BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 120068-GU

PETITION TO INITIATE RULEMAKING
TO AMEND RULE 25-12.045, F.A.C.,
BY FLORIDA NATURAL GAS ASSOCIATION.
_____/

PROCEEDINGS: RULE DEVELOPMENT WORKSHOP

TAKEN AT THE
INSTANCE OF: The Staff of the Florida
Public Service Commission

DATE: Thursday, July 19, 2012

TIME: Commenced at 9:30 a.m.
Concluded at 11:18 a.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

P R O C E E D I N G S

MS. COWDERY: Good morning. Pursuant to notice, this time and place has been set for a staff rule development workshop in Docket 120068-GU to take input from interested persons on the Florida Natural Gas Association's petition to initiate rulemaking to amend Rule 25-12.045, Inactive Gas Service Lines.

I'm Kathryn Cowdery with the Office of General Counsel. Also here on behalf of staff are Rick Moses, Anita Black, Bill McNulty, David Dowds, Curt Mouring, and Devlin Higgins.

There are sign-in sheets at the back of the room, and we'd appreciate you all signing in so we have a record of who attended today. There's also additional workshop materials that were part of the notice of rulemaking, which are the same ones that you may have received already. They haven't been changed.

If you are going to speak today, please state your name for the benefit of the court reporter and also anyone who may be watching online.

Does anyone have any preliminary matters or questions before we begin?

Okay. At this time I'd ask the Florida Natural Gas Association to give its presentation.

MS. KEATING: Good morning. I'm Beth Keating

with the Gunster Law Firm here today on behalf of the FNGA.

First of all, we just wanted to thank the staff for this opportunity to come address you with regard to this rule. We're looking forward to the presentation today. And without further ado, I'd like to introduce our presenter, or our main presenter today, Mr. Tom Geoffroy with Geoffroy & Company, Incorporated. He is going to be making our presentation. And, again, thank you. And, again, thank you.

MR. GEOFFROY: Thank you, Beth.

Again, my name is Tom Geoffroy, and I'm a consultant currently, but I have been, just to give you a little background, in the industry for about 30 years, the last 15 years or so with Chesapeake Utilities as Vice President, and before that with the Natural Gas System in Gainesville, Florida. Originally it was Gainesville Gas Company, an investor-owned, who was acquired by Gainesville Regional Utilities. And so I have quite a bit of experience in the natural gas industry and, you know, I appreciate having the opportunity here to present to you.

The objective that we have here today is to present information to staff that we have pulled together with respect to the rule that we're seeking to,

to modify. We, we believe that we have pulled together some very compelling information that really results in what we hope to gain consensus with staff that this rule should be modified.

Beyond that, what we'd like to do, assuming that we can get some consensus here today, is continue to work with staff and work together to come up with very specific language that we can then take to the Commission for approval.

So I want to go ahead now and get started. I'd start just briefly with who the Florida Natural Gas Association is is the premiere gas association here in the State of Florida. It's made up of several different types of members: Corporate, pipeline, marketer, and suppliers. It's the corporate members that are the ones that are regulated by the Florida Public Service Commission. They're investor-owned members that are fully regulated, and municipal and special gas districts that are safety-only regulated.

I'm going to now just turn it over briefly to Beth to talk about the next couple of points on the slide.

MS. KEATING: We just wanted to go back and sort of walk through how we got to this point. As y'all are aware, in 2007, the Natural Gas Association filed a

petition for waiver of specific portions of 25-12.045, and the Commission granted that request for a waiver and required that the companies provide follow-up information at the end of the temporary waiver period.

At the end of that waiver period, the companies again petitioned for a second waiver. The hope at the time was that as the economy improved, the companies would be able to get service reactivated on lines and move forward.

At the end of the 2009 waiver period we took a look at the rule, took a look at how changes have come about in the safety arena in the natural gas industry, and realized that it was time for a change, and, hence, we have now filed this request for the Commission to consider modifications to the rule.

MR. GEOFFROY: Thank you, Beth.

The next slide is basically just the, the current rule itself. I'm not going to read it, but I am going to take a minute just to talk about some of the pertinent parts.

Basically this prescribes the actions that a natural gas utility has to take once a service becomes inactive. Upon inactivation of that service, if there's no prospect for reuse, i.e. maybe the building is being demolished or whatever, then that service line needs to

be retired and physically abandoned within -- virtually immediately, within three months. If not, then that service basically stays in place. And, and then the next point in time is after two years of inactivity, if there's a prospect for reuse of the line, then you have to take certain actions within six months, one of three actions. And most of the utilities basically remove the meter and plug the end of the service line, and that's the third option there.

And then that service line remains inactive but connected to the system. After five years of inactivity, and this is part 1(c), this is really one of the most pertinent parts, then this rule prescribes that the service line shall be retired and physically abandoned, and you have six months to do it. And that's probably the provision that gives us the most concern of this rule.

Okay. The next slide just kind of continues on with the rule, and it basically tells you how to physically abandon the service line. And then the last section basically talks about what records must be kept. I think everyone is familiar with the rule, but I wanted to make sure that we had a chance to go over that.

So this rule was adopted in the, in the 1970s. So as you can see, it's, it's been on the books for a

long time. And there's a lot of things that have occurred in the industry that we believe make this rule a little bit difficult for us to deal with today in our current environment. There's three primary areas, and we're going to touch on these three areas a lot today.

One is that there's been a lot of changes that have enhanced the safety of the natural gas industry and our systems, and the result of that is that there's a significant reduction in the risk of serious events taking place.

The second area is that the current rule is not consistent with the new rules that are coming out both from the federal level and also a lot of the existing Commission rules.

And finally, a lot of the inactive service lines that we have today are a result of current market conditions, and that potentially poses a pretty significant burden on utilities if, if this rule doesn't get modified to some degree. So our conclusion is that this rule really should be updated.

So I'm going to talk a little bit now on the industry safety changes, things that really have occurred, some major items, since this rule was adopted back in the '70s. And we'll get into this in a lot more detail later on in the presentation when, when other

members that are presenting here start to address certain questions that, that we've received previously from staff.

But as you can see on this list, there's a lot of things that have occurred over the last 30 or 40 years. There's now a mandatory One Call System statewide. Back in the '70s and '80s that was a voluntary system. This, this has really been of great benefit. It's highly adhered to in the industry. People use this; they're required to use this. The utilities certainly can speak to that. They have a lot of line locations to do, a lot more than they did ten, 20, 30 years ago, and so this system really works where people have to call in before they dig. And then that gives the utilities time to go out and mark the lines and to make sure that they're not damaged.

The second item there is that the line locating techniques themselves in the procedures have really improved over the years. The devices that are used to perform these tasks are much more accurate than they were in the past, and that results in, in a safer system.

We now have a public awareness program that utilities are required to provide notices to the general public and to contractors to ensure that they know that

the mandatory One Call System exists, that they have to call before they dig, and that natural gas is in their area.

Many companies, and all companies are really starting to use and have started to use excess flow valves, which are devices that go on service lines such that if there's an excess flow of gas, i.e. normally caused by a leak, that these automatically shut off the flow of gas to the service line. It's an excellent safety device.

Also, the industry rules --

MR. MOSES: Can I interrupt you just one second?

MR. GEOFFROY: Yes. Sure.

MR. MOSES: Would you prefer to go through your whole presentation before you get questions, or do you want to get stopped in between, or what?

MR. GEOFFROY: Thank you. I meant to say that up-front. Certainly we'd like for this to be interactive and we would love to take your questions, and please interrupt us. Yeah.

MR. MOSES: Okay. I just interrupted you then.

I've got a question on the excess flow valves. Those have not been a requirement for very long; is that

correct?

MR. GEOFFROY: I'm going to defer to some of our experts here on that.

MR. WALL: That's correct. Those excess flow valves have not been in place longer than ten years.

MR. MOSES: Okay. So the chances of the lines that are in question as of the date of the rule right now, those abandoned lines or the inactive lines would not have excess flow valves on them?

MR. WALL: The greater majority of those inactive services that are out there today, along with existing services probably do not have excess flow valves.

MR. MOSES: Okay.

MR. WALL: Every service from that point forward though that would future fall into it based on vintage age will have excess flow valves.

MR. MOSES: Okay. Thank you. Go ahead. Sorry.

MR. GEOFFROY: Industry rules, there's been enhancements to the rules over the years on requirements for atmospheric corrosion and leak survey as techniques improved, as the devices used to detect leaks improved, et cetera.

Companies now really have a much better idea

of what their facilities are and where they're located, and that's been accomplished through geographic information systems and mapping systems. And so companies have spent a lot of time over the last several years identifying what their -- where their facilities are, what their facilities are made of, the maintenance history on those facilities, and they now have a much better overall picture of their system than they did, say, 20 years ago when this technology really didn't exist.

On the personnel side there's now operator qualification programs where there is training programs that are well defined and established that all employees of the gas utilities must go through and pass in order to be able to perform certain tasks on their distribution system. In addition, these employees are tested for drugs and alcohol, and so the result of all of this is a much better trained employee who's providing quality and safe services for the general public.

And then finally under this industry safety changes, we have the federal Distribution Integrity Management Plan that has been promulgated and is now in place.

And overall, you know, the result of all this

is when you put all this together and you look at where we are today versus where we were many years ago, 20, 30 years ago when this rule first came out, these distributions are by far now safer than they ever have been in the past.

MR. MOSES: Let me ask you one question about the DIMP portion that you just mentioned. Other than a leak survey every five years, what's in the DIMP plan that would actually address service lines that are not in use?

MR. GEOFFROY: Well, I think that, you know, the DIMP program overall is a risk-based program, and actually that's a good segue to the next slide on this presentation.

MR. MOSES: But would an inactive line even raise to the level of a risk-based assessment in the program?

MR. GEOFFROY: It certainly could.

MR. MOSES: But does it?

MR. GEOFFROY: But does it?

MR. MOSES: Uh-huh.

MR. GEOFFROY: I believe that there are, you know, if they're bare steel or cast iron, they would be. If there are other factors that are out there that are known by the utility that the DIMP program makes you go

through and analyze, then they certainly could fall into that category.

MR. MOSES: Because from what I've seen so far, looking at what my field engineers have sent in, service lines hasn't even been mentioned as far as being a part of the risk assessment.

MR. KING: Let me, let me comment to that. Service lines, either through DIMP, along with mains, are all essentially treated based on the characteristic of the program, i.e. corrosion, leak survey, atmospheric corrosion, they're all encompassed in our, in our DIMP programs under those, under those categories.

So if we're looking at, you know, risk associated with corrosion, then we're looking at our bare steel pipelines and we're looking at our bare steel service lines, kind of a holistic (phonetic) approach.

MR. MOSES: All right. But what if you've got plastic -- what if you've got polyethylene as far as a service line? Those are still susceptible to damage by a sewer line being installed or something of that nature.

So it's not really going to be -- I guess my point is how are they being looked at if they're inactive? That's my concern.

MR. KING: We would look at that in terms of

third party damage from excavation damage as a whole and through our, you know, our DIMP program and looking at the records from, you know, that we report on excavation damage. We would do an assessment as to whether there's a higher threat. You know, i.e. we're not doing enough to notify through our public awareness programs our homeowners of the potential of, you know, damages to lines in their yards. Or if we see a higher threat to the contracting community, that we need to direct our, you know, our public awareness programs to do a more effective method of notifying contractors that we're having, you know, issues along the lines of third party damage on mains. So we kind of look at it as an entire program. We don't specifically segregate service lines. But I would comment that if that was an issue that staff or the inspectors had, we would certainly address it, and we could segment that part out into our DIMP program specifically addressing service lines.

MR. MOSES: Okay. Thank you.

MR. GEOFFROY: I think it's important to also note that to the extent the inactive service line is still connected to the main, that is treated from an operational perspective as an active service line serving a customer. There's no -- they don't see it any differently.

MR. MOSES: And I, and I understand that. But here's the problem that I -- in my mind happens is if a person does not have gas service to their home or their business, they're not going to be paying a whole lot of attention to gas lines in the area because there's no need for them to be paying any attention to it. And if there's a leak that's in that service line on their property that can creep into the home or the business or whatever is there, because they don't have gas service, they're not going to really be paying that much attention to it. Whereas, if you had gas service, I think the awareness would be much higher. Is that a reasonable assessment or --

MR. GEOFFROY: Well, I'm not certain because, you know, if there is a gas leak, the odor is detectable. And many times these companies are getting those leaks reported by general, people in the general public, not necessarily just those who have gas service to their house. And that's the reason for the odorant being in there, so it's easily detectable. It's a, you know, it's a rotten egg smell, so it's not pleasant, and people respond to that.

MR. MOSES: But if you don't have gas service in your home, why would that odor particularly reach any kind of awareness to you if you've never had gas

service? How would you know about it?

MR. McCARTY: As part of our public awareness program with the newspaper ads, the radio spots, the mailers that warn people of what a natural gas leak could -- some of the aspects of it, including the odor and blowing sand or things like that. It's part of our public awareness.

THE COURT REPORTER: Excuse me. I need to get a name when you speak, please.

MR. McCARTY: I'm sorry. I'm Mike McCarty with Florida Public Utilities.

MR. GEOFFROY: The second main area that we believe is our major reasons for rule modification here is the consistency of this particular rule with other rules that exist and have recently been, recently been enacted.

DIMP, or Distribution Integrity Management Plan, is one of the major ones that we've just talked about. As we just said, it's a risk-based program that's designed to help the industry identify those aspects of its overall system, including service lines, that pose the greatest risk. And once those risks have been identified, then those are the ones that should be addressed first.

MR. MOSES: So how can you make a statement

that it's inconsistent with DIMP when it's really not even a part of DIMP? I mean, this isn't -- I don't follow the logic there.

MR. GEOFFROY: Well, this rule requires the utility to take actions not based on risk but based on the fact that five years has expired.

MR. MOSES: But this rule is far beyond the requirements of PHMSA. PHMSA puts out the minimal requirements, and they've got a rule which you've got in here as far as type and strike.

MR. GEOFFROY: Sure.

MR. MOSES: But our rule is more stringent than PHMSA's.

MR. GEOFFROY: That's correct. And the question really is is it, is it stringent because of conditions that existed back when it was adopted? And we have overcome a lot of those concerns today so that, you know, from a cost benefit assessment does it cost more money to cut out perfectly good service lines out of service that may come back into service, and then have the utility, if that were the case, to also incur costs to rerun a service line? Is that, is that a good use of the company's limited resources, both personnel wise and monetary wise?

I believe -- we recognize and agree that this

rule as it exists is more stringent than, than DIMP or other rules, but we, we want -- we question whether it is, in the current environment, too stringent for, for really efficient operations of the system.

We're not interested in reducing the level of safety at all. We believe that it's important to, to have safe systems and we believe we've accomplished that.

MR. MOSES: Well, there's why I'm trying to get my hands around this thing, how this isn't reducing the level of safety. Because there's other states that have had incidences of where an inactive line caused an accident. Florida, I think, has had a really good record because this rule has been in existence for the length of time it's been in existence, and there haven't been any incidences. So how is this going to improve safety by doing away with a rule that's really eliminated this problem?

MR. GEOFFROY: Well, I'm not suggesting --

MR. MOSES: I, I understand the money part of it and I'm not arguing that it's more expensive. That's obviously clear.

MR. GEOFFROY: Right.

MR. MOSES: But on a --

MS. KEATING: I think to some extent though

what we're saying is that it's inconsistent with the whole thought process behind DIMP, that you address your areas of most critical concern first. To the extent that inactive lines are not areas of the most critical concern, then you're taking resources away from targeting those areas where you have a higher safety risk.

Now if you've got a problem on an inactive line, it's going to move it into the higher area of concern so that it will be dealt with. But to the extent that there's not some other issue on the inactive line, the intent behind the DIMP program is that you go deal with other issues first, and that's where we see the inconsistency.

MR. MOSES: Well, I haven't been a big proponent of DIMP yet anyway. But any -- but, okay. Go ahead. I'm sorry to keep interrupting you. Just throwing out ideas.

MR. GEOFFROY: No, that's -- no. And that's really the inconsistency that we see with this rule and DIMP.

We think there may be some inconsistency even with Commission Rule 25-12.040, Leak Surveys, Procedures and Classifications, which in that rule when a leak is detected the utility is required to grade that leak and

they can grade it according to the rule as a Grade 1, 2, or 3 leak. A Grade 1 leak requires immediate repairs. A Grade 2 leak, you have up to 90 days to make the repair. But a Grade 3 leak, which is a known leak on the system, if it's underground, according to the rule, there's no time limit for making the repair.

And so where 25-045, the inactive service lines, says at a specific point in time you have to retire these services, irrespective of whether you've identified it as a risk or not, irrespective of whether there's a leak on it or not. This rule here, 25-12.040, indicates that if it's Grade 3 underground, you have to monitor it, but there's no time requirement for repairing it.

MR. MOSES: Let me, let me make sure I understood what you've just said. So if you've got a service line that's leaking, because it's underground, even though that can creep in through the service system or other entries into the house, you don't think you ever have to repair that?

MR. GEOFFROY: No, sir. I didn't say that. That would probably be classified as a Grade 1 or a Grade 2 leak and repairs would be made. Or in many cases the utilities, if it's an inactive service line, would retire that service and physically cut it.

MR. MOSES: Okay.

MR. GEOFFROY: So these are just things that we see that pose a little bit of an inconsistency for us as an industry. We're told in one respect, you know, do a risk assessment and based on that risk assessment that's how you should devote your resources to deal with your system. In other respects, it's, well, at a certain point in time you have to take actions irrespective of risk.

The third area is, is market conditions. And as everyone knows, over the last several years the economy, especially here in Florida, has been in severe distress.

What happened was in the housing market is that, you know, things were going very strong for a long period of time in the mid 2000s. In the, in the later 2000s when the economy dropped, the housing market virtually stopped. And what happened was is that you had a lot of residential homes that had been built and all the utility services were provided to the house, but because of the suddenness of the change in the economy that house was never occupied. So you have a lot of gas services in place to houses that have been built but never occupied.

You also have a lot of houses that have been

built and occupied and have been for, in many cases, for years and years, but because of the economy those homeowners have been forced into foreclosure. So now you have gas service lines at houses that have been occupied, active service was provided for a period of time, and now that service line is inactive because of foreclosure and the house sits vacant.

So absent any modification to the rule, these inactive gas service lines that are serving those two situations I just described are soon going to reach that five-year threshold that the rule requires us to take further action. And so you will have a relatively large number of service lines that become -- that are inactive today that will hit the five-year threshold and they're going to have to be retired and physically abandoned absent any rule change, even though the homes that are there have, still have natural gas appliances in them.

