the past. *See Formal Case No. 1027, GT97-3, GT06-1, In the Matter of the Emergency Petition of the Office of the People's Counsel for an Expedited Investigation of the Distribution System of Washington Gas Light Company*, Order No. 15627, rel. December 16, 2009.

109 *See, e.g., In re Commonwealth Elec. Co.,* 2003 WL 22417266 (2003) (Massachusetts Department of Telecommunications and Energy holding that "there is no absolute bar to single-issue rate cases in Massachusetts"); and *Madigan v. Illinois Commerce Commission*, 988 N.E.2d, 146, 155-156 (ILL. 2013) (Appellate Court holding that a volume –balancing-adjustment rider was not a method of single issue ratemaking, even though riders, by nature, are methods of single issue ratemaking). *But see also, Popowsky v. Pennsylvania Public Utility Commission*, 869 A.2d 1144 (PA. 2005) (Appellate Court holding that the challenged wastewater surcharge (an infrastructure improvement charge) under the scheme of the Pennsylvania statutes and the circumstances of the charge should have been determined in a base rate case).

study in the District[110] painted an accurate picture of the number of gas leaks, the study brought a lot of media attention to an issue that WGL has been seeking to address with its proposed APRP. When we issued Order No. 17132 on May 15, 2013, the Commission stated that it "shares WGL's view that the District would benefit from a pipeline replacement program that targets the pipe with the highest risk and the highest leak rates" and that it "remain[s] open to approving a program to perform necessary replacement in an accelerated fashion and with an alternative funding mechanism."[111]

60. Our concerns with WGL's original APRP that was presented to us in the *Formal Case No. 1093* rate case were: (1) its lack of clarity on how the Company's normal pipe replacement work (for which WGL is already being compensated in rates) is being identified and separated from the proposed accelerated pipeline replacement program;[112] (2) its lack of clarity on the type of projects that are being proposed and on how the projects scheduled for replacement would be prioritized;[113] and (3) a question about why a 50-year plan was considered to be an appropriate accelerated schedule for the District, especially in light of the Company's current unacceptably slow pace of replacement.[114] We asked for a revised APRP that addressed these issues. It is that revised APRP that is before us today.

61. As can be seen from the detailed summary of the parties' comments, none of the commenters questioned whether a program to address the aging pipe infrastructure in the District is necessary. The commenters have questioned the Revised Plan's focus on the replacement of bare steel mains and services over cast iron main replacement during the first five years. When WGL submitted the original APRP, it testified that its selection of the type of pipes on which replacement should be focused and the schedule for which pipe is replaced first reflect the strategic and tactical decisions made by the Company for the program needed to optimally manage the risk profile of its distribution system. That process resulted in a strategic decision and a tactical decision to focus on the replacement of bare steel and the mechanical couplings with some cast iron during the initial five years of its program.[115] WGL submits that the Revised Plan appropriately targets the two types of pipes in the District that pose risks to the health and safety of the District and its visitors: bare and/or unprotected steel main and services that is most prone to leaks due to corrosion and cast iron pipes (some of which date back to the late 1880's), and the Company proposes to focus initially on bare steel which generates the highest amount of leaks. WGL has added the large diameter cast iron main to the Revised Plan because they are

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[110] *See* Robert B. Jackson, *et. al.*, *Natural Gas Pipeline Leaks Across Washington, DC*, Environ. Sci. Technol., December 31, 2013, http://biology.duke.edu/jackson/est2014.pdf ("Duke Study").

[111] Order No. 17132, ¶ 254.

[112] Order No. 17132, ¶ 252.

[113] Order No. 17132, ¶¶ 255-260.

[114] Order No. 17132, ¶¶ 251-252.

[115] *Formal Case No. 1093*, Tr. at *525-536*, 654-658.

included in the most recent highest absolute risk scores and WGL has committed to replacing the top three Optimain projects each year.[116] The Commission agrees that the leak rates that WGL cites in its Revised Plan for both of these types of pipes are high and pose potential safety and environmental risks. They are unacceptable and need to be fixed. WGL's proposal to replace these pipes and services with more durable plastic mains and services is an industry accepted resolution that we find to be reasonable. WGL has explained the process that it used to develop the elements of its program, taking into consideration the risks that the various types of pipe pose to health, public safety and the integrity of WGL's distribution system. We accept the Revised Plan as proposed with the understanding that as it progresses, we will be monitoring its impact by looking for a reduction in the leak rates on both types of pipes that it includes and looking at the projects that are undertaken in conjunction with WGL's Optimain listings.