Normally, in the past, when an inactive gas service line occurred, the primary reason for that -- there are many reasons -- but the primary reason for that was initially that house, when it was built, the builder put in, I'm going to use a pretty simple example here, the builder put in a water heater, natural gas water heater, and that water heater worked fine for many years. But as any appliance does, they ultimately fail.

So after, say, ten, 11, 12 years that water heater failed.

The consumer in many cases contacts a plumber. And in many cases that plumber will come in and instead of replacing it with a natural gas water heater, which is a little bit more costly than an electric water heater, will replace it with an electric water heater. And the gas company has really no knowledge of that going on if the consumer has called a plumber. So now that meter has no usage on it and the utility certainly recognizes that and at a period of time it determines that that, that service has become inactive. Different companies have different periods of time for that determination. So inactivity, then they take certain action, certainly they would turn the meter off, try to contact the homeowner, and the homeowner would probably tell them that, you know, they no longer have gas appliances in the home.

So then at, at the end of two years, you know, they're required by the rule to take certain actions, pull the meter, and plug the line. But that inactive service line exists because there's no gas appliances in the home, and that's typically what we've seen over the years. What we're seeing now is not only that scenario, which currently, which continues, but the scenario

that's described here where you have a lot of homes that have either never been occupied or foreclosed that have gas appliances in them, the services are inactive, and they're approaching a five-year time limit for, for retirement under the current rule.

Now here's some data. You've seen this before. This was in the, in the petition that was filed. This is just an excerpt. And this is data that is only reflective of the participating companies. There's, what, ten or 11 companies that have participated in the data gathering.

In total, these companies have about 672,000 service lines. About 12.5% of those are inactive, about 84,000. Under 60 months there's 59,000 services that are inactive. And over 60 months there's about 14,000, and then undefined is about 10,000. Probably most of those are over 60 months. Okay?

And it's that 59,000 number that I want you to kind of focus on because that's, we think, that's a large increase from what we've seen in the past, and we think that the reason for that is, is because of these foreclosed homes and these homes that never have been occupied. They haven't reached a 60-month threshold yet but they're out there, and that's a, that's a pretty big number.

So the industry has taken actions to try to mitigate this, and over the two-year period of 2010 and 2011 a lot of reactivations have occurred, about 29,000. Most of those, as you can see, is, is due to, on those services that were inactive for less than 60 months. But a fair number, over 10%, or at least approximately 10% overall of the ones over 60 months, have been reactivated.

MS. COWDERY: Excuse me. Mr. Geoffroy, just that 2010, 2011, is that a 24-month timeframe?

MR. GEOFFROY: Yes. Yes, it is. Yeah. Uh-huh.

Now why, why have we seen a lot of these reactivations? I think I want to divert here a little bit. There's -- you know, I think everyone has seen, you know, that there's a lot of marketing activities going on for natural gas. I bet everybody in this room has seen a natural gas commercial in the last year or so, a lot of it done at the national level talking about, you know, the amount of natural gas and how it's good for, for, for this country. And the primary points that they make in that, in that advertisement is that, you know, natural gas is clean. They're finding an awful lot of it. It's very abundant. You've seen that. And where are they finding it? In shale formations.

And so, you know, there's been the hydraulic fracturing or fracking process to get that gas out. The -- and it's -- and where is it being found? It's found domestically. Okay? And so you have clean natural gas, there's a lot of it. It's now, the supply is well over a hundred years and probably a lot higher than that. It's domestic. And so you're seeing that advertising over and over again, and so has the natural gas companies.

Now one of the benefits of all that is the price is low. You know, you have a lot of supply. It's relatively inexpensive to produce it, so, so the price is low.

I looked this morning actually. The price is just under $3 per decatherm. And you may ask, well, what's a decatherm? Okay. So let me put that in perspective for you. A decatherm is ten therms or a million Btus. A water heater in a house uses about 10 therms a month. Okay. So 1 decatherm will give you all the hot water you need generally for a month. Okay?

Just for the fuel itself, and there's certainly a lot of other, other costs to get the fuel from Texas and Louisiana to your house, but just for the fuel it costs you less than $3 to give you all the hot water you need in a month. That gives a great advantage

to natural gas. And these companies have all noticed that and are taking advantage of that. I bet you you also have seen advertisements at the local level from the City of Tallahassee. Vicki, are you doing any advertising?

SPEAKER: Every day.

MR. GEOFFROY: Yeah. And that media is probably print, radio, TV. Right? I heard a radio ad on my way in. And what they're advertising and what they're promoting is conservation and they're promoting the fact that they can help you get natural gas in your house. And that's having a significant effect not only on new construction activities but existing homeowners who are interested in perhaps saving money on their utility bills. In this economy that's, that's a pretty significant event. It's also effective on those consumers who have inactive service lines in their, in their yard. In fact, if you look at one of the handouts -- I don't know if we handed them all out.

MS. KEATING: Yeah.

MR. GEOFFROY: Okay. The Florida Public Utilities marketing handout, what you see is that the awareness of natural gas is higher now than I've ever seen it in my 30-year career. And people, even though they don't have the natural gas in their home, are much

more aware of it than they ever have been because marketing plays a piece in that, so do the public awareness programs, and all the other things that the natural gas companies do. So you have this convergence of information that consumers are now getting and paying attention to that we think will ultimately end up in a lot more of these inactive service lines being reactivated.

So our solution here is that we believe that the rule needs to be updated to account for all of the improvements made in safety and technology over the years, for the -- to help us, the industry have consistency amongst its rules, and to allow the marketing programs and, and the public awareness programs to have maximum effect.

And so we're prepared today here in this next slide to, to actually have some new language proposed. Now we are not abandoning the language that was proposed in the petition. We think that there may be some, some use for that. But we recognize that staff had some concerns about that language, and so we've worked hard to try to come up with some language here that we think makes sense that everyone can perhaps come to consensus about. We don't have any misconception that this may need to be modified a little bit further, and we're

willing and would like to work with staff in order to do that to get to, to where the language is -- has everyone's comfort level at a point that we can take it to the Commission for approval.

So what we're proposing here is to take section 1(c) of the existing rule, and that's the section that you saw before that said, At the end of five years the utility shall retire and physically abandon the service line. Okay? And delete that and replace it with this language as you can see here which says, After five years of inactivity, the following determination, consistent with the requirements of the Distribution Integrity Management Program, shall be made on all inactive service lines.

So the utility will have to make a determination at that point in time as to what the status of that inactive service line is, and it can make two determinations. One is that the inactive gas service line needs to be retired, and that's defined as an inactive gas service line that represents an existing or probable hazard to persons or property or is constructed of bare steel, cast iron, or other similar materials. Such lines shall be retired and physically abandoned within six months, or in accordance with a Commission-approved replacement program.

And let me explain a little bit about what that means. The first part of that language representing an existing or probable hazard to persons or property is, I believe, identical to the leak rule that I stated earlier, 25-12.040. That's how the utility goes about making the determination whether the leak is a Grade 1, 2, or 3. So we're suggesting the similar -- or the same language here.

But we go on to say that we already know that there are materials that are, that the Commission safety staff and the utilities want to see being removed from their system, and that's the bare steel, cast iron, or others. And virtually all the utilities already have some type of program or plan in there. But to the extent they don't, we think this language will send a clear signal to those that don't that that type of material needs to be addressed. And we think that that's a good thing for the industry, for the general public, and everyone involved.

And so if that determination is made, then you basically are following the existing rule. You have six months to physically retire and abandon it, unless, as several companies have done, they have filed and, and hopefully will get approval of a replacement program for bare steel, cast iron, and those similar materials.

Because those programs generally may go beyond that six-month period before you would normally, as part of that program, retire a particular or several particular inactive service lines. And so if that program is approved, then we think that that program should kind of supersede this portion of the rule.

MR. MOSES: Most of those programs, you're looking at ten years. That's the shortest one I've seen so far, unless you're a small company that's been doing it on your own. Some of them are doing it sooner than that, some are doing it a lot longer than that. So I'm not sure how that really weighs in to helping matters that much.

MR. GEOFFROY: Okay. Well, we're open to having that conversation with you. And if that language doesn't quite work, then I think we can, we can work up some language that makes sense.

MR. MOSES: Okay.

MR. GEOFFROY: But we just wanted to recognize that those programs have been filed. I don't know if any of them have been approved yet, but we ought to consider that, that effect as appropriate.

So if this inactive gas service line, if it's not determined that it needs to be retired, then you go to section 2, which is you monitor it. And the

definition there is an inactive gas service line that is not a threat to persons and property and is not expected to become so. And then those lines, such lines shall be monitored and maintained in accordance with all rules and regulations applicable to active gas service lines. Because they're still going to be physically connected to the main, there still is gas on those lines, the utility must treat them in accordance with, with the same requirements for active gas service lines serving a customer.

MR. MOSES: Let me ask you this. Has there been any thought given to installing shutoff valves as close to the property line or as close to the main as possible, that way if you have a line that goes inactive, you could shut it off, there's no gas that can flow into that service line, that would eliminate the safety factor on the property of the property owner? And then if you want to go back in and reactivate the line, you turn the valve line on, make sure that the service line meets your pressure standards or whatever other standards apply at that time, but then you don't have to do any digging up and redoing the line.

MR. KING: My name is Gordon King. I'm with the Okaloosa Gas District. I'll address that question, and the rest on our panel can add in as well.

Currently there's not a regulation, as you say, that, first of all, requires a property line shutoff valve to be installed. There are utilities that do make that choice and install them. I would say, however, looking backwards it wouldn't be cost-effective or probably make a lot of sense from our perspective to go back and install those lines. If you're going to go out to the property, you would have to then shut the line in, cut the line, install the valve, which in essence would, you're in essence cutting and capping the line at that point in time anyway.

Looking forward, it could be an option that utilities could take to choose. I know in some cases, not necessarily here in Florida, customers own service lines. That's the case where the customer owns and maintains and -- doesn't maintain it, but owns a service line to their property. Utility companies do install a shutoff valve, what we call a curb valve at the property line. And that's essentially where the utility's service responsibility terminates with the exception of the maintenance up to the outside of the meter.

MR. MOSES: Well, how much heartburn would it give you if we were to say modify this rule and require a shutoff valve be put at the curb line or as close to the main as possible on future installations? And then

we'll have to try to figure out what to do with the ones that are sitting out there. But that would cure your problem with this rule going forward, would it not?

MR. KING: It certainly would provide another layer of safety per se, but not necessarily -- you know, you've got the space between a customer's property line and the back side of the street sometimes that we, the homeowners, think is our yard and we're out there digging in it all the time anyway. So you still have that, you know, that number of feet that would be exposed to, you know, the gas pressure before the tap at the main. In some cases where you have a line that crosses the street that would be the case there. I'll let the others address that question.

MR. MOSES: Okay.

MR. McCARTHY: Any time we would stop the flow of gas with a valve we would have no way of knowing if someone did get in the line or there was something that caused a leak. And when we went to go reinstall the service or put gas back on that it would have to be disconnected and pressure tested and you might not be able to find where it was leaking. It would be very labor intensive and I think very costly.

MR. WALL: My name is Rick Wall. I'm with TECO's People Gas. I'm the Director of Operations for

the east region.

You make a good point. But probably the most significant operational concern with that is the utility's ability to maintain and track those valves on residential properties. There's so much activity that goes on, today it's a struggle with utilities to maintain street valves. When you're dealing with residential valves in residential properties where there are, you know, property changes, fences, new sod conditions, those valves could quite easily be lost in the system and it would be difficult to provide the surety that those valves are properly being maintained.

Second, I think, and consistent with your point, is the valve is not always a fail-safe way of stopping the flow of gas. In many cases there is some weepage that happens with valves. And that's why typically when valves are used they're used in an emergency isolation situation, and there's testing and valving or regulation that's done behind those valves to ensure a consistent fail-safe that no pressure is building up in those areas. And it may provide a false -- you know, utilizing a valve in that condition may provide a false sense of security. You may have gas buildup in that line. And ultimately if there is leakage or third party damage, you're going to have

escape of that gas.

MR. MOSES: It was just an idea. I didn't say it was a good one. Just --

MR. WALL: I understand. We appreciate the input.

MR. GEOFFROY: And as I said earlier, you know, this is a proposed language change that we're, that we're putting forth here. We certainly -- our intention, as I said up-front, with the objective of this is we would like to continue working with staff to come up with language that everyone is comfortable with that we can take forward to, to modify and update. In our view it's really just an update to the, to the existing rule.

The next slide just kind of in a flow chart format shows the process and what happens under the current rule. You know, initially you install a service line when you add a customer. Those costs are capitalized. It's a service line, it's a meter installation. The meter and regulator are capitalized when they're purchased.

While that customer is active, nothing happens. But once that customer or that premise becomes inactive, after two years the next step for the utility is to remove the meter and to plug the service line.

And then finally under the current rule after five years of inactivity they're required to go out and physically cut and cap the service line, and the service line at that point in time gets retired.

MR. MOSES: So in looking at the two options that you've put in here, the (1) and (2) under (c), when would (2) ever come into play? If you had a threat, you're going to take care of it immediately anyway, so that's not even really a factor that I can see. When would you ever have a line fall into number (2) -- I mean, excuse me, under number (1)?

MR. GEOFFROY: Well, I think there is many instances where it would fall into, to item (1). One, if they're bare steel or cast iron, I would say.

MR. MOSES: Right. I understand.

MR. GEOFFROY: But, two, if you knew that a building was going to be demolished, if you knew that, that other activities that might be dangerous to your gas line or possible or probable to occur there, you would -- you could do that.

MR. MOSES: Okay.

MR. GEOFFROY: You would do that. So you'll make an assessment based on the knowledge that you have of the, of your system and what you see happening there in that, in that area.

And then as you continue to monitor it with all -- you know, assuming that it falls under (2) and you're out there doing leak surveys and you're doing atmospheric corrosion checks and those types of things, when those activities occur, you have another opportunity to see if that condition has changed and whether you should now move it to Category 1 or not and retire it.

MR. MOSES: Okay. Thank you.

MR. WALL: And I, if it's okay, I'd like to expand on that.

MR. MOSES: Sure.

MR. WALL: In the identification of obsolete materials where we know that we have bare steel or unprotected steel structures or we have polyethylene materials that have been determined, you know, not to meet today's standards, those are, those are situations that we use with the current operator programs that we're utilizing today, as well as the DIMP activity that is emerging and becoming much more active in the day-to-day operations. Those would be key parts of the criteria for making that determination.

MR. MOSES: Okay.

MR. GEOFFROY: So I described the process there under the current rule. Under the proposed rule

the first two steps remain the same. The third step is where you see some difference, and that would be at the, when the customer or premise is inactive for five years, then the facilities are determined that they either need to be retired, and, if so, they are cut, capped, and retired in accordance with the current rule within six months. If they're determined that you monitor them, they remain on the company's operating and accounting records without modification until they're reclassified at a future date potentially to retire them, and in which case then you would retire them within the provisions of the rule.

MR. MOSES: Okay.

MS. BANKS: Excuse me. If we could just go back one minute. This is Cheryl Banks.

So theoretically when you have a line that is just in monitor status, it could be sitting there on the books for 18, 25, 30 years and earning a return if it's not fully depreciated.

MR. GEOFFROY: Yeah. We, we have prepared an accounting handout, I think that's been distributed, that shows the accounting for when you retire a service line versus the proposed rule.

And when you look at that, when you retire a service line, if you assume that that service line has

been in service and it's 75% depreciated, then you have a net value still on the books at the time of retirement. But the retirement entry doesn't change that because you credit plant for the full amount of the service line, you debit accumulated depreciation for the full amount of the service line. So you still have that full value, undepreciated value on the books. You're still earning a return on that.

But in addition to that, the cost for removal costs are also debited against accumulated depreciation, so your rate base actually increases because you've retired that line versus not retiring it. So your earning potential increases when you retire it, not decreases.

MR. MOSES: Well, there's your answer. Retire them all.

MS. BANKS: My concern would lie more in the monitoring status. That's where my concern in the accounting --

MR. GEOFFROY: Well, if it's monitored, then you make no entries. You continue to depreciate that, so that, that amount of service line that is the net plant, if you will, continues to decrease over time and ultimately becomes negative if it's in service long enough.

MS. BANKS: Well, and I understand that. My concern is that the, your customers for the regulated entities are paying for a line that may be sitting there inactive, and that's not really to me deemed used and useful and serving public service.

MR. GEOFFROY: Right.

MS. BANKS: And perhaps you might think about maybe alternatives that maybe plant held for future use may be more appropriate, assuming it was even held for future use. I have a little bit of difficulty having plant that's not used and useful sitting there, could be for a number of years, and maybe never come into service ever again. Just some concerns.

MR. GEOFFROY: Sure. We, we've considered that. We had a lot of discussions about that. We even talked about gas plant held for future use.

A couple of concerns that we, that we had is if that, if that facility is not cut and capped but you wanted to retire that on the books, now you have a difference between your books and what's out there physically. But in addition to that, it puts into question what happens if you ever did retire it, are those costs still going to be considered cost of removal costs and booked according to those provisions in utility accounting or not? So that's one concern if, if

you went that route.

If you go the route of the gas plant held for future use, the concern is does that put those facilities outside of regulatory control and GAAP accounting then takes over and what happens in that situation?

MS. BANKS: That's a, that is a typical Code of Federal Regulations account. It would, it would still be under our jurisdiction.

MR. GEOFFROY: Okay. Well, we weren't certain of that. We -- so --

MS. BANKS: Okay.

MR. GEOFFROY: So I think, again, you know, we certainly are open to having, you know -- we want to get to a resolution on this and the accounting, we know, is an issue.

And, you know, the example that we prepared was intended to show what happens under the current rule versus what would happen under the proposed rule, and then we can use that maybe as a basis for further discussions on that.

Okay. That's basically the overview part of the presentation. We now have very specific presentations that are really designed to look at some of the questions that we've received leading up to this

workshop from, from staff. And we, we want to take the time now to go through those and address each of those areas.

So we have four areas that we're going to concentrate on: Safety, marketing, cost, and accounting.

MS. COWDERY: I was wondering, I don't think some of us have gotten those other handouts you were talking about.

MR. GEOFFROY: My apologies.

MS. KEATING: They should be in your, the little folder.

MR. MOSES: This thing?

MS. KEATING: And there are additional copies here.

MS. COWDERY: Okay.

MR. MOSES: Beth, are you talking about the green folder that you handed out?

MS. KEATING: Yes.

MR. MOSES: Okay. Did you get one?