62. WGL's original APRP accelerated its current replacement schedule for bare and/or unprotected steel mains and services to 20 years while the Revised Plan accelerates the replacement to 15 years. Under WGL's original APRP, the replacement of cast iron mains were accelerated 50 years; the Revised Plan expands the amount of cast iron that is covered from 342 miles to 438 miles and accelerates the schedule for the replacement to 40 years. WGL states that without its Revised Plan, "the identified pipe will take approximately 120 years to replace."[117] WGL also asserts that under the Revised Plan, it will accelerate its pace of replacement expenditures from $8.4 million per year to $25 million per year. Although the Commission has questions that we address below as to whether this means that WGL is proposing to accelerate $16.6 million in expenditure and the parties have raised questions about why the replacement of certain pipe and services would receive priority under the Revised Plan, especially in the first five-year segment, it is clear that under the Revised Plan, WGL is accelerating its budget so that it can replace all of the pipes and services that it has identified as risk prone.

63. The Commission has additional questions about the implementation schedule for cast iron mains under Program 4. First, the Commission wants to know how WGL reached its decision to reduce the program timeframe for the acceleration of all cast iron replacement from 50 to 40 years, including the analysis, assumptions, and calculations that led to the acceleration of the time frame. The Company states that its replacement goal for the first five years for the replacement of cast iron main is 4.0 miles/year. If this replacement rate is maintained evenly over the remaining proposed life of the APRP, the replacement rate for the remaining 408 miles of cast iron pipe after five years will have to be more than tripled to 11.66 miles/year.[118] WGL has not indicated how it will absorb this vastly increased replacement rate. The Commission requires a better explanation of the Company's cast iron implementation plan. In addition, the Commission is also directing WGL to provide the estimated financial and rate impact of replacing the cast iron mains in 25 years instead of the 40 years now proposed (i.e., a what-

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[116] WGL Request at 5.

[117] WGL Request at 6.

[118] By way of comparison, WGL witness Townsend testified that between 2005 and 2008, WGL replaced 29 miles of cast iron mains for an average of 7.2 miles a year. *Formal Case No. 1093,* Tr. at 620-621.

if/sensitivity analysis).[119] This information is not required as a condition for the approval of the first five-year program of the Revised APRP, but it is needed to better understand the options for the remaining years of the Revised Plan.

64. Although OPC notes that the pace of acceleration increases in the later years of the Revised Plan, OPC has urged the Commission to reject the Revised Plan because the pace of acceleration for high risk pipe during the first five years is only minimally greater than the pace of replacement that the Commission found unacceptable in Order No. 17132 (i.e. 7.2 miles versus 7 miles). AOBA asks the Commission to delay action on the Revised Plan until the next rate proceeding and rely on the representation of WGL witness Simms that WGL will continue to make replacement to keep the system safe in the interim. We will not accept either suggestion. Like the commenters, we are disappointed that WGL did not provide information about the Revised Plan that answered all of our questions, but we do not agree that rejecting the Revised Plan again is in the best interest of the public of the District of Columbia. In addition to accelerating the replacement of at risk pipe and reducing leaks, the Revised Plan will also add an Excess Flow Valve to every replaced medium pressure residential service, reduce greenhouse gas emissions, allow for quicker isolation of gas leaks, upgrade portions of the low pressure system to medium pressure, reduce the level of lost and unaccounted for gas, move inside meters outside, when feasible to allow for quicker access during emergencies and for routine maintenance, and move gas mains behind the curb, when feasible, according to WGL.[120] Therefore we have decided to pursue a different course.

65. During the hearings for *Formal Case No. 1093,* WGL witness Townsend testified that once the APRP is approved, WGL would, on an annual basis, provide its list of projects within each of the Programs that would be performed in the upcoming year.[121] WGL also committed in its Request that the Revised Plan would include on an annual basis the three top projects on Optimain.[122] With these representations from WGL, and with the conditions that we address later in this Order, the Commission has decided to grant conditional approval for the first five-year phase of WGL's Revised Plan so the necessary task of replacing the District's aging gas infrastructure in an accelerated manner can move forward. We believe that the conditions

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[119] A What-if/sensitivity analysis involves compiling the same variables and data inputs that were analyzed and used to move from a 50-year to a 40-year replacement time frame, extrapolating/testing similar variables/data inputs over a 25 year time frame, and examining the cost/benefits of a 25-year replacement time frame versus a 40-year replacement time frame.