MS. COWDERY: I did not get one.

MR. MOSES: Okay. She didn't.

MS. KEATING: There were two sitting up there.

MS. COWDERY: Oh, we found it. Thank you.

MR. GEOFFROY: We have split this out

consistent with the types of questions that we've received into four areas: Safety, marketing, cost, and accounting. And so the first presentation is a safety presentation. And there's these three gentlemen to my left, Gordon King from, excuse me, Okaloosa Gas, Rick Wall from Peoples Gas, and Mike McCarty from Florida Public Utilities that are going to address this section.

MR. KING: Thank you, Tom. We knew there were some direct questions that staff had raised in some of our earlier discussions when we were reviewing the, you know, the documentation that we prepared over the last couple of years for you. And in doing so, we thought it best today if we just kind of sat down and ran through those questions and let, let the companies who had some different views on, on the responses weigh in on that. But for the most part these were consolidated responses that the member companies who participated in this study came to conclusions on.

So I'm going to start off just by kind of going through the questions and responding, and then we're certainly open to follow-up questions on those as, as you please.

One of the first questions that you had asked was to please provide the company information for the years 2006 through 2009 in the same format as the

2010/11 Cut and Cap Monthly Moratorium Report.

And the answer to that was that most companies were unable to replicate the data in the same format for the earlier years.

And to expand on that answer briefly is that when we became aware that we needed to collect the data that you were looking at in a specific methodology, it was easy for us to tell the participating companies this is what we need for you to do from now through the end of 2011. However, most companies don't have the means because of our, either our billing and accounting systems and our, what we call our operational records keeping systems don't necessarily tie together. And it's very difficult to try to go back and tie, say, a leak that happened in 2006 as to whether or not it was inactive at the time and for in essence how long of a period of time it had been inactive. So it was easier for us to go forward and say if you have a leak that occurs this year, when that leak happens we need to make sure that you record it as to the time of that leak whether the account was active or inactive. So for that reason we were able to get the information since 2010 because that's kind of when we began collecting it. However, going backwards it was much more difficult. Some companies had some limited information but it was

not essentially enough of it that we thought we could compile together and submit it to you.

The second question was did the rule waivers through 2007 and '09 result in any decrease in safety?

The answer to that is no. Most companies report a substantial reduction over the last five years in damages to service lines. One factor that we attribute to this reduction is the public awareness and One Call notification programs. And, again, I want to expand on Tom's earlier comments back on slide 6 as to all of the new technologies and techniques that we have in our hands today, we call them our tools that allow us to do a much better job of determining the status, the location, the methodologies that we have for finding these lines in the field. And I specifically want to call out the 811 system that's in place today.

If you look back into the 1970s, One Call programs were voluntary. Many utilities didn't participate, weren't required to participate, and it was not even a consistent method for the way lines were located and marked. That technology has changed today. We have, you know, there were two programs in place at the time, CANDY and UNCLE. We have the 811 system today. All contractors are required to call before digging whether it's on public or private property if

they're using equipment. Even homeowners are required to call, you know, if they're doing certain types of excavation.

One of the biggest problems we used to have was, was plumbers and septic tank companies or sprinkler companies that were putting in facilities on customer-owned property were not calling in for locates. Today there's a law on the books that says you have to call and request those locates and we do respond.

The recordkeeping that we have today through our GIS systems is so much more improved and enhanced. It allows us to keep and locate those facilities in a much better and more accurate manner today so that when a customer does call in and we respond to a locate at an address, we're able to pull up those records through our computer systems in the field. We can mark those lines, we can determine the location of those lines where we're using, say, tracer wire on plastic lines that we didn't used to use, and other methods that we have today that weren't in place in the past.

MR. McNULTY: This is Bill McNulty, Commission staff.

A follow-up to that discussion would be do you have an idea as to what the percentage or proportion of lines are, inactive and active service lines that is,

that you have GIS information on and know where those lines are? Do you have a feel for the numbers on that?

MR. KING: I know from our perspective that all service lines that we have on record are in our mapping systems, whether active or inactive. I'll show you a slide here in a minute that depicts a typical GIS map that shows a service line in the field that has no different view other than we put a different colored end point at the end of that service line that depicts that that customer is inactive at this period of time as compared to another customer who's active has a different color. But the lines are the same and the records that we keep are all the same whether they're active or inactive.

MR. McNULTY: So has that been a change over time that there was a time where maybe some utilities didn't know where some of their inactive service lines were? Because it seems like some of the, some of the language even in our rule sort of suggests, the proposed rules suggests that if you come across a line that you didn't know was there, you abandon it within a certain set period of time.

MR. KING: That's correct. You know, most of the records that we have today at one, one point in time were paper records. And a lot of the utilities -- I say

a lot -- utility companies had different methodologies for keeping those records. Most of us have been able to scan and digitize those records now, and we have a much better technology, as Tom alluded to, through our operator qualification programs and how we require our employees in the field to draw these diagrams and the process and procedures that they have for sending that information through the process to get it into our engineering departments to get those records recorded and so that they are updated and kept current.

MR. McNULTY: So just so I understand, you feel as though it is known now you have a GIS system that basically maintains an accurate record of all active and inactive service lines?

MR. KING: Today they're much more better than they were 30 or 40 years ago. Yes.

MR. McNULTY: Okay. Not 100%, but it's better.

MR. KING: I can't say they're 100%, but I'll say that the accuracy is many times fold better than it was.

MR. McNULTY: Thank you.

MR. KING: This, this graph, if you will, depicts information that the Public Service Commission posts based on the reports that the operators submit

annually. And I think in the graph you can see over time the decrease in valves and mains and gas leaks back through 1995 through current 2010 numbers have been decreasing.

MR. MOSES: Do you have any idea why it increased slightly in 2010?

MR. KING: Well, there's a little cyclical -- I won't say it's cyclical. But you can see there are some years where there are some bumps. I cannot pinpoint specifically why that would occur. My, my gut reaction may be to that, it's due to construction cycles. You know, a lot more times when we see an increase in construction, whether it's, you know, a lot of times highway work or subdivision development work, we will see an increase somewhat in that. But I can't say specifically as to why.

MR. MOSES: And I know you've got this thing labeled as mains, but this would include service lines as well; correct?

MR. KING: That's correct.

MR. MOSES: Okay. Thank you.

MR. KING: Noting that the data FNGA has already provided reflects that the number of lines inactive for five-plus years has increased 25% over the waiver period, would it be feasible for companies to

proceed to bring into compliance those lines that have been inactive more than ten years? If not, please explain why.

Well, with the recent decision to extend the moratorium until the end of 2014, the companies believe that they can be in compliance for those lines that are inactive more than ten years. Although this can be accomplished, we believe it may not be the best use of limited resources from a risk perspective. So we can do that; however, the choice is where do you spend your limited resources of operation and maintenance dollars? There may be other areas that we would deem on an individual basis as a higher priority as opposed to abandoning certain service lines.

MR. MOSES: Were any of you, and I'm sure that's a dumb question on my part, but you were, those of you that were in the gas industry when this rule was promulgated back then, do you know why the rule was put into place? Was there a huge problem that it was fixing, or what's your recollection on that?

MR. KING: I think Rick's probably the senior member at the table and I'm going to defer that question to him.

MR. MOSES: Just had to single you out, didn't they?

MR. WALL: I could see that one coming a mile away.

THE COURT REPORTER: Could you pull the mic towards you, please.

MR. WALL: Sure. I could see that one coming a mile away. But my understanding is -- I started in this industry back in 1978. I originally started with a privately held utility company down in South Florida called City Gas, and I think City Gas was involved in several situations that, that was, you know, part and parcel to how some of these rules were created, in specific I know as it relates to the meter removal program and the capping and sealing with the shutoff valves there.

But in specific regards to the inactive service line rule, I think, as Tom and others spoke earlier, it was at a time and period when the recordkeeping, the One Call systems were very, you know, very weak and very nondescript compared to the way that they are today. We were having a series of third party damages on services where folks were not calling for locates, and this was on active services and inactive services. But I think one of the key factors were, you know, utilities weren't as actively participating in the One Call programs. They were not responding to the One

Call locate requests through at that time, I think it was mentioned, UNCLE or CANDY. It was a volunteerism system within the same timeline. Services were being pulled, pulled away from the home, there was ignition back at the building envelope, and subsequently in some cases there were fires and explosions.

I think it was recognized that, you know, where that was happening is there wasn't clear understanding by the excavator. They weren't seeing things like meters and regulators at those properties that would indicate that there was a natural gas service present. And since they weren't having interaction with company crews or there weren't other programs to support their interaction with information sharing and locating as I described, they were excavating without, you know, the proper knowledge and subsequently those damages were occurring.

MR. MOSES: Well, let me ask you this, because you just mentioned that they wouldn't see a meter present or anything, wouldn't know gas was there. Wouldn't that condition still exist today, because I believe you mentioned earlier that when you go out there you pull the meters?

MR. KING: Yes. That's correct. In fact, you know, one of the things that's kind of come of all this

effort and the participation that's occurred between the utilities working together here, you know, addressing, you know, basically the updating or modernization of this rule is we've identified amongst ourselves what we think are key weaknesses. And one of those weaknesses is just as you described, that riser that would be at those present -- present at those properties that has no marking or labeling. And we have talked amongst ourselves and recognized that it's a necessary safety step and a step that we should be implementing here shortly to provide proper marking and notification. Not only for the prospective property owner, but also any excavator or other party that was doing any work on that site.

MR. MOSES: But really it boils down to the participation in 811 really for the safety factor.

MR. WALL: We truly believe that that is probably the most significant factor on why the damages have dropped as it relates to inactive services.

And certainly, as Gordon described, the recordkeeping that we have today is dramatically different than it was at that point in time.

MR. MOSES: Okay. Thank you.

MS. COWDERY: I have a question for Ms. Keating. I'm a little concerned on page 22 in the

answer about the use of the word "moratorium," and I wonder if you could take a look at that. I'm not sure what is meant by that. I mean, is that referencing the decision to allow an extra year to come into compliance? Is that --

MS. KEATING: That's probably was just a poor choice of words.

MS. COWDERY: As long as everyone understands --

MS. KEATING: But we understand that to be an extension of the time period to come into compliance.

MS. COWDERY: Okay. So it's not really a moratorium then?

MS. KEATING: No. This a poor choice of words, and I apologize.

MS. COWDERY: Okay. Thank you.

MR. KING: The next question that we would address was how do the companies address inactive service lines in the context of their DIMP?

The answer is service, services, whether active or inactive, are given the same treatment within DIMP and any other regulatory requirements. And I refer to our different aspects of our DIMP program which covers things such as leak surveys, line locating procedures, corrosion control and monitoring programs,

and our public awareness programs.

Whether a line is active, and I want to make sure that we emphasize this as much as possible so that you do understand that whether a service line has a current customer on it or not, from our operation and maintenance perspectives there's no difference in the way those two lines are addressed or treated. They have the same identical treatment in terms of maintenance requirements, our patrolling requirements, the annual leak survey requirements that we do. Anything that is a requirement of a customer that has an active service line applies to an inactive service facility as well. So I want to make sure that we don't -- that we do distinguish that there is definitely, that that is brought to your attention.

With respect to replacement of bare steel or cast iron replacement programs and initiatives, how do companies anticipate dealing with inactive lines in the context of these programs, if at all? I.e., replace, abandon when you find them, et cetera.

The companies have proposed rule language that requires inactive bare steel or cast iron service lines to be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

Again, you know, we, we recognized that PHMSA, we recognize the federal regulatory environment is such that we're being -- we are ourselves looking more and more at our bare steel and our cast iron facilities and we realize the need for public safety and for other reasons to retire and replace those assets and facilities with more modern, more efficient, and better, better materials that we currently have.

So we recognize that in any of the bare steel service lines that we have or cathodically unprotected service lines that would be within that window would be either retired or, in essence, if the customer was, was an issue that was raised, if a customer wanted to retain that service line, we would have to do something other than keeping it in place as it was.

MR. MOSES: Let me run this idea by you. How much heartburn would it give you to put a period after six months and eliminate the rest of that part about the replacement program because of that being such a long period of time? These types of materials are going to be minimal in numbers, I would think, in this category. I mean, you may have others that are in-service. But as far as inactive, I would think they would be minimal.

MR. KING: I would say that generally speaking, yes. However, if, if we could have a -- I

want to call it an exception, but there's certain utilities that have, for instance, cast iron replacement programs in place. And I understand, as you say, they may be ten years long. But if I've got a plan that I'm going to replace a section of main next year and I've got now service lines that, you know, are in that section of my system that I'm going to replace or require to be, you know, retired, it's a little cost ineffective for us to go out and cut those lines when maybe next year I'm going to be out there anyway retiring that entire system and replacing it with, you know, new polyethylene and new replacement service lines.

So it could be, you know, it could still -- you know, additional cost to the utility when within a reasonable period of time we could, we could have that taken care of anyway.

MR. MOSES: But it would satisfy the safety issue more so and it would still give you a lot of flexibility.

MR. KING: It does provide flexibility. However, I would say that there's still that, that period of time where, you know, we would still have to go out and, and make those, you know, incur those costs to go ahead and retire those things.

MR. MOSES: You know, you've got to leave the barn once in a while now.

All right. Go ahead.

MR. KING: How do companies monitor inactive lines?

And, again, I'm reemphasizing a point we've made, inactive lines are treated in the same manner as active service lines. All required regulatory records and inspections are maintained with an active service line just as they are with an inactive service line.

The slide that I have posted up here for you, it's maybe a little difficult to depict, but I want to show you that the green dots on there represent what we call active customers. And you'll see scattered out through there a few light pink dots. If you look over to the legend on the right side of the page, there's a different colored dot for a meter or what we call an end point that has a different color for an inactive account. So we can see who those are. We can also determine by the type and color of the line on the map what type of material that is, whether it's cathodically protected in some cases or whether it's a coated or bare steel line or, or a plastic line.

And so if you think back 40 years ago, we would look at a piece of map and all we would see was

white paper and blue ink, and the only thing you would know to depict whether a line was of a different material or nature is what was scripted directly onto that map, either that or through a dash line or a different type of nomenclature for that.

Many of our companies now have mobile GIS systems that our field technicians have with them in the field and they can pull this information directly from their, from their trucks. Many of us have the ability to update our records much more frequently than we did in the past. Again, if you think back years and years ago, we used to carry rolls of D-sized drawings for every, every truck that we had, and it was a major undertaking and a major expense either once a year or twice a year to re, reprint all those record drawings. We would have to actually go out, reprint them, redistribute them, pull in the old drawings. So that process is so much more convenient for us today to do a more frequent updating of our records and keeping track of where our facilities and where our assets are than we've had in the past.

What are company procedures for addressing leaks on inactive lines?

All companies have procedures for addressing leaks on service lines, which are currently handled on a

case-by-case basis. And I'm not skirting the answer to that question. I'm just saying that companies have different methodologies for dealing with a leak on a service line. I'll say, for instance, in my particular case if we have a leak on an inactive line that's what we would call a bare steel line, we're going to kill and abandon that line at that point in time.

If it's a, you know, if it's a commercial account that may be, could be a plastic line or something of that nature that we anticipate maybe within the next year or so of somebody coming back into, you know, into service there, we would potentially repair that line and leave it in service. But it's to some degree on a case-by-case basis. Certainly if we don't see a future use for that at the time, we would, you know, we would typically just abandon it.

Is it feasible for companies to notify new homeowners of inactive lines on their property?

And the answer is companies are not always aware when new homeowners take possession. However, companies are willing to provide an annual communication to ensure awareness and the opportunity of utilization of inactive service lines.

Many of us through our public awareness programs now are communicating this message to, to our

current customers, and customers who are potential customers in our service territories where we have inactive services. And you'll probably see through some of the marketing promotions that we have that we are direct mail marketing to property owners that we know have inactive service lines present. It's not always possible the first time around, you know, you know, we receive tons of mail, you receive a lot of mail at your house every day and you don't always read every piece of mail from a particular company at one time. But through repetitive marketing practices and doing this on an annual basis we believe that we have a better chance of recouping some of those customers.

As Tom alluded to, you may have just replaced an electric water heater in your house and you may not be ready to replace it with a natural gas water heater. But a year from now or two years from now conditions may be different and may warrant you to make a different decision than you would have otherwise made. So we're, we're certainly open to, and many of us already are doing that notification process.

MR. GEOFFROY: That was the last direct question that we had on the safety side, so I would open it up to any further questions that you may have for safety.

Okay. I want to thank Gordon and Rick and Mike. And the next section is a marketing presentation, and we have Vicki O'Neil and Joann Wiehle -- I knew I would get that wrong, Joann -- doing presentations on the marketing side.

MR. MOSES: Vicki.

MS. O'NEIL: Okay. Thank you, Tom.

And good morning. And I'm Vicki O'Neil with the City of Tallahassee, and I'm going to talk a little bit about marketing efforts across the state with regard to the cut and cap. And forgive me if I'm repeating a little bit of what Tom has said and Gordon earlier, but I think it's very important -- everybody in this room knows the market on natural gas and how it's just taken off in the last few years. It's definitely growing as our technologies change for extracting gas, and it's becoming cheaper and it's becoming very desirable for customers in this economy, and that has a great impact on our marketing programs and, you know, we've been feeling really good about it.

We also have some conditions that we have to address that have hurt us in this time, and one of those is foreclosures. We've talked about the increased number of foreclosures in some areas where they have whole subdivisions sitting that have been built with gas

that have not been able to sell those homes or are in some state of financial distress.

We also have a lot of commercial outlets that are unoccupied or out of business at the current time. And for those of you that live in Tallahassee, if you look at Tallahassee Mall, you'll see a good example of that.

Homes that have no gas service or that are sold to new owners and the new owners are unaware of that gas service, that's another situation, and the overbuilding, of course.

The example that Tom gave earlier about the water heater, and I think Gordon talked about also, I'll call your attention to another example here in our Tallahassee market. Southwood, the whole subdivision here, a large majority of the subdivision was built with gas fireplaces only, and a lot of people, for whatever reason, decide they're not going to use that fireplace any longer. So there's an opportunity for us as marketing folks to reach out to them, which we did do that and had some small success in getting to those folks, to install other gas appliances. So giving them the option is very important.

To address the questions that we have, please describe the marketing efforts undertaken during the

past 4.5 years targeted at reinstituting service on inactive lines.

Companies have instituted various marketing programs that have targeted inactive service line premises, including direct mail, traditional marketing strategies such as television, radio, and print. In your packet of information you'll find some marketing plans that have been laid out by a group here in Florida. Okaloosa Gas, Florida Public Utilities, the City of Tallahassee, and TECO have all submitted materials here to show our outreach to these customers.