[120] WGL Request at 4.

[121] *See Formal Case No. 1093,* Tr. at 617-618.

[122] WGL Reply Comments at 5.

that we order today go directly to a number of the concerns raised by OPC and AOBA, many of which we deem meritorious and worthy of incorporating into our decision.[123]

66. We want to make clear at the outset that the Company is neither requesting, nor are we today approving, the entire 40-year Revised Plan. We believe it is in the interest of the ratepayers to approve only the first 5-year segment of the Revised Plan at this time. That will enable the Commission and interested stakeholders to assess WGL's performance at the end of that period and determine whether the Revised Plan is accomplishing what it promised, to ensure that the work is being completed timely and on budget, and to work out any problems with the Revised Plan that have emerged. We then anticipate approving the remainder of the Revised Plan in additional 5-year segments, with the Company requesting our approval for each segment separately. The five-year $110 million segment of the Revised Plan that we conditionally approve today consists of $40 million for Program 1 Projects to replace bare and/or unprotected service replacements; $32.5 million for Program 2 Projects to replace 18 miles of bare and unprotected steel mains and services; and $37.5 million for Program 4 Projects to replace 20 miles of cast iron mains; however the Commission is placing some conditions on the projects that can be funded under the Revised Plan.

67. Unlike the situations in Maryland and Virginia where WGL has sought approval of similar plans, there is no statutory framework in the District for the selection of projects for accelerated pipeline replacement plans or for the financing mechanism for such plan. In both of those jurisdictions, the legislatures have identified the category of projects that will qualify for accelerated treatment, the funding mechanism (i.e. a surcharge) that will be used to compensate a natural gas company for its accelerated work, the processes for reconciling payment when the surcharge results in an over-collection or an under-collection of costs; and an audit procedure to ensure that the costs being incurred during construction are being appropriately tracked and are reasonable.[124] Under the program framework as set by statute, the Maryland Public Service Commission and the Virginia State Corporation Commission have a more limited role in the approval process for WGL's accelerated pipeline programs in those jurisdictions. In Virginia, WGL received approval for the first five years of a 15-year program and a rider for funding on April 21, 2011, while in Maryland, WGL's approval of the first five years of its 30-year program is still pending. This Commission, through this order and through subsequent orders, will be putting in place for WGL in the District the same type of program structure and consumer protections that have been statutorily enacted in Maryland and Virginia.

68. The comments of the parties have convinced the Commission that further clarification is needed with respect to project selection and prioritization. With respect to the type of projects that can be funded under the APRP, the Commission has concluded, based on the comments of the parties that there is a need to clarify what types of projects will qualify for

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[123] We have not individually addressed each of the recommendations of OPC. We are not accepting the recommendations that we do not specifically adopt in this Order because we do not find them to be necessary at this time.

[124] MD. Code Ann., Public Utilities § 4-210 (LexisNexis 2013); VA. Code Ann., § 56-604 (West 2013).

funding under the Revised Plan. We think a project that qualifies for APRP funding must satisfy all of the following four qualifications:

(a) The project is started on or after June 1, 2014;

(b) Project assets are not included in WGL's rate base in its most recent rate case;

(c) The Project does not increase revenues by directly connecting the infrastructure replacement to new customers; and

(d) The Project is needed to reduce risk and enhance safety by replacing aging, corroded or leaking cast iron mains, bare and/or unprotected steel mains and services; and black plastic services in the distribution system.

Projects that do not satisfy all of these criteria must be funded through base rates with the recovery of the project costs established through a traditional rate case proceeding.

69. OPC and AOBA expressed concern that WGL will seek to use the Revised APRP to obtain funding for projects that are not high risk, projects that are normal replacements, and projects that are in advance of paving ("AOP") on roadwork. There is a valid basis for their concern. WGL has stated in its application that it "anticipates that the targeted spending levels described above will vary year-to-year based upon fluctuating risk profiles, changing operational conditions and/or construction efficiency opportunities."[125] While the Commission recognizes the importance of achieving cost efficiencies to reduce the financial burden of WGL's accelerated replacement activities on District ratepayers, we expect WGL to remain mindful when making its selection of projects that the Revised Plan is being approved, as WGL requested, to address high risk pipes based on their leak rates and their risk of pipe fracture to reduce the Company's risk profile and to protect the safety of people and property in the District. As WGL noted, it spent an average of $8.4 million on its normal replacement and AOP projects.[126] These are funds that are already included in the base rates that WGL collects from District ratepayers. WGL retains the option to execute low risk projects and AOP projects as part of its normal replacement activities. We will be monitoring both the choice of projects that WGL makes to be funded under the Revised APRP as well as the Company's record in performing the work for which it is being paid through base rates.

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[125] WGL Application at 13. WGL goes on to state "to avail itself of construction efficiencies and related cost savings, the Company anticipate that Plan expenditures will be directed to replace certain main and service piping across programs, notwithstanding their relative risk profile. These selected pipes may be replaced earlier than otherwise anticipated to realize operational efficiencies and cost savings, in conjunction with DOT road improvement projects and other utilities' projects (*e.g.* Pepco reliability projects. As a result, the Company will limit traffic disruption, reduce public parking inconveniences, and lower paving restoration costs. In addition, projects will be selected due to other operational considerations and field assessment." WGL Application at 13.

[126] WGL Reply Comments at 9-10.

70. To enable the Commission to more closely monitor WGL's choice of projects, we will require that WGL provide us with detailed information on its planned program expenditures on an annual basis in each of the five years of the plan. Specifically, we are requiring that WGL submit an annual project list to the Commission that contains the following information for the Revised APRP projects:

(a) Project description;

(b) Location;

(c) Estimated Costs;

(d) Type of infrastructure being replaced (i.e. material type);

(e) The risk assessment for the project, including where applicable the current Optimain score, leak rates, or other factors that were considered in the risk assessment;

(f) The estimated start date and completion date by month and year; and

(g) The reason for the replacement.

We direct WGL to file this information for the list of its projects during the first year of the program as one of the conditions for the final approval of the Revised APRP. We will set the date of the annual filing of this list when a final date is set for the implementation of the program.

71. In response to the Commission's request that WGL address what constitutes the normal pace of main and service replacements, WGL provided an explanation in its Request and presented Attachment B, a table that contains what WGL represents to be normal mains, services and pipe replacements in dollars and miles or counts for a seven year period from 2005 through 2011 with a 7-year average that excludes replacements generated by other factors.[127] The 7-year average reports WGL's average annual miles of replacement as 3.53 miles, the average annual count of service replacements as 922 and the average total expenditure as $8.4 million. The 3.53 average annual miles of replacement pipe appears to the Commission to be either incorrect or unacceptably low.[128] The Commission has been unable to determine from the information

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[127] WGL Request at 6-8.

[128] WGL Reply Comments at 9-10. Testimony during the evidentiary hearings in *Formal Case No. 1093* showed that WGL replaced 29 miles of cast iron mains for an average of 7.2 miles in the years between 2005 and 2008, then dropped to an average of 2 miles per year in 2009 and 2010. *Formal Case No. 1093*, Tr. at 620-621. Attachment B also shows a different (and much smaller) amount of mains being replaced during the 2005 through 2008 time period and it shows a decrease in the 2010 and 2011. The Commission notes that the years when the replacement work appears to have decreased coincide with the start up the *Formal Case No. 1027* replacement project.

provided thus far a reason for the apparent decrease in WGL's reported replacement activities during this time period. The Commission is, therefore, directing WGL to provide the details of the excluded work (in terms of the number and type of miles replaced, the number of service counts and the cost) for the years reflected on Attachment B as well as the details of its normal replacements and AOP work for 2012 and 2013 as a further condition of our approval. The Commission will use this data as a baseline against which to measure WGL's normal replacement and AOP activities during the five-year period when it is implementing the Revised APRP. WGL is directed to file updated normal replacement expenditures along with the number of miles and service counts replaced for the prior year with its annual list of new projects for each year of the five-year program. Through the funding mechanism and the reconciliation process that we will institute, the Commission will be able to monitor whether WGL is performing accelerated activities in addition to, or in lieu of, its normal replacement activities and will be able to adjust WGL's compensation accordingly.