Someone mentioned repetitive marketing, and that is a very good thing to do. We like to call it relentless follow-up. So we want to get those customers.

The second question, please identify those programs described in response to number 14 that the companies considered successful, as well as those that have not been successful.

Success can be defined differently among companies. Based on marketing efforts during the moratorium, customers have returned to the system. Companies will continue to develop marketing strategies and approaches based on current economic conditions. And, again, you'll find some of those strategies

outlined in the materials that were handed out to you.

Next question, do the companies anticipate that future marketing efforts targeted at reinstituting service on inactive lines will be more successful? If so, why?

Yes, we consider them to be more successful in the future because the economy and the market are improving, natural gas prices are very competitive, and high awareness levels of the advantages of natural gas are out there, and we believe that the public is becoming more and more aware on a daily basis.

We have had good success with these programs. Again, relentless follow-up is important. We would intend to focus on those locally. And I can speak for Tallahassee, what we're doing is the direct mail. We've had good success with that. Going back to programs that have not been successful, I haven't found anything that just flat out didn't work yet.

Now the FNGA as a group, we have had meetings with marketing staff and we have all discussed amongst ourselves ways to reach out to these customers, and I believe that we've gleaned the best of the best from those meetings. So we're going to continue in our efforts, and I really feel that with the market the way it is that we're going to continue to retrieve those

customers.

Questions?

MR. GEOFFROY: Any questions on the marketing?

Thank you, Vicki and Joann.

Next is the cost questions that we've received and I'll be handling this section here.

The first question was did granting the rule waivers of '07 and '09 provide any benefit other than cost savings for the companies?

And the answer to that is clearly yes. Companies were able to do a couple of things. One, make sure that these marketing strategies that Vicki just described were tested, and to determine how successful they were or were not being, they implemented best practices and those types of things, and the results are improved reconnections of these inactive service lines.

And the second thing is that by not having to do the cut and cap of these inactive service lines simply because they've hit five years we've been able to utilize resources, contractors and employees, to perform other high-risk assessed tasks such as maintenance, leak surveys, growth activities on our system and try to address those.

The next two questions really have a similar answer here, and it's -- the question really, what are

the costs associated with, one, removing the meter, two, cutting and capping the line, and really it's three, reinitiating service on a line that has been cut and capped?

And the answer to that really is that there's a wide variety of costs that could be incurred depending upon whether it's residential or commercial and depending upon the physical factors, whether pavement is involved, whether it's a multimeter installation, whether, you know, the landscaping around the area where the cut and cap would need to be incurred.

But we have come up with some ranges that -- you know, and each company has different personnel doing it at different pay rates and different benefit packages, and so it's very, very difficult to get specific costs for this, so we've just tried to come up with ranges. And this is really for both residential and commercial, so you see pretty wide ranges.

Generally speaking, the residential activities are going to be on the lower end of the range. The commercial activities will be on the higher end of the range. And so from all the companies and the FNGA, the estimated range for meter removal cost is between $25 and $200. And, you know, for a simple residential meter it's on the low end of the range. If you get into

a rotary type or a large diaphragm meter that takes two men to go out and remove, then it could be, you know, on the upper end of the range.

For cutting and capping the service line, the low end of the range is 35, $350, and the upper end of the range is $2,500. Again, you can get into some very complex commercial service line cut and caps because of these lines going through a lot of pavement and, and just very tight areas in which to perform the tasks.

And then cost to reinitiate service, most of the utilities don't really do that. What they do instead is they'll run a brand new service line. And so the, the new service line costs are typical for any service line because it's a very -- it's the same process.

Now Rick is going to, Rick Wall is going to describe a little bit of how these retirements take place. And you have -- there's a couple of charts here. I think that there are also handouts so that they're a little bit bigger and a little bit clearer to read as a handout hopefully.

MR. WALL: All right. What we have here on this particular slide is a residential service retirement. At the top of the slide basically depicts on the very left side where the main is, the service

tee, the approximate depth of that service line. And then you'll see following along the line the service line over to the gas riser at the, that would be at the premise. That break in the middle really is just to depict the fact that these services are not always a straight line. These services, you know, are at varying lengths, and other conditions are in place. But just to try and give a quick idea here.

Obviously there's a transition fitting there at the riser, and then the riser comes up to the meter set. The shutoff valve is there at the meter set, and there you have the equipment necessary to serve the home. Typically the service lines average about 30 inches to 36 inches, you know, coming across the property depending on the tie-in point. So that's your standard explanation of a residential service.

The next piece on the very bottom really helps depict what's involved in the retirement. And I think as folks said here earlier, you know, our, our concern is really identifying, you know, what are we working with with retirements and what may be the potential issues associated with that?

Again, you know, in the retirement you're going to basically cut and cap that service line about two feet off the main. You're going to provide a cap or

a fitting on the end of that line, which is another appenditure to the pipe that has to be, you know, properly performed and, you know, and certainly presents itself as another potential failure point at some point in time down the line.

You're going up near the gas riser. The standard practice is to cut the line again there at that point. Gas has been removed from the line, and then to cut the riser off at ground level. Obviously in both of these scenarios the meter wouldn't be there any longer because it would have been removed under the two-year rule, but we try and put it there for illustrative purposes.

At the end of the day, once this retirement is complete, you're, you know, going back to that main point, you're going to have a pup or a stub sticking off that main. And one of the things that, you know, we may talk about here a little bit later is, you know, when you look at our third party damages and you look at those leak rates, a lot of companies have had difficulty in marking and identifying those locations of the stubs because you're no longer able to put locating equipment on that facility because the service is no longer there.

And the stub -- looking at, you know, our statistics, specifically speaking on behalf of Peoples

Gas, is probably the more common third party damage that we're experiencing today as a result of excavators. Excavators call for utility locates, they're provided a locate that provides the location of the main. We do our best to identify from field measurements that were taken at the time of the retirement where that stub is. But it's changing environments and there's no physical way to get a signal onto that stub and to provide an accurate location electronically through the locating process. So it is an issue; you know, one of the things that we're concerned with as an industry.

That, that is a description of the residential service retirement.

MR. MOSES: Let me ask you this question, and I apologize for not knowing the answer, for not remembering what the regs say on excess flow valves. But if you had an inactive line that's been setting there for a while and you go to reactivate it for a customer that's decided to put in a hot water heater and it doesn't have an excess flow valve on it because it was installed a number of years ago, would you go in and put an excess flow valve on that line at that time you reinstated the line?

MR. WALL: As Tom mentioned earlier, typically companies don't reinstate a retired line. They'll run a

new service line.

MR. MOSES: No. I mean, the one that's inactive but it hasn't been retired. The ones in question that were under this rule.

MR. WALL: Right. I understand. It's not my company's practice -- I can't speak on behalf of the other companies -- to install an excess flow valve on a, on a turn-on basically that would occur. Because what's happening is the service is in place. The only thing that's happening is a meter is being set and the gas service is being turned on.

(Inaudible. Simultaneous conversation.)

MR. MOSES: But if it was capped and removed and all that, you would have been going in and putting in a new service line at that point; correct?

MR. WALL: That's correct. If we were installing a new service line, an excess flow valve would be installed.

MR. MOSES: So the people that are taking this service because it's been in existence for a long time and inactive, they're actually getting a substandard service compared to somebody that was going to go in there with a new service. They don't have an excess flow valve, they don't have new pipes. Essentially they're getting the old stuff for the same price.

MR. WALL: Well, it depends -- you know, I mean, I don't know that I would agree with the substandard classification. I recognize that the rule changes are in place, but you have a lot of quality services that have been installed over time that don't have excess flow valves. It certainly is a safety feature that is required for all new installations. But typically it would not be installed and, and service would still be provided at a high level to the customer. We're still providing cathodic protection, we're still providing leak surveying, we're still assuring the quality and the assessment of the materials through our maintenance programs, and as well the DIMP activities that were discussed earlier. We're constantly evaluating the distribution systems for safety concerns and potential failure points.

MR. MOSES: Because the push from PHMSA from the last discussions that we've had with them is to -- you know, they're putting out all these new regs, but they're wanting to get all this stuff on, by attrition getting rid of all the old stuff and then it'll all be up to the new standards. And when this rule was discussed, because there was a couple of incidences that were discussed that accidents had occurred with the inactive lines, and everybody was questioning why they

don't change the federal regulations to something similar to what the Florida rule is. So don't be too surprised if you see it on the radar screen that the federal folks are going to look at this rule as well. It's just a heads-up. They may or may not do it, I don't know, but there was a discussion about it.

MR. KING: Let me add to that comment too that even though we may, if that line is currently in place, let's just call it a bare steel service line, at some point in time when we are upgrading that distribution system, replacing those steel mains with plastic lines, at that point in time, you know, we would then go in, replace that steel main, and then replace that service line as well with the new service line plastic line, which would have an EFV on it. It was just a matter of a gap of time between, say, today and getting a customer back on today as opposed to maybe having to wait two weeks or three weeks to schedule a service crew to come in and install a new service line.

Sometimes time is a little bit critical. If you've got a customer who's had an electric water heater fail and they know now there's a gas service there at their house and they call us and they say, I understand you guys are giving away free water heaters. Yes, ma'am, we are. You have an inactive service line. We

can get a crew out there today and I can get your gas water heater installed this afternoon.

Absent the ability to do that, it would be, well, I've got to get you in the schedule. It'll take me 48 hours to get a line located in there to follow the procedures, to, you know, crews scheduled to go out, and by that time we've probably lost another customer for another ten years.

MR. McNULTY: I have one question about this slide. We're talking about the possibility of when you have a service abandoned and removed, you have the stub out and that that represents a bit of a safety issue because it doesn't exist in your system; is that right? That you don't have, you don't have information that would in a typical 811 call identify that location; is that right?

MR. WALL: We do have the data in the system that identifies that there is a main there, and as well we have the information that identifies that there is a retired service stub on that main.

What I was trying to describe was it is impossible to locate the stub electronically through the locating means that are performed today and you have to rely on records. And should there be condition changes to the property or to the right-of-way, it will be very

difficult to make a determination as to exactly where that stub is.

And that, and that was the point I was trying to raise there is the third party excavator, if you can't pinpoint it and he's digging along or parallel to that main, more times than not he's going to hit that stub because you don't have connectivity of a service line to provide the appropriate marking of where that presence should be.

MR. McNULTY: You're not going so far though as to say that inactive service line that is in the system and you know the specific location of it through your system is in any way, you know, more dangerous than would be just a stub out that you don't know specifically where it is; you know it's there, but you don't know specifically where it is?

MR. WALL: No. I'm saying that it is easier to mark and protect the facility with a service line in place than it is in cases of retirement and property changes.

MR. McNULTY: Thank you.

MR. GEOFFROY: Rick, would you -- the next slide is commercial service.

MR. WALL: I didn't see you change that.

The commercial service is very much the same.

The activities that I described, the depth will probably be different in most cases. This is a case where the line will typically be 36 inches in depth.

One of the other key differences here is rather than being, digging in soil or loam, you'll be digging specifically in most cases under asphalt. This will either be at a public right-of-way point or in a commercial property that is typically either paved with asphalt or concrete. So there's significant activities that are required from the construction crews associated with a retirement.

The same activity throughout the retirement right up to the riser point. Again, nine times out of ten that's an area where you're going to have a paved over issue and it's going to require that basically you're going to have to remove that pavement or replace that pavement. All the other activities associated with the retirement are essentially exactly the same.

MR. McCARTHY: Any time we have to excavate we run a risk of damaging other facilities. There's inconvenience to traffic or homeowners and there's restoration that we wouldn't have to do we if we weren't cutting and capping each one of these.

MR. GEOFFROY: Any further questions on the retirement activities of commercial and residential?

MR. MOSES: I don't have any.

MR. GEOFFROY: Okay. The next question on cost was are there less expense, expensive options that provide a comparable degree of safety?

And our response is yes, that our proposed rule modification language would provide for lower costs with a comparable degree of safety. We don't believe that the modifications that we're proposing degrade the level of safety. We believe that they are very similar, if not the same, as, as the activities that we have to do today under the current rule as Rick described.

The final part of the presentation is the accounting presentation. And the first question there is did the companies make more money by not retiring the lines in accordance with the rule?

And as I described earlier, I think the answer to that is no, earnings are actually reduced as a result of the rule changes that -- or the moratorium. Because the inactive service line, the meter set, and regulator are not retired, depreciation expense and property taxes continued to be incurred. When you retire those, then those two items stop. You no longer depreciate an asset. You no longer have it in your property tax returns to the cities or counties and you don't pay property taxes on it.

In addition, the avoided cost for removal would have been recorded in accumulated depreciation under the rule, thus there's no effect to earnings from that as well.

How should the Commission address the issue of retirement of inactive service lines?

And our response is under our proposed rule modifications, at the end of five years we would determine -- facilities determined to be retired would be cut, capped, and retired just like they are today. Those that are determined to be in a monitored status would remain active in our company's operating and accounting records. No accounting entries would be made at that time. As I said earlier, depreciation expense and property taxes would continue to be incurred. And then retirement would only occur when facilities are determined to be at risk or need to be retired in accordance with the proposed rule. At that point in time the cost of removal expenses would be incurred and they would be recorded against accumulated depreciation.

The next question was at what point, if any, would companies, and particularly investor-owned utilities, anticipate retiring inactive facilities?

And the answer here is the same as the answer to the previous question. The facilities that you

determined at the end of five years need to be retired would be, would -- you would do so and you would do so exactly as you do under the current rule. All the others, at some point you may determine that they need to be retired and at that point you would retire them and incur the expenses that you, that you would under the current rule. Any questions on the accounting?

So that brings us basically to the summary of our presentation here. And so as a general practice, we do not believe that it's necessary to physically abandon inactive service lines. The requirement for operating and maintaining inactive service lines are the same as those for active service lines, regardless of the duration of the inactivity. Companies must physically visit each inactive service line at least once every three years to ensure compliance with, with state and federal rules. With the increased implementation of automated meter reading, this frequency is equivalent to that of active service lines today.

Companies have a damage prevention program in place that effectively covers locating requirements of both active and inactive service lines and are members of the Sunshine State One Call of Florida Program. Service lines, both active and inactive, provide useful and effective connection points for the ability to

physically locate such underground lines -- and that's what Rick's point was earlier -- and provide visual cues for excavators, property owners, and utility locators as an aid in identifying the presence of underground natural gas lines, while ensuring that these facilities are adequately marked and properly protected.

Companies have implemented Distribution Integrity Management Plans and programs that provide a process for effectively addressing inactive service lines based on risk. Measures to determine the disposition of inactive service lines can be addressed for all identified threats and risk rankings as opposed to duration of time.

With the implementation of GIS, or Geographic Information Systems, field technicians have ease of access to important information to aid in correctly locating company facilities, and supplements the ability to physically connect to a service riser to identify and mark service lines, whether active or inactive.

And because of this, these, what we've presented to you today we believe that it is appropriate for us to pursue updating the rule. We'd like to work with staff to come up with specific language, as I said earlier in this presentation, that gives comfort to everybody, including the general public, that, that we

continue to provide safe and adequate service to customers. And so we, we thank you for the opportunity to make this presentation and to have the workshop. We're happy to answer any additional questions, and we'd like to continue to work with the staff, as I've indicated.

MR. MOSES: Well, you all obviously put a lot of work into this. It was very informative. I learned a lot. I appreciate you coming in and discussing it with us. I'd like to take some time and go back through it word for word, everything you've said in here, to make sure I understand everything. And I may have some more questions for you and some others may have as well, and we'll pursue it.

MS. KEATING: Well, we'd also like to say if staff has any additional data requests, we'll be happy to provide responses. And we'd be happy, we'd actually look forward to the opportunity to a follow-up workshop, if that's appropriate, to work through changes to language. If you have some proposals that you'd like us to take a look at that you feel more comfortable with, you know, we'd be happy to do that and get back together at a later date.

MR. MOSES: Okay. Thank you all very much.

MS. COWDERY: The transcript of the workshop

should be ready by July 26th. I like to give an opportunity for anybody to submit postworkshop written comments. I don't know if the association is interested in doing that. There may be some other parties or persons who may want to do that. We were looking at a possible August 9th date. If you were thinking of submitting anything in addition, is this date acceptable, or do you, would you want to consider more time?

MS. KEATING: I think August 9th would be sufficient for our purposes.

MS. COWDERY: Okay. So are there any additional questions, comments from anyone?

Okay. Then thank you very much for your participation, and our workshop is adjourned.

(Proceeding adjourned at 11:18 a.m.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 24th day of July, 2012.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734

FLORIDA PUBLIC SERVICE COMMISSION WORKSHOP

Rule 25-12.045
Inactive Gas Service Lines

July 19, 2012

INTRODUCTION

- FNGA Appreciates the opportunity for this workshop
- Who is the Florida Natural Gas Association
  - Members - Corporate, Pipeline, Marketers and Suppliers
  - Corporate members are regulated by FPSC
    - Investor-owned - fully regulated
    - Municipal and Special Gas Districts - safety only
- 2007 and 2009 Rule waiver requests
- FNGA filed petition to seek changes to Rule 25-12.045 and proposed specific language changes

CURRENT RULE 25-12.045

1) The following actions shall be taken for inactive gas service lines that have been used, but have become inactive without reuse:
   a) If there is no prospect for reuse, the service line shall be retired and physically abandoned within three months.
   b) After a service line has been inactive for a period of two years, if there is a prospect for reuse of the line, one of the following actions shall be taken within six months:
      1. Disconnect the service line from all sources of gas and abandon or remove;
      2. A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas;
      3. Remove the meter and plug the end of the service line to prevent the flow of gas.
   c) After five years of inactivity, service lines shall be retired and physically abandoned within six months.

RULE 25-12.045 CONTINUED

2) To physically abandon a service line, the operator must disconnect the service line from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.

3) Records must be kept of the size, material, and location of all remaining service line stubs. These records must be readily available to personnel assigned to pipeline locating activities.

INACTIVE GAS SERVICE LINES

FNGA believes that the current Rule is not conducive in today's environment as many changes have occurred since adoption in the 1970's

- Changes have enhanced safety and reduced risk of significant events
- Current rule is not consistent with new federal regulations (DIMP) and certain PSC Rules
- Many inactive services are a result of current market conditions, which poses a tremendous cost burden

- Conclusion: Rule should be updated

INDUSTRY SAFETY CHANGES

Since Rule was adopted in 1970's, many improvements have occurred within the industry:

- Mandatory One-Call System
- Line locating techniques and procedures
- Public awareness program
- Excess Flow Valves
- Industry Rules
  - Atmospheric corrosion requirements
  - Leak survey requirements
- Enhanced GIS and mapping systems
- Operator Qualification Program
- Distribution Integrity Management Plan (DIMP)

Result - distribution systems are safer now than ever before

CONSISTENCY

In February 2010, the Federal Department of Transportation implemented new regulations, known as DIMP

- DIMP is a risk-based program designed to focus industry attention on those aspects of its system that pose the greatest risk - and address those risks first
- Rule 25-12.045 is inconsistent with DIMP - there is no risk assessment of inactive service lines - after five years of inactivity, Companies must retire and physically abandon all service lines - even if they do not pose any significant risk

CONSISTENCY

The Rule is inconsistent with Commission Rule 25-12.040 - Leak Surveys, Procedures and Classifications

- Rule 25-12.040 established a "grading" system for gas leaks - Grade 1, 2 and 3
- Grade 3 gas leaks, if underground, no time limit for repairs

MARKET CONDITIONS

Over the past several years, the economy has been severely distressed, resulting in:

- Significant over-building of residential homes that have never been occupied, but gas service lines have been installed
- Significant levels of foreclosures, where gas service lines have been installed

MARKET CONDITIONS

Absent any modification to the Rule, these inactive gas service lines will be required to be retired and physically abandoned, even though the homes have natural gas appliances installed

- These homes will likely be the first to be sold and re-occupied and, if the service line has been cut and capped, service will need to be re-established

2011 DATA SUMMARY

- Total Service Lines 671,954 (12 mo. Avg.)
- Total Active Services 587,854 (12 mo. Avg.)
- Total Inactive Services 84,101 12.52%
  - < 60 months 59,035
  - > 60 months 14,348
  - undefined 10,718

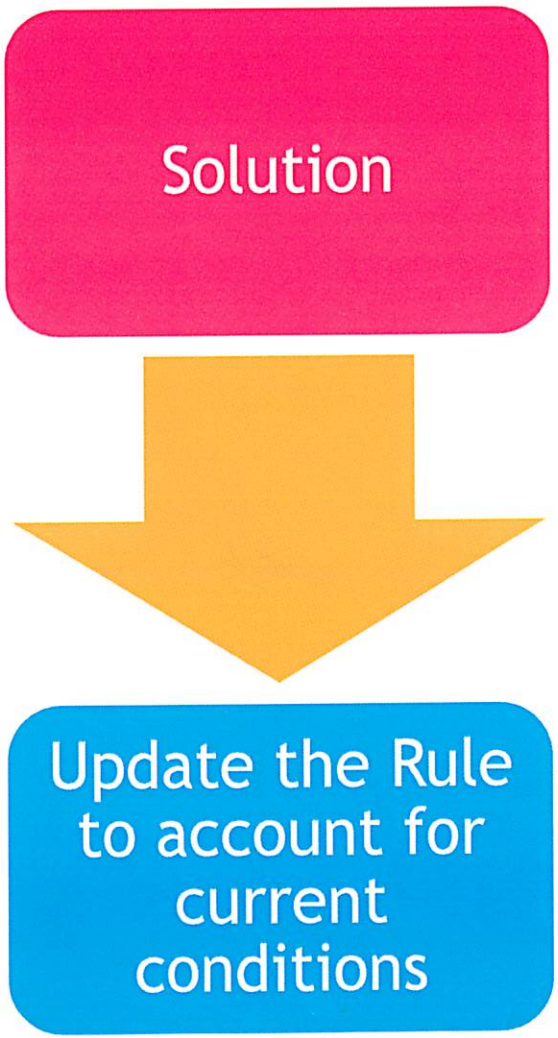
* Data reflective of participating companies only

2010-2011 REACTIVATIONS

- Total Reactivations Reported 29,022
  - Inactive < 60 mo. - 26,956
  - Inactive > 60 mo. - 1,960
  - Not defined - 106

* Data reflective of participating companies only

RULE 25-12.045



FNGA'S PROPOSED RULE MODIFICATION

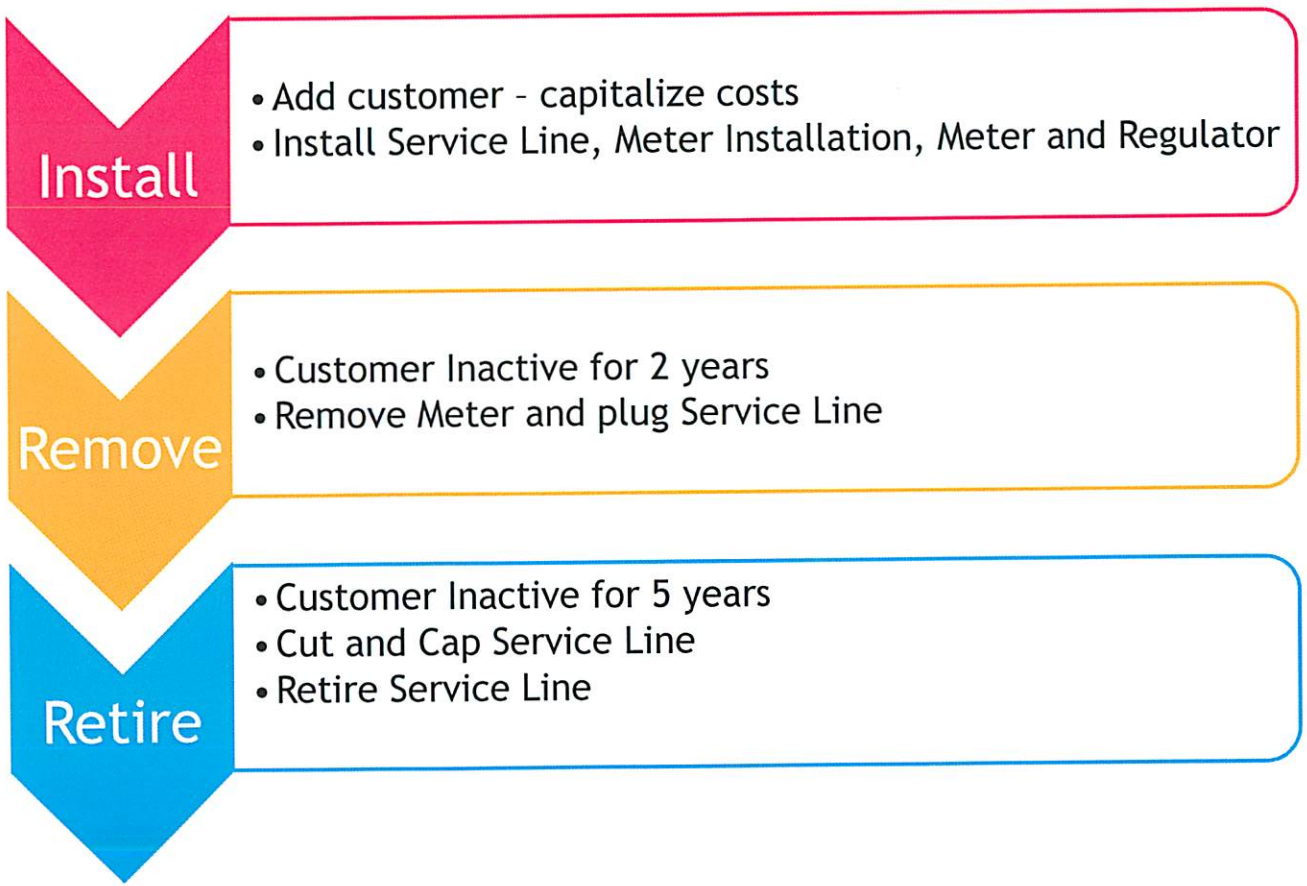
FNGA's current proposal is to delete Section 1 (c) of the existing Rule and replace it with:

c) After five years of inactivity, the following determination, consistent with the requirements of the Distribution Integrity Management Program, shall be made on all inactive service lines:

1) "Inactive Gas Service Line - Retire" – an inactive gas service line that represents an existing or probable hazard to persons or property or is constructed of bare steel, cast iron or other similar materials. Such lines shall be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

2) "Inactive Gas Service Line - Monitor" – an inactive gas service line that is not a threat to persons and property and is not expected to become so. Such lines shall be monitored and maintained in accordance with all rules and regulations applicable to active gas service lines.

PROCESS - CURRENT RULE



PROCESS - PROPOSED RULE

Install

- Add customer - capitalize costs
- Install Service Line, Meter Installation, Meter and Regulator

Remove

- Customer Inactive for 2 years
- Remove meter and plug service line

Retire or Monitor

- Customer Inactive for 5 years
- Facilities determined "retire" are cut, capped and retired
- Facilities determined "monitor" remain on companies operating and accounting records without modification until reclassified to "retire"

FNGA PRESENTATION

The FNGA's presentation in support of its proposal consists of four primary areas:

1. Safety
2. Marketing
3. Cost
4. Accounting

FNGA PRESENTATION

Safety Presentation

SAFETY

Q. Please provide company information for the years 2006 through 2009 in the same format as the 2010 and 2011 Cut N Cap Monthly Moratorium Report.

A. Most Companies were unable to replicate the data in the same format for the earlier years.

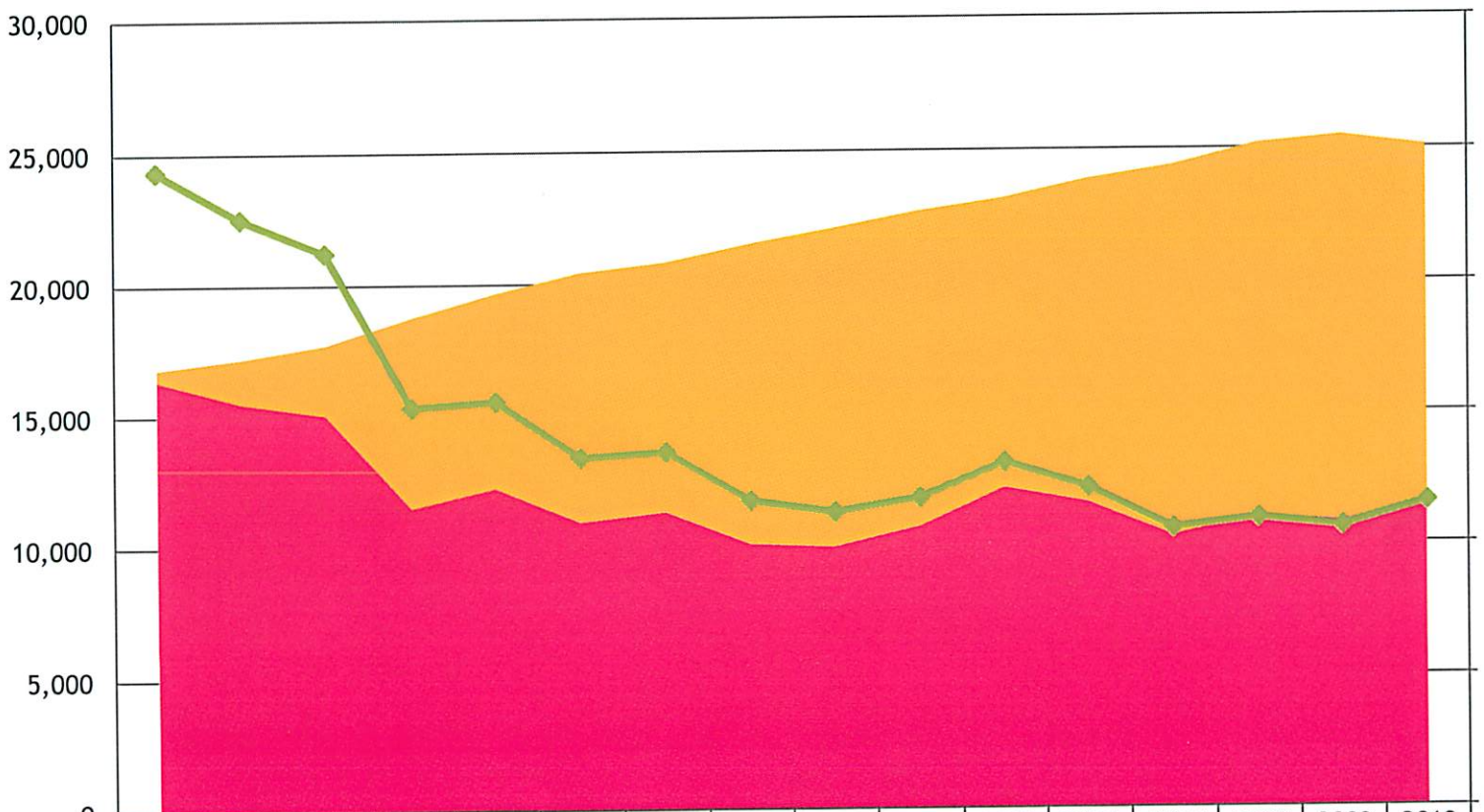
SAFETY

Q. Did the Rule waivers (2007 and 2009) result in any decrease in safety?

A. No. Most Companies report a substantial reduction over the last five years in damages to service lines. One factor that we attribute to this reduction is the Public Awareness and One Call notification programs.

SAFETY

Natural Gas Leaks and Miles of Main



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Miles Mains	16,812	17,205	17,719	18,759	19,669	20,436	20,807	21,504	22,080	22,707	23,176	23,870	24,371	25,185	25,466	25,078
Gas Leaks	16,373	15,515	15,049	11,490	12,224	10,930	11,291	10,060	9,935	10,697	12,144	11,581	10,296	11,015	10,809	11,568
Leaks/Mile Main	0.97	0.90	0.85	0.61	0.62	0.53	0.54	0.47	0.45	0.47	0.52	0.49	0.42	0.44	0.42	0.46

SAFETY

Q. Noting that the data FNGA has already provided reflects that the number of lines inactive for 5+ years has increased 25% over the waiver period, would it be feasible for companies to proceed to bring into compliance those lines that have been inactive more than 10 years by 12/31/2013. If not, please explain why.

A. With the recent decision to extend of the moratorium until the end of 2014, the Companies believe that they can be in compliance for those lines that are inactive more than 10 years. Although this can be accomplished, it may not be the best use of limited resources from a risk perspective.

SAFETY

Q. How do the Companies address inactive service lines in the context of their DIMP?

A. Services, whether active or inactive, are given the same treatment within DIMP and any other regulatory requirements.

- Leak Surveys
- Line Locates
- Corrosion control/monitoring
- Public awareness programs

SAFETY

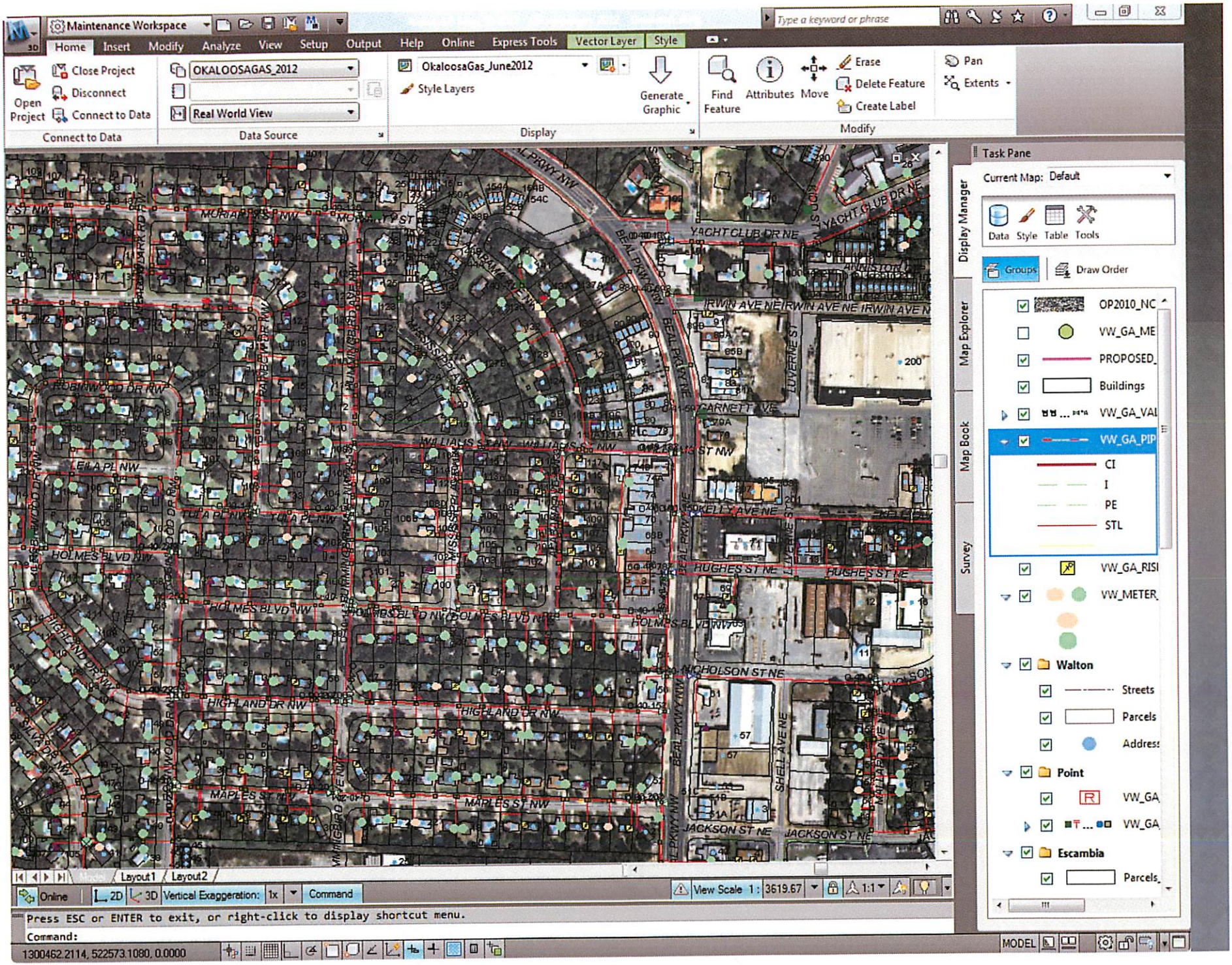
Q. With respect to replacement of Bare Steel/Cast Iron replacement programs and initiatives, how do Companies anticipate dealing with inactive lines in the context of these programs, if at all? (i.e.; replace, abandon when you find them, etc.)