72. The next issue that we address is the issue of project planning and project execution. It is another issue of concern to the Commission. The latest status report of WGL's work on the replacement/encapsulation of vintage mechanical couplings in *Formal Case No. 1027* shows that, as of December 31, 2013, which is four years into a seven-year project, WGL has expended more than $25 million of the $28 million budget (*i.e.*, 90% of the funds), but has only replaced 300 of the 700 couplings (*i.e.*, 43% of the project). In Order No. 17387, issued on February 21, 2014, we directed that an audit be conducted of WGL's work to determine whether there are management issues with the project and, if so, to identify the problems and suggested solutions.[129] The fact that 90% of the total budget has been expended with less than half the work completed gives us great cause for concern when determining the implementation of additional pipeline replacement projects which are significantly larger than the project in *Formal Case No. 1027*.

73. WGL has stated that it intends to use skilled subcontractors to perform the work under the Revised Plan, similar to its use of subcontractors for its work on *Formal Case No. 1027* projects.[130] WGL has made similar representations about its use of contractors for its work in Maryland and Virginia. That raises two issues for the Commission. The first is a capacity issue of whether there are sufficient skilled contractors to perform the planned work in three jurisdictions simultaneously in a cost efficient manner. The second is a management issue of whether WGL is staffed and prepared to manage what appears to be in the neighborhood of roughly $60 million of additional accelerated pipeline construction projects per year for the next five years in three jurisdictions. Inherent in that management issue is whether WGL has the necessary systems to accurately track the progress of contract work against projected schedules and budgets, and to accurately and properly track, and if necessary allocate, costs for the projects in the District while also handling similar projects in our neighboring jurisdictions.

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[129] *Formal Case No. 1027, GT97-3, and GT06-1, In the Matter of the Emergency Petition of the Office of the People's Counsel for an Expedited Investigation of the Distribution System of Washington Gas Light Company*, Order No. 17387, rel. February 21, 2014.

[130] *See* WGL's Reply Comments at 8, 16, and 17.

74. Based on our *Formal Case No. 1027* experience and the scope of the Revised Plan, it is evident that WGL will need certain systems, personnel and controls in order for these projects to be successful. We, therefore, require as a third condition of our approval of WGL's five-year program that WGL submit an implementation plan to the Commission that includes: (1) a list of the projects and their individual cost estimates for each of the three Programs in the Revised Plan; (2) a description of the systems and the personnel that WGL will use to coordinate and monitor project activity and project costs in the District and a description of how the systems will coordinate with the project work being undertaken in Maryland and Virginia; and (3) a description of the systems that WGL will employ to identify and procure contractors for the work in the District and a description of how those systems will coordinate with the project work being undertaken in Maryland and Virginia. In addition, for the first year of the Revised Plan, WGL is directed to submit: (1) a list of the proposed first year projects in the District for each of the three Programs, including the information set out in Paragraph 70; (2) a description (by number of miles, count of services, material type and location) of WGL's planned replacements and planned replacements made in conjunction with roadways and other facility improvement projects that will occur during the first year of the Revised APRP; and (3) a proposed first year implementation schedule for the Revised Plan projects and an implementation schedule for all WGL projects being undertaken in the District (i.e. normal replacement, *Formal Case No. 1027* work, and the Revised APRP).

75. WGL has proposed that the Revised Plan be funded by the PRA that it proposed in *Formal Case No. 1093*, the details of which have been incorporated by reference into this filing.[131] In WGL's Request for the Revised Plan, however, it states "Approval of the cost recovery mechanism proposed by Washington Gas in this case would be in line with the passage of STRIDE legislation in Maryland . . ."[132] Our review of the STRIDE legislation in Maryland shows that it is different from the PRA that WGL has proposed. For example, the PRA is allocated on a "per therm" basis with no cap while the funding mechanism under STRIDE has a cap of $2.00 for residential ratepayers and appears to be based on a revenue allocation. We will need further clarification of WGL's statement and a new tariff page for our consideration if WGL is now proposing a STRIDE–style funding mechanism for the Revised APRP in the District.