A. The Companies have proposed rule language that requires inactive bare steel/cast iron service lines to be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

SAFETY

Q. How do Companies monitor inactive lines?

A. Inactive lines are treated in the same manner as active service lines. All required Regulatory records and inspections are maintained. (See illustration)


Maintenance Workspace
Type a keyword or phrase
Home
Insert
Modify
Analyze
View
Setup
Output
Help
Online
Express Tools
Vector Layer
Style
Close Project
Disconnect
Connect to Data
Open Project
Connect to Data
OKALOOSAGAS_2012
Real World View
Data Source
OkaloosaGas_June2012
Style Layers
Generate Graphic
Display
Find Feature
Attributes
Move
Erase
Delete Feature
Create Label
Modify
Pan
Extents
Task Pane
Current Map: Default
Data
Style
Table
Tools
Groups
Draw Order
Display Manager
Map Explorer
Map Book
Survey
OP2010_NC
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Escambia
Parcels
YACHT CLUB DR NE
IRWIN AVE NE
BEAL PKWY NW
CARNETT AVE
LUVERNE ST
HUGHES ST NE
KELLY AVE NE
HOLMES BLVD NW
NICHOLSON ST NE
HIGHLAND DR NW
MAPLES ST NW
JACKSON ST NE
SHELL AVE NE
ROBINWOOD DR NW
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Layout1
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Press ESC or ENTER to exit, or right-click to display shortcut menu.
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1300462.2114, 522573.1080, 0.0000
MODEL

SAFETY

Q. What are Company procedures for addressing leaks on inactive lines?

A. All Companies have procedures for addressing leaks on service lines, which are currently handled on a case-by-case basis.

SAFETY

Q. Is it feasible for Companies to notify new home customers of inactive lines on their property?

A. Companies are not always aware when new home owners take possession. However, Companies are willing to provide an annual communication to ensure awareness and the opportunity of utilization of inactive service lines.

FNGA PRESENTATION

Marketing Presentation

MARKETING

Q. Please describe the marketing efforts undertaken over the past 4.5 years targeted at reinstituting service on inactive lines.

A. Companies have instituted various marketing programs that have targeted inactive service line premises, including direct mail and traditional marketing strategies such as television, radio and print.

MARKETING

Q. Please identify those programs described in response to No. 14, that the Company(ies) consider successful, as well as those that have not been successful.

A. Success can be defined differently among Companies. Based on marketing efforts during the moratorium, customers have returned to the system. Companies will continue to develop marketing strategies and approaches based on current economic conditions.

MARKETING

Q. Do the Companies anticipate that future marketing efforts targeted at reinstituting service on inactive lines will be more successful? If so, why?

A. Yes, because the economy and market are improving, natural gas prices are very competitive and high awareness levels of the advantages of natural gas.

FNGA PRESENTATION

Cost Presentation

COST

Q. Did granting the Rule waivers (2007 and 2009) provide any benefit other than cost savings for the companies?

A. Yes, companies were able to: 1) create and test certain marketing strategies to re-establish service to customers on inactive service lines; and 2) utilize contractors and employee resources to perform other tasks, such as maintenance, leak survey and growth activities.

COST

Q. What are the costs associated with (1) removing the meter; and (2) cutting and capping the line?

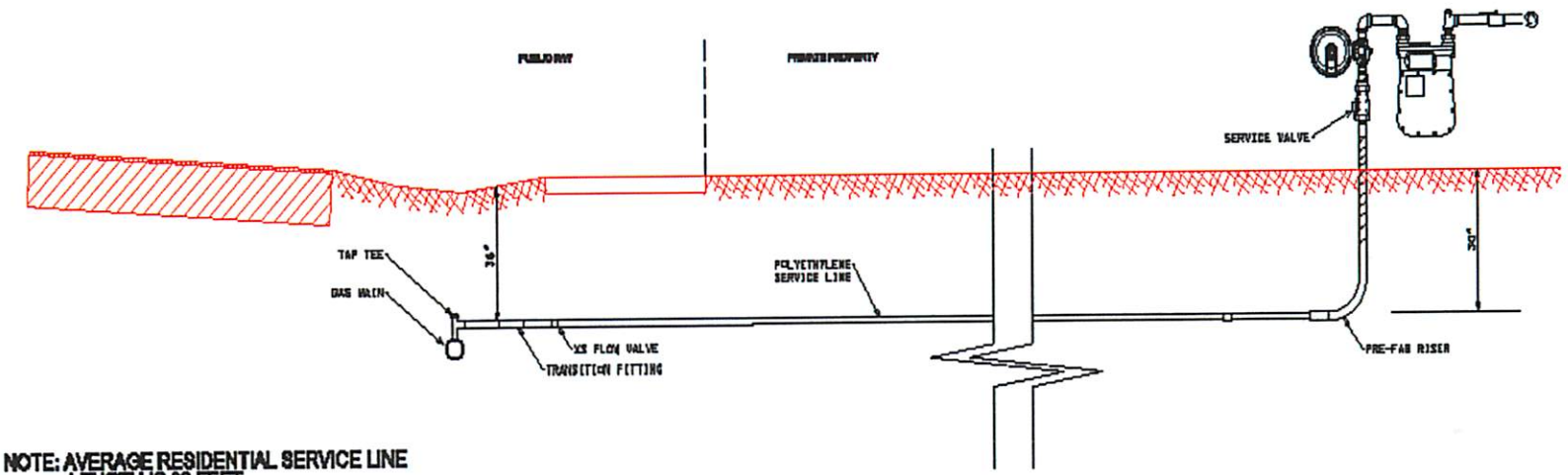
Q. What are the costs associated with reinitiating service on a line that has been cut and capped?

A. The cost to remove the meter, cut and cap inactive service lines and reinitiate service on a line that has been cut and capped varies according to the type of customer (residential or commercial) and other physical factors, such as multi-meter installation, single meter installation, pavement, landscaping, etc.

COST

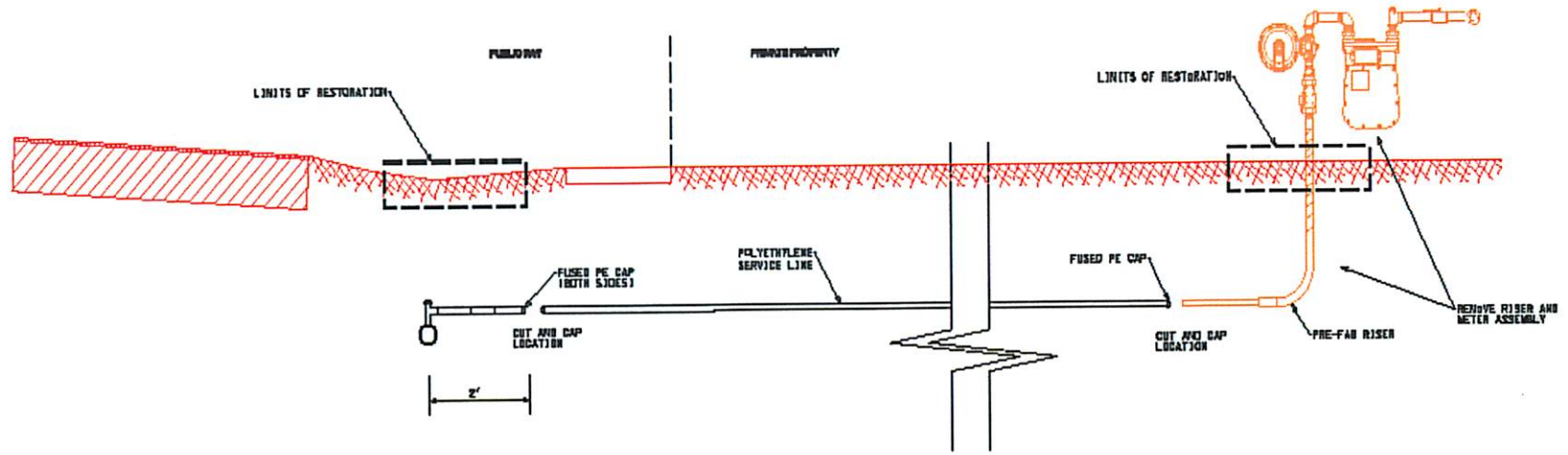
- Residential and Commercial
- Varies between Companies
  - Meter Removal Cost - estimated range $25 to $200
  - Service Line - estimated range of cost to cut and cap is $350 to $2,500
  - Cost to Reinitiate Service - typically this is not performed. New service line is constructed.

RESIDENTIAL SERVICE LINE RETIREMENT



NOTE: AVERAGE RESIDENTIAL SERVICE LINE LENGTH IS 80 FEET.

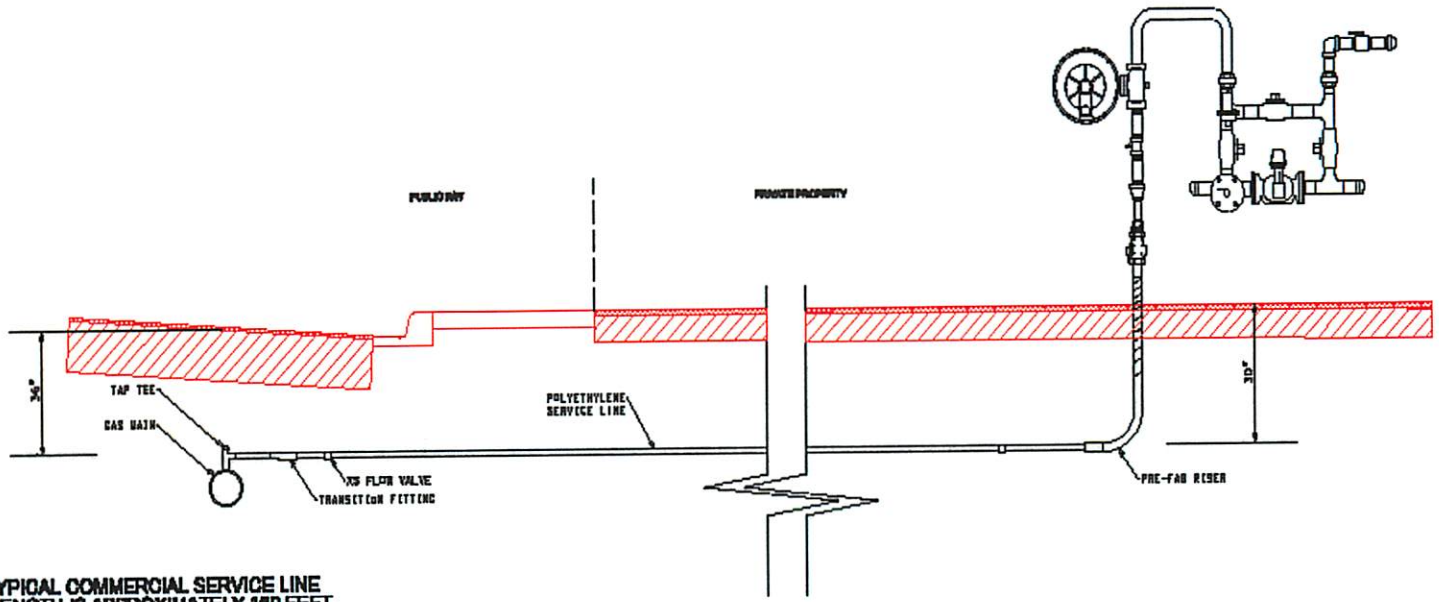
TYPICAL RESIDENTIAL SERVICE LINE



TYPICAL RESIDENTIAL SERVICE RETIREMENT

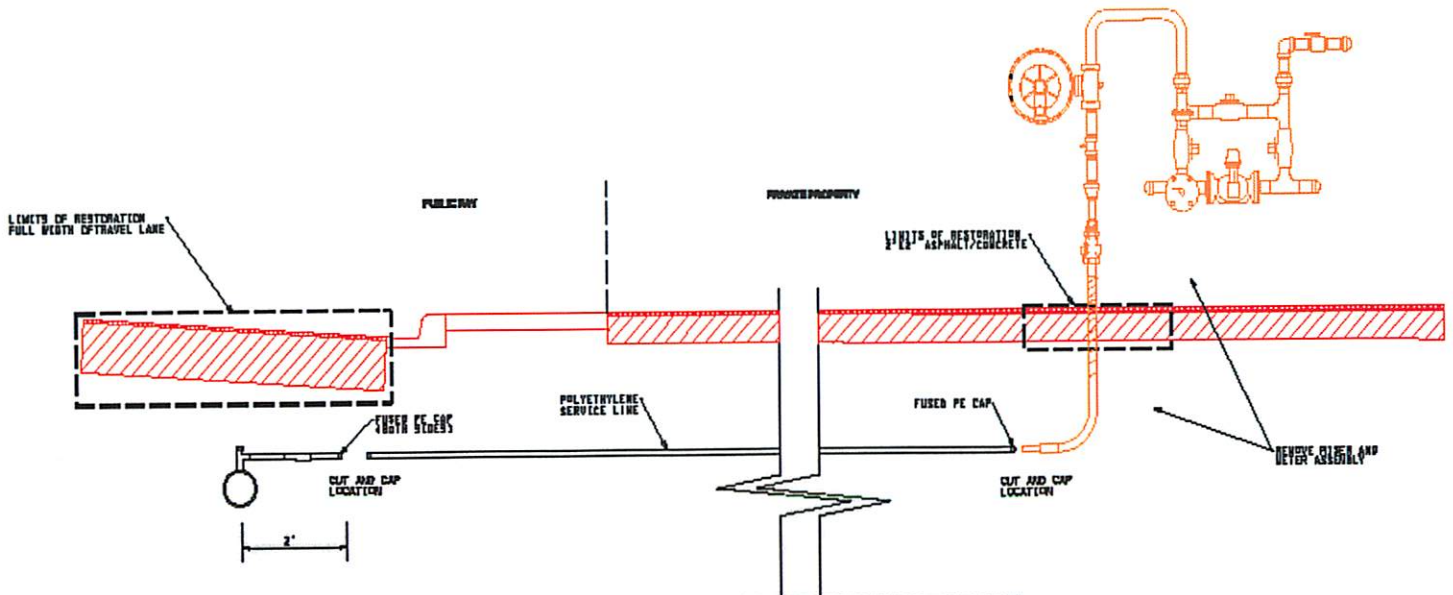
JB 7-11-12 (NOT TO SCALE)

COMMERCIAL SERVICE LINE RETIREMENT



NOTE: TYPICAL COMMERCIAL SERVICE LINE LENGTH IS APPROXIMATELY 100 FEET.

TYPICAL COMMERCIAL SERVICE LINE



TYPICAL COMMERCIAL SERVICE LINE RETIREMENT

JB 7-11-18 (NOT TO SCALE)

COST

Q. Are there less expensive options that provide a comparable degree of safety?

A. Yes, the FNGA's proposed rule modification language would provide for lower costs with a comparable degree of safety.

FNGA PRESENTATION

Accounting Presentation

ACCOUNTING

Q. Did the companies make more money by not retiring the lines in accordance with the Rule?

A. No, earnings were actually reduced as a result of the Rule waiver. Because the inactive service line, meter installation and regulator were not retired, depreciation expense and property taxes continued to be incurred. In addition, the avoided costs for removal would have been recorded in Accumulated Depreciation under the Rule, thus no effect to earnings.

ACCOUNTING

Q. How should the Commission address the issue of retirement of inactive service lines?

A. Under the FNGA's proposed rule modifications, at the end of 5 years, facilities determined to be "retired" would be cut, capped and retired, exactly as it occurs under the current rule. Facilities determined to be "monitored," however, would remain active in the companies operating and accounting records. No accounting entries would be made at that time. Depreciation expense would continue to be incurred. Retirement would occur when facilities are determined to be "retired" in accordance with the proposed rule. Cost of removal expenses would continue to be recorded against accumulated depreciation.

ACCOUNTING

Q. A what point, if any, would Companies (IOU-LDCs) anticipate retiring inactive facilities?

A. Under the FNGA's proposed rule modifications, at the end of 5 years, facilities determined to be "retired" would be cut, capped and retired, exactly as it occurs under the current rule. Facilities determined to be "monitored," however, would remain active in the companies operating and accounting records. No accounting entries would be made at that time. Depreciation expense would continue to be incurred. Retirement would occur when facilities are determined to be "retired" in accordance with the proposed rule. Cost of removal expenses would continue to be recorded against accumulated depreciation.

SUMMARY

As a general practice, it is not necessary to physically abandon inactive service lines. The requirement for operating and maintaining inactive service lines are the same as those for active service lines regardless of the duration of the inactivity. Companies must physically visit each inactive service line at leas once every three years to ensure compliance with sate and federal rules. With the increased implementation of automated meter reading, this frequency is equivalent to that of active service lines.

SUMMARY

Companies have a damage prevention program in place that effectively covers locating requirements of both active and inactive service lines and are members of the Sunshine State One-Call of Florida program. Service lines, both active and inactive, provide useful and effective connection points for the ability to physically locate such underground lines, and provide visual cues for excavators, property owners and utility locators, as an aid in identifying the presence of underground natural gas lines, while ensuring that these facilities are adequately marked and properly protected.

SUMMARY

Companies have implemented DIM plans and programs that provide a process for effectively addressing inactive service lines based on risk. Measures to determine the disposition of inactive service lines can be addressed for all identified threats and risk ranking as opposed to duration of time. With the implementation of GIS, field technicians have ease of access to important information to aid in correctly locating company facilities and supplements the ability to physically connect to a service riser to identify and mark service lines, whether active or inactive.

SUMMARY

Thank you!!

Questions?

Current Rule

	Orig Cost	2 yr inactive	5 yr inactive	Cost of Removal?
Service Line	$1,000		Retired	Yes
Meter	$85	removed, but not retired		No
	$1,085			

Retirement entry	Acct #	Dr	Cr
Services	380		$1,000
A/D - Services	108	$1,000	

Cost of Removal entry	Acct #	Dr	Cr
A/D - Services	108	$500	
Cash	131		$500

Effect on Net Plant: Increases by Cost of Removal of $500
Depreciation Expense and Property Taxes are no longer incurred

Assume at 5 years of inactivity that plant is 75% depreciated:

	Orig Cost	A/D	Net Plant
Service Line	$1,000	$750	$250

No Effect on Net Plant due to retirement entry (above)
Cost of Removal entry increases Net Plant by $500
The $250 of Net Plant still remains on books
Overall, Net Plant is $750
If service is reinitiated, then costs are capitalized

Proposed Rule

	Orig Cost	2 yr inactive	5 yr inactive	Cost of Removal?
Service Line	$1,000		To be monitored	No
Meter	$85	removed, but not retired		No
	$1,085			

Retirement entry	Acct #	Dr	Cr
Services	380		$0
A/D - Services	108	$0	

Cost of Removal entry	Acct #	Dr	Cr
A/D - Services	108	$0	
Cash	131		$0

Effect on Net Plant: None
Depreciation Expense and Property Taxes continue to be incurred

Assume at 5 years of inactivity that plant is 75% depreciated:

	Orig Cost	A/D	Net Plant
Service Line	$1,000	$750	$250

No Effect on Net Plant by not making a retirement entry
No Effect on Net Plant due to Cost of Removal (Not retired, so not incurred)
The $250 of Net Plant still remains on books
Overall, Net Plant is $250
If service is re-activated, no additional costs are incurred

Rule 25-12.045 Inactive Service Lines

1) The following actions shall be taken for inactive gas service lines that have been used, but have become inactive without reuse:

   a) If there is no prospect for reuse, the service line shall be retired and physically abandoned within three months.

   b) After a service line has been inactive for a period of two years, if there is a prospect for reuse of the line, one of the following actions shall be taken within six months:

      1. Disconnect the service line from all sources of gas and abandon or remove;

      2. A valve on the service line shall be locked in the closed position and the service line plugged to prevent the flow of gas;

      3. Remove the meter and plug the end of the service line to prevent the flow of gas.

   c) After five years of inactivity, the following determination, consistent with the requirements of the Distribution Integrity Management Program, shall be made on all inactive service lines:

      1) "Inactive Gas Service Line - Retire" – an inactive gas service line that represents an existing or probable hazard to persons or property or is constructed of bare steel, cast iron or other similar materials. Such lines shall be retired and physically abandoned within six months or in accordance with a Commission-approved replacement program.

      2) "Inactive Gas Service Line - Monitor" – an inactive gas service line that is not a threat to persons and property and is not expected to become so. Such lines shall be monitored and maintained in accordance with all rules and regulations applicable to active gas service lines.

      ~~c) After five years of inactivity, service lines shall be retired and physically abandoned within six months.~~

2) To physically abandon a service line, the operator must disconnect the service line from all sources of gas at the nearest point to the gas main. Where the appropriate governmental authority prohibits cutting pavement, the service line shall be disconnected at the nearest point not under a paved surface. The stub of the service line, the short section of the remaining service line to the main, shall be disconnected closer to the main or at the main, if at some later date it becomes accessible during normal operations.

3) Records must be kept of the size, material, and location of all remaining service line stubs. These records must be readily available to personnel assigned to pipeline locating activities.

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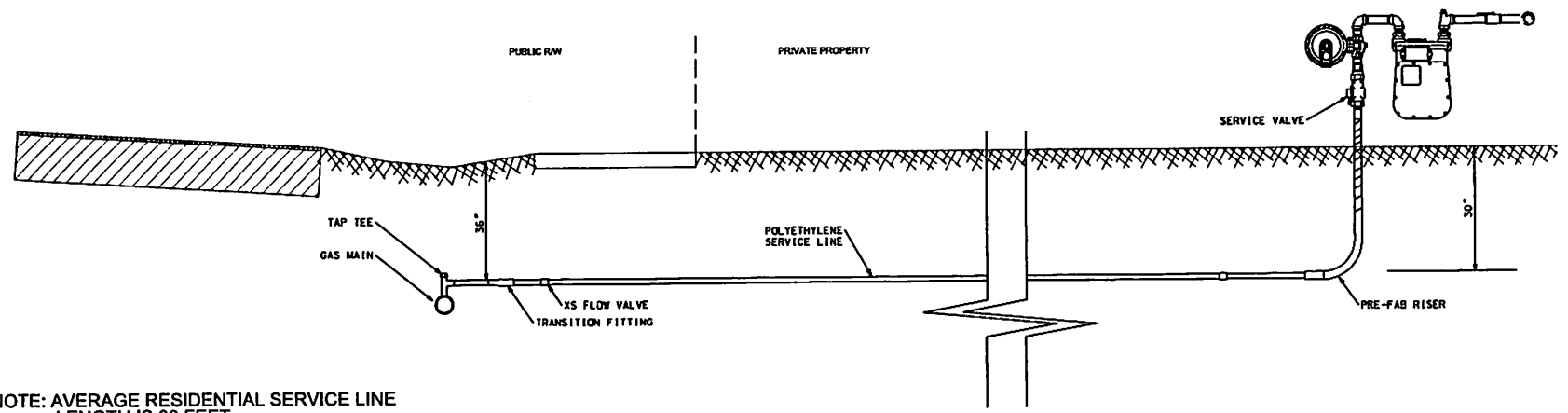
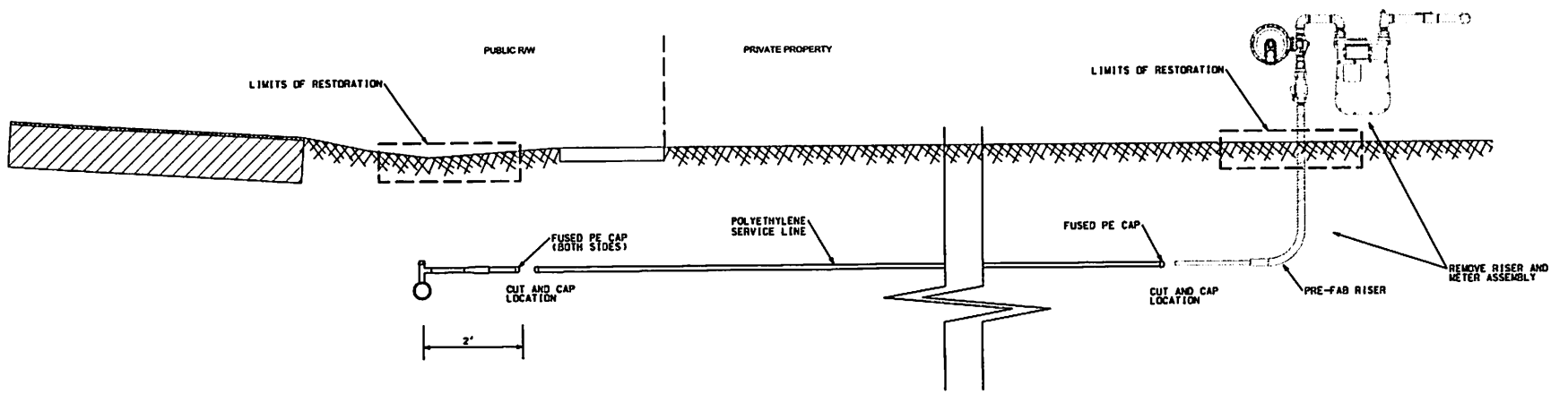
RESIDENTIAL SERVICE LINE RETIREMENT



NOTE: AVERAGE RESIDENTIAL SERVICE LINE LENGTH IS 80 FEET.

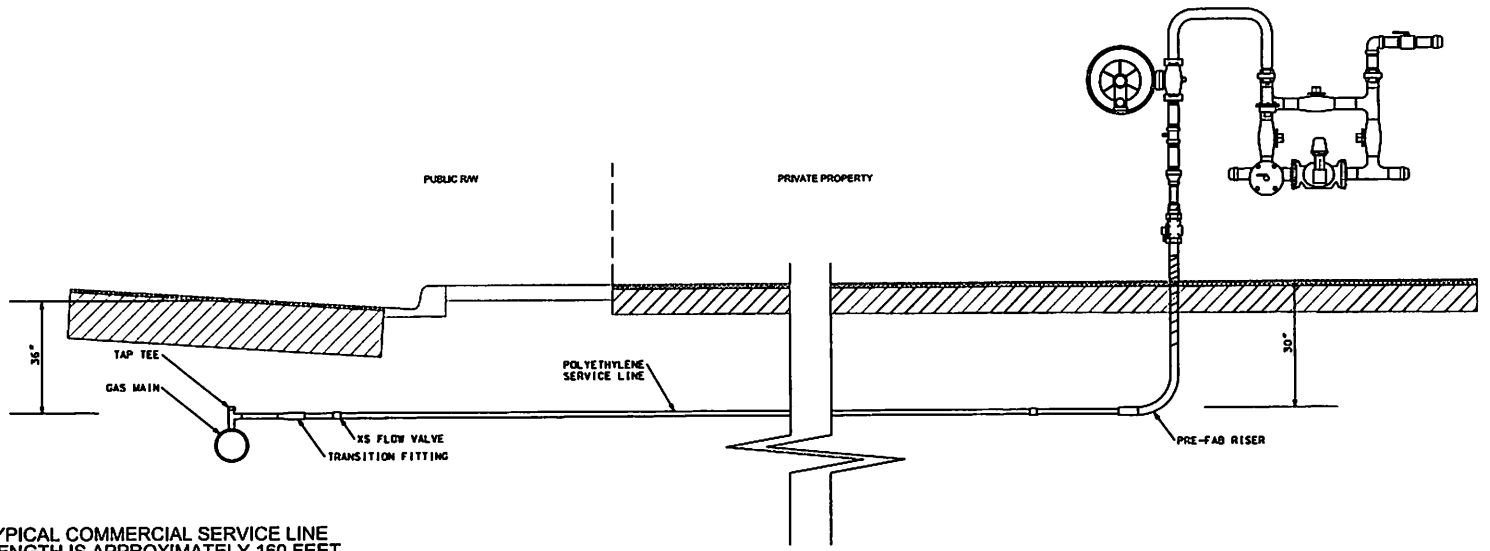
TYPICAL RESIDENTIAL SERVICE LINE



TYPICAL RESIDENTIAL SERVICE RETIREMENT

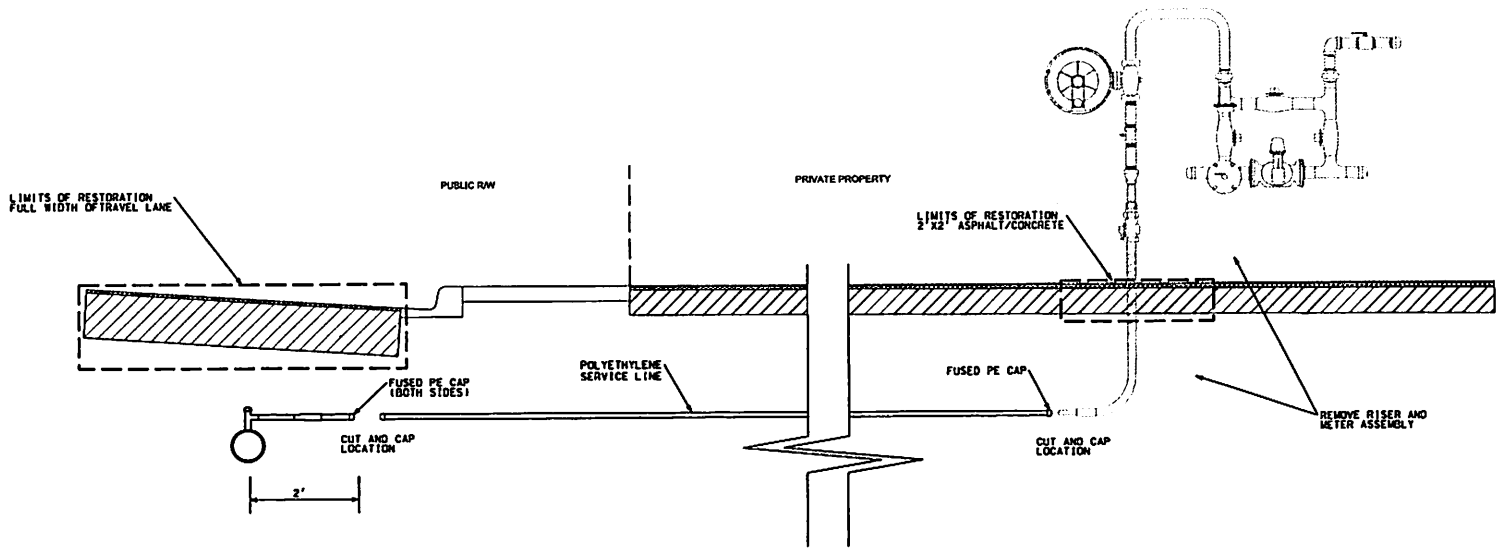
JB 7-11-12 (NOT TO SCALE)

COMMERCIAL SERVICE LINE RETIREMENT



NOTE: TYPICAL COMMERCIAL SERVICE LINE LENGTH IS APPROXIMATELY 160 FEET.

TYPICAL COMMERCIAL SERVICE LINE



TYPICAL COMMERCIAL SERVICE LINE RETIREMENT

JS 7-11-12 (NOT TO SCALE)

CITY OF TALLAHASSEE NATURAL GAS UTILITY

INFORMATION REQUESTED FOR CUT AND CAP RULE WORKSHOP

MARKETING EFFORTS

Prior to September of 2008, The City of Tallahassee Natural Gas Utility received no targeted marketing program other than the generalized utility marketing. In September 2008, the marketing operation was transferred under the direction of the natural gas utility which began an aggressive marketing campaign. This campaign was designed primarily to attract customers who had natural gas available to them, but who had no active gas service in place. In addition to traditional marketing strategies (advertising, radio, community outreach activities, cold calls) we engaged in direct mail to these customers. Because of limited staff and marketing resources, we elected to cast a wide net, targeting all potential customers, including those whose service had been inactive or whose meters were removed.

DIRECT MAILINGS

March, 2009 – Direct-mailed postcards to all customers within 100 feet of our gas main – included those customers whose service was inactive or meters had been removed. Prospects reached: 16,000

June, 2010 – Direct-mailed postcards targeted to six specific neighborhoods within Tallahassee – all directed at customers within 100 feet of our gas main, including those whose services were inactive or meters removed. Prospects reached: 3,000

June 2010 – Direct mail to one specific neighborhood and to customers in that area who had gas service but had little or no gas usage. This pro-active move was designed to address customers who we considered to be "at-risk" for dropping gas service. The area chosen was a relatively new, high-end subdivision in which the developer had only installed a gas fireplace in the majority of homes. Anecdotal information indicated that these customers were more likely to drop their service over time if they had not invested in other natural gas appliances.

November 2011 – Direct-mailed postcards to all customers within 100 feet of our gas main – once again, included those customers whose service was inactive or meters had been removed. Customers reached: 15,000

RESULTS: Every mass mailing resulted in increased calls to our utility call center as well as to the natural gas utility itself. A large number of customers indicated that they were unaware of gas availability prior to this mailing. The followup mailer in 2011 achieved the same results with customers again indicating they were unaware of gas availability. These mailings, in conjunction with our traditional marketing campaign, resulted in growth in our customer base.

SUCCESS OF PROGRAMS AND PHASE II

Issues faced: Several issues are relevant to inactive customers which will affect the success of any program:

- Market/economic conditions
- Increased number of foreclosures (and homes sitting empty) on the market
- Commercial outlets, which are unoccupied or out-of-business at the present
- Homes without gas service (but with gas lines still in place) which have been sold to new owners who are unaware of gas availability.
- Inactive services at rental property (possibly in foreclosure or with a tenant that chose not to use natural gas).

We have reactivated 20% of our inactive customers, so direct mailings have been reasonably effective.

During Phase II of our marketing efforts (currently ongoing), we are drilling down into the utility billing database and property appraiser records to identify and contact actual property owners, as many of the inactive accounts appear to be rental properties. We will be targeting these property owners with direct mail and telephone contact to make them aware of:

- The availability of natural gas
- The fact that their service may be removed if unused, and
- To promote the advantages of offering natural gas service to their tenants.

Taking a proactive approach, another mailing is planned which will allow us to get ahead of the curve on future inactive services. This mailing will be used to notify customer/owners in advance of the meter removal, giving them the option to retain service by once again becoming a natural gas customer.

By the Numbers

- 20% of inactive customers reactivated their accounts
- 11% of inactive customers are commercial
- 19% of our inactive services are located at unoccupied properties (includes commercial, apartments, etc.)
- 16% of the original inactive accounts have already been cut and capped.

Okaloosa Gas District

Dear Homeowner,

This letter is to inform you that due to requirements set forth by the State of Florida Public Service Commission your natural gas service line on your property is in jeopardy of being discontinued. Effective December 2011, the Public Service Commission, under the Cut and Cap Rule 25-12, is requiring Natural Gas Utility Companies to:

1. Disconnect ALL Natural Gas Service Lines from the Gas Distribution System that have been inactive for FIVE YEARS OR MORE

2. Remove ALL Natural Gas Meters from their current location that have been inactive for TWO YEARS OR MORE

Unless otherwise contacted by the property owner at the address above, Okaloosa Gas will be disconnecting your service and/or removing your meter within the next two to four weeks.

However, you could be enjoying the savings, comfort and environmental benefits of natural gas, increase the property value of your home and experience the exceptional service of the Okaloosa Gas District team. To help you activate your service line and make the switch back to natural gas, Okaloosa Gas District is offering for a limited time only a Natural Gas Water Heater installed for as low as $9.99 per month. This is a LIMITED TIME OFFER since we must comply with the Commission's directive in the coming weeks. In addition, for those homeowners that make the switch to natural gas home heating, you will receive additional cash rebates. Call Okaloosa Gas today to see if you qualify for this 0% interest financing program at 850-729-4700.

Reactivating your Gas Service and enjoying the benefits of Natural Gas has never been easier.

Say YES to a "free" on site consultation. Choose America's energy source....natural gas!