76. Both the PRA and the STRIDE legislation contain a reconciliation mechanism to adjust the funding mechanism for any over collection or under collection of revenues from the surcharge. Any funding mechanism that the Commission approves must have a reconciliation feature. The Commission will also require that an annual audit be conducted of WGL's program and its expenditures to ensure that the work is being timely performed and that the costs are being fairly and accurately recorded. The Commission will set out the details for these program features as part of its final approval of the funding mechanism for the Revised Plan.

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131 WGL's Request at 20.

132 WGL's Request at 20.

77. WGL stated in its Request that "[g]iven the level of complexity and detail associated with the Plan, Washington Gas recommends that the Commission authorize the parties in this proceeding, as well as Commission staff, to discuss in further detail the Company's pipe replacement priorities and risk assessment, as well as other aspects of the Plan."[133] We think WGL's suggestion has merit. We are directing Commission Staff to convene a technical conference within two (2) weeks of the date of this Order to allow the parties to discuss WGL's Revised Plan, the various comments filed by the parties and our directives in this Order.

78. We are not approving the funding mechanism as part of this Order. As we noted earlier, we will hold an expedited evidentiary hearing to allow parties the opportunity to raise questions on the revisions that we have directed the Company to file as conditions of our approval today and on the clarifications that we have outlined are needed for the funding mechanism.

79. We are directing the Company to respond to the Commission's directives for additional information that are set out in Paragraphs 63, 70, 71, 74 and 75 of this Order within thirty (30) days from the date of this Order. Comments to those filings may be made within sixty (60) days from the date of this Order. Because there has been ample opportunity for comments in the past on the APRP, both original and revised, we see no need for the filing of any further comments, and we, therefore, will not order the filing of Reply Comments. It is our intent to put the remainder of this proceeding on a "fast track." We will, however, consider changing the response dates if, as a result of the Technical Conference, the parties agreed upon an alternative schedule for the filings. Staff is directed to report any agreement about a new schedule back to the Commission. We then intend to issue a Prehearing Order setting a hearing date to review the mechanisms of the funding mechanism and any changes that are being proposed to the Company's tariff.

THEREFORE, IT IS ORDERED THAT:

80. WGL's Request for Approval of a Revised Accelerated Pipe Replacement Plan is **GRANTED, IN PART,** to the extent, and subject to the conditions, set forth in this Order.

81. WGL shall submit to the Commission as a condition of final approval of the Revised Plan an implementation plan for the five-year Revised Plan that includes, at a minimum:

(a) A list of the projects and their individual cost estimates for each of the three Programs in the Revised Plan;

(b) A description of the systems and the personnel that WGL will use to coordinate and monitor project activity and project costs in the District and a description of how the systems will coordinate with the project work being undertaken in Maryland and Virginia; and

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[133] WGL's Request at 3.

(c) A description of the systems that WGL will use to identify and procure contractors for the work in the District and a description of how those systems will coordinate with the project work being undertaken in Maryland and Virginia.

82. WGL shall submit to the Commission as a condition of final approval of the Revised Plan:

(a) A list of the proposed first year projects in the District for each of the three Programs under the Revised Plan in the District that includes the information set out in Paragraph 70;

(b) A description (by number of miles and services, material type and location) of WGL's planned replacements and planned replacements made in conjunction with roadway and other facility improvement projects that will occur during the first year of the Revised APRP; and

(c) A proposed first year implementation schedule, for the Revised Plan projects and an implementation schedule for all WGL projects being undertaken in the District (i.e. normal replacement; FC 1027, and the Revised APRP).

83. WGL shall submit as a condition of final approval of the Revised Plan the information required in Paragraph 71 about its normal replacement and advance of paving projects for 2012 and 2013 and its $8.4 million normal replacement expenditures;

84. WGL shall submit as a condition of final approval of the Revised Plan an explanation of WGL's reference to the STRIDE funding mechanism in its Application; and the details of the funding and cost recovery mechanism, including a new proposed tariff page, if WGL is proposing a funding mechanism that is different from the Property Replacement Adjustment ("PRA"); and

85. WGL shall provide the information requested in Paragraph 63 regarding analyses, assumptions and calculations that support the acceleration of the time frame for the full cast iron replacement.

A TRUE COPY: **BY DIRECTION OF THE COMMISSION:**

CHIEF CLERK: **BRINDA WESTBROOK-SEDGWICK**
COMMISSION SECRETARY