Sincerely,

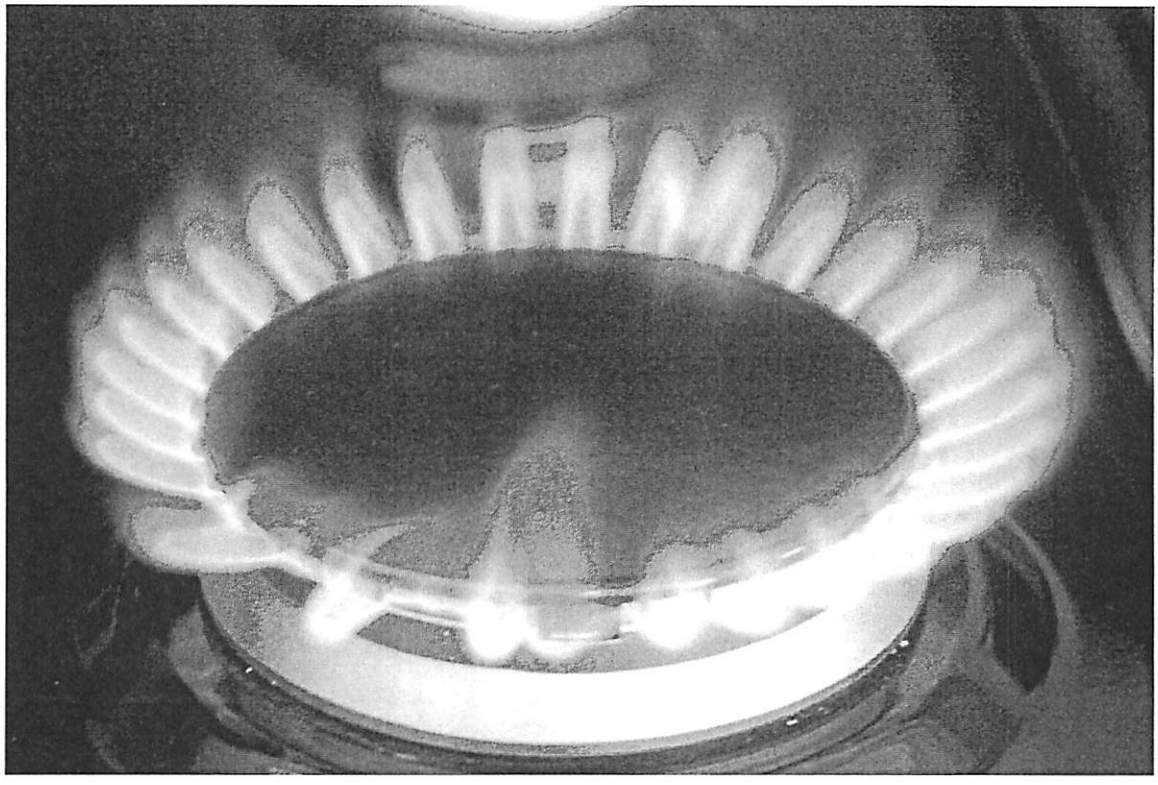
Eddie Springle
Sales Manager, Okaloosa Gas District

Parties/Staff Handout
event date 07/19/12
Docket No. 120068-GU

Say YES to Natural Gas

P.O. Box 548 • 364 Valparaiso Pkwy • Valparaiso, FL 32580-0548 • Main Fax: 850-678-4604
OkaloosaGas.com • Email: esupport@okaloosagas.com
...The Difference is our Service!

RULE 25-12 STRATEGY



Cut and Cap Program – Updated March 5, 2012

Due to Government Guidelines, Natural Gas Utilities in the State of Florida have been mandated to perform an analysis and formulate a plan to terminate inactive service lines five years or older as well as

remove meters that have been dormant for in excess of two years. The information contained in the document outlines how Okaloosa Gas will approach this mandate.

Rule 25-12 Strategy

CUT AND CAP PROGRAM - UPDATED MARCH 5, 2012

Overview

During December 2011, the State of Florida instituted legislation, the Cut and Cap Rule 25-12, that mandates that all natural gas utilities kill existing service lines that have been dormant for 5 plus years as well as remove inactive meters that have not been in use for two years or more. In addition, this new statue was made effective as of December 2011 and will be an affluent program from that point forward. The District has two years - thru December 2013 - to become compliant.

Residential/Commercial Inactive Services

Cut and Cap -- Inactive Service Line

Age Range	Service Line Pipe Type	Residential/ Commercial	Count
greater than 5 Years	Steel	Residential	2295
greater than 5 Years	Plastic	Residential	887
greater than 5 Years	PE Insert	Residential	1
greater than 5 Years	Steel	Commercial	140
greater than 5 Years	Plastic	Commercial	74
less than 5 Years	Steel	Residential	289
less than 5 Years	Plastic	Residential	119
less than 5 Years	Steel	Commercial	43
less than 5 Years	Plastic	Commercial	19
		Total	3867

Residential/Commercial Inactive Meters

Inactive Meters -- 2 plus Years Old

Age Range	Rate Class	Quantity
Greater than 5 Years	Residential	**130**
4 to 5 Years	Residential	**81**
2 to 4 Years	Residential	**530**
Greater than 5 Years	Commercial	**16**
4 to 5 Years	Commercial	**4**
2 to 4 Years	Commercial	**65**
	Total	**826**

Currently, Okaloosa Gas has 826 Inactive Meters at residential/commercial locations that are two years or older and 3,867 service lines connected to the mains of the District that are inactive.

Discussion

Due to the nature of the task above and the timing involved with the mandate set forth by the State of Florida, Okaloosa Gas will move through the structured process below:

Step 1 - Classify what customers or locations that have inactive meters or service lines (Completed February 21, 2012)

Step 2 - Establish the age or length of time that the meter or service lines are inactive (Completed February 21, 2012)

Step 3 - Identify the physical make-up of the service lines (cast iron, plastic, or classified with grade one leak) (Completed February 21, 2012)

Step 4 - Pinpoint what the structure type of the home/business where the inactive service line is located . - *Will be completed as Okaloosa Gas Personnel visit home/commercial sites - UPDATE: IN PROCESS*

Step 5 - If possible, identification of what gas appliances was in the home/business when the gas service was active at the now inactive location. Note: Water heaters, in most cases, can be identified due to signs of venting for the previous natural gas water heater. - *Will be completed as Okaloosa Gas Personnel visit home/commercial sites - UPDATE: IN PROGRESS*

Step 6 - Market to the locations (home or business owners), where it makes economic sense for the District, presenting options for customers to convert back to natural gas. Note: In the event that inactive service lines are cast iron, the District would be required, under Rule 25-12, to kill the line and extend a new service to the structure using plastic piping. Based on the economics of the program, the recommendation has been made to move forward and kill all inactive services with cast iron that fall within the overview above. . - *Will be completed as Okaloosa Gas Personnel visit home/commercial sites - UPDATE: IN PROGRESS*

Step 7 - Take the necessary steps, based on the parameters of the Cut and Cap Rule 25-12, to kill inactive service lines and/or pull inactive meters that are not successfully marketed too. -*UPDATE: IN PROGRESS*

Rule 25-12 New Growth and Retention Strategies

Below are the two strategies identified by the New Growth and Retention Task Forces that fall within the guidelines established by the Cut and Cap Rule 25-12. The steps above will be integrated into each of the objectives. An outline of how each of the steps will be executed and associated deadlines follows the two strategies.

Inactive Service Lines Pulled Meter

Objective: Identify and market to all occupied homes with service lines that have been active in the past and are now without a meter within the Okaloosa Gas Service Territory with the goal of reactivating the service. These inactive services now fall within the parameters of the Cut and Cap Rule 25-12. The District will use a process (Step 1 thru Step 7) for reactivating or terminating each of these inactive services.

Measurement Guidelines: All responses and subsequent successes/losses documenting addresses and service/equipment/load additions will be factored into the targeted success ratio.

Reporting Device: Salesforce.com - Opportunities tracked through Campaigns

Reporting Frequency: Monthly

Category: New Growth/Customer Retention

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately. The strategy will therefore be an ongoing process that will not terminate.

Inactive Meters

Objective: Identify and market to all occupied homes with service lines that currently have meters that are inactive within the Okaloosa Gas Service Territory with the goal of reactivating the meter. These inactive meters now fall within the parameters of the Cut and Cap Rule 25-12. The inactive meters, if not reactivated will be removed and the service line will fall within the same defined process for terminating inactive services.

Measurement Guidelines: All responses and subsequent successes/losses documenting addresses and service/equipment/load additions will be factored into the targeted success ratio.

Reporting Device: Salesforce.com - Opportunities tracked through Campaigns

Reporting Frequency: Monthly

Category: Customer Retention

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately. The strategy will therefore be an ongoing process that will not terminate.

Outline of Steps Associated with Rule 25-12

Steps 1 thru Step 4

Step 1 - Classify what customers or locations that have inactive meters or service lines

Step 2 - Establish the age or length of time that the meter or service lines are inactive

Step 3 - Identify the physical make-up of the service lines (cast iron, plastic, or classified with grade one leak)

Step 4 - Pinpoint what the structure type of the home/business where the inactive service line is located

Task: Identify all inactive services and inactive services with inactive meters.

Purpose: Set priorities for the Cut and Cap Rule in order to establish the age and physical make-up of service line.

Expectations: After categorizing the service line as explained in the above purpose, District personnel will conduct a sight visit to each of the locations to verify if the service line is plastic or cast iron. If the service line is plastic, the home owner will be left marketing materials containing special financing options for possible service line reactivation. In the event that the service line is cast iron, the location will be tagged as a Cut and Cap candidate and scheduled to be terminated. In this case an informational letter will be sent to the homeowner stating that the District will be cutting the service line at the said property. The letter will include an outline of the current marketing programs for any customer encouraging them to request a new service.

Timeline: Steps 1 thru 3 Completed February 21, 2012 - Step 4 - February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 5

Step 5 - If possible, identification of what gas appliances was in the home/business when the gas service was active at the now inactive location. Note: Water heaters, in most cases, can be identified due to signs of venting for the previous natural gas water heater.

Task: Using work order generated information, identify what appliances the home/business used when the service was active at that location. Also, when the sight visit by District Personnel is conducted, a required action will be to identify if a water heater had been installed at the location using vent recognition as a tool.

Purpose: Appliance identification, specifically a water heater, will allow for targeted special promotional offers to be presented to the customer.

Expectations: *Please see Step 6 Expectations*

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 6

Step 6 - Market to the locations (home or business owners), where it makes economic sense for the District, presenting options for customers to convert back to natural gas. Note: In the event that inactive service lines are cast iron, the District would be required, under Rule 25-12, to kill the line and extend a new service to the structure using plastic piping. Based on the economics of the program, the recommendation has been made to move forward and kill all inactive services with cast iron that fall within the overview above.

Task: Develop sales tools that will be used to communicate the features of natural gas - cost savings, functionality benefits and the benefits of natural gas vs. electricity - as well as special financing offers to aid in the cost of the possible conversions. In addition, the marketing materials will need to explain to the customer what the Cut and Cap Program is and what the District will be doing in order to meet compliance of Rule 25-12. Note: Direct Customer Contact can only be used to market to the potential customers - Direct Mail, Door Knockers and Tele-Marketing.

Purpose: Reactivate service lines and meters that are currently inactive and fall into the Cut and Cap Program.

Expectations: The following sales/marketing tools will need to be developed in order to communicate with the customers that fall under the Cut and Cap Program:

1) Door Knocker outlining the Cut and Cap program with special conversion offers for customer with plastic pipe for service lines
2) Door Knocker outlining the Cut and Cap program with information regarding programs for extending new services with special conversion programs
3) Letter outlining the Cut and Cap program to be sent to customer that we will be cutting their service in the event that it is galvanized
4) Letter outlining the Cut and Cap program that contains special conversion offers that can be used before the District cuts the line
5) Telephone scripts that will be used by the CRM Center to contact homeowners on that have the inactive services/meters. The contact information will be established using the information provided via map guide (property appraiser's office) to obtain phone numbers.

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

Step 7

Step 7 - Take the necessary steps, based on the parameters of the Cut and Cap Rule 25-12, to kill inactive service lines and/or pull inactive meters that are not successfully marketed too.

Task: Disconnect service lines from mains as mandated under the Cut and Cap Rule 25-12

Purpose: Meet criteria of Cut and Cap Rule

Expectations: Work five year criteria moving forward as needed to meet compliance. Service lines will be cut and capped as required.

Timeline: February 2012 - ONGOING Note: Timeline structured within the guidelines of Rule 25-12. Due to these guidelines, the steps within the strategy are set to begin immediately and will never terminate.

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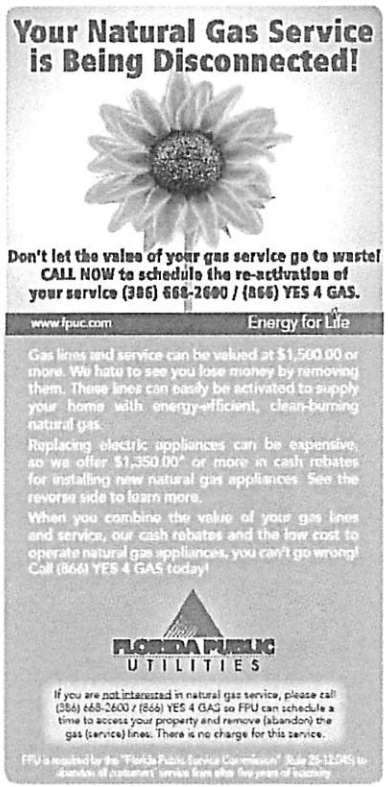
Reactivation Initiatives

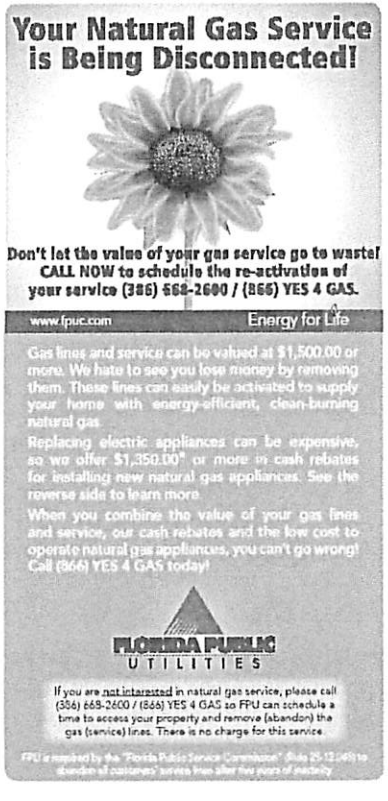
2008 -2012

2008 Reactivation Initiative



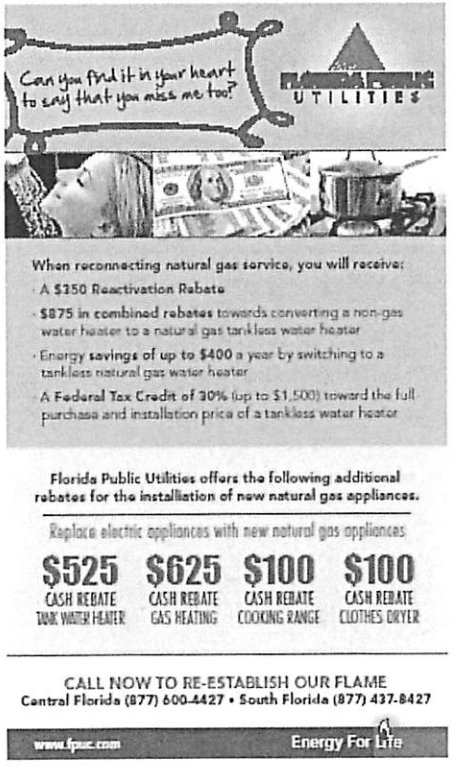
Aggressive multi-pronged approach included door-hangers, three mailings of personally addressed letters to homeowners and one direct mail postcard. Our records indicate that out of approximately 9,000 households, only **7** reactivated.

2009 Reactivation Initiative



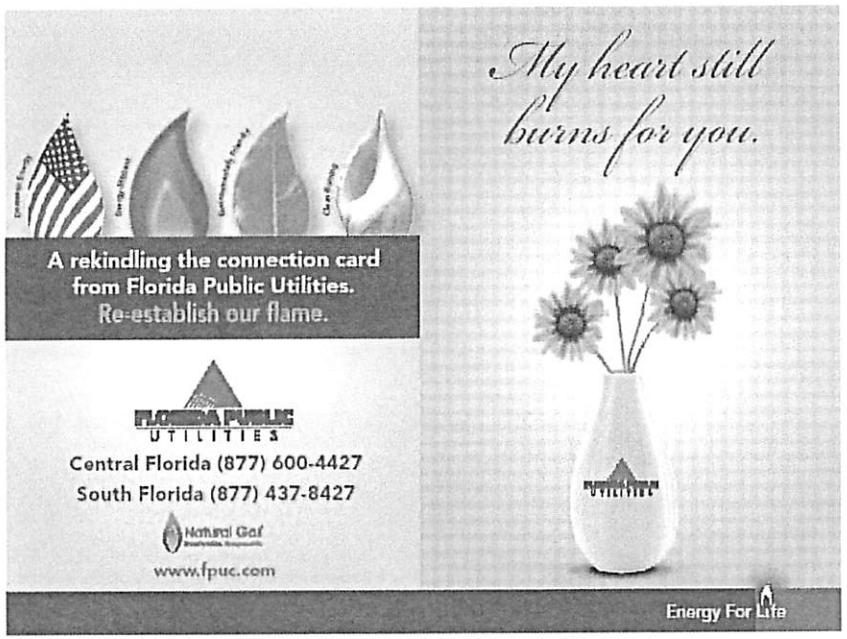
Multi- pronged marketing approach retargeting the same households was repeated. This year, **23 accounts** were reactivated.

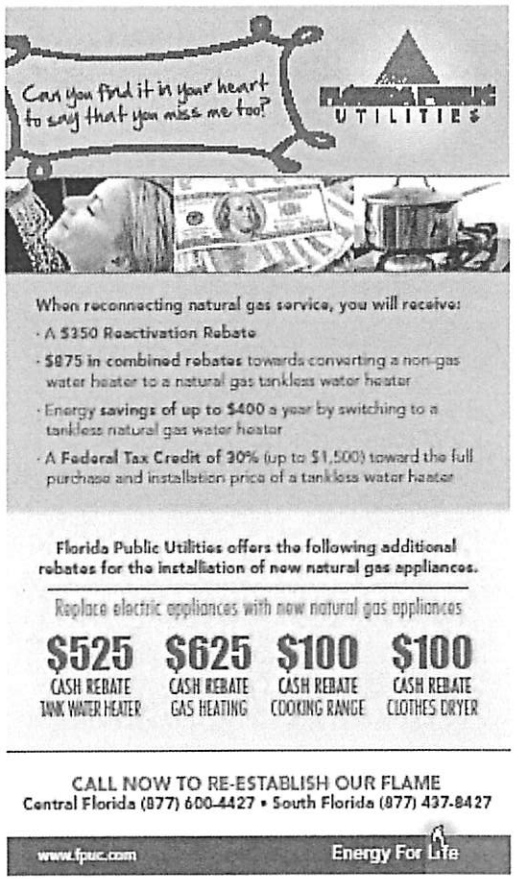
2010 Reactivation Initiative
Greeting Card and Coupon Insert (Version 1)



Postcard was exchanged for a "greeting card" format with coupon insert. We completed multiple mailings to approximately 9,000 households resulting in the conversion of **34** inactive prospects to active accounts.

2010 Reactivation Initiative
Greeting Card and Coupon Insert (Version 2)





2011/2012 Rebate Chart Featuring the Reactivation Program

(placed on all promotional collateral including direct mail)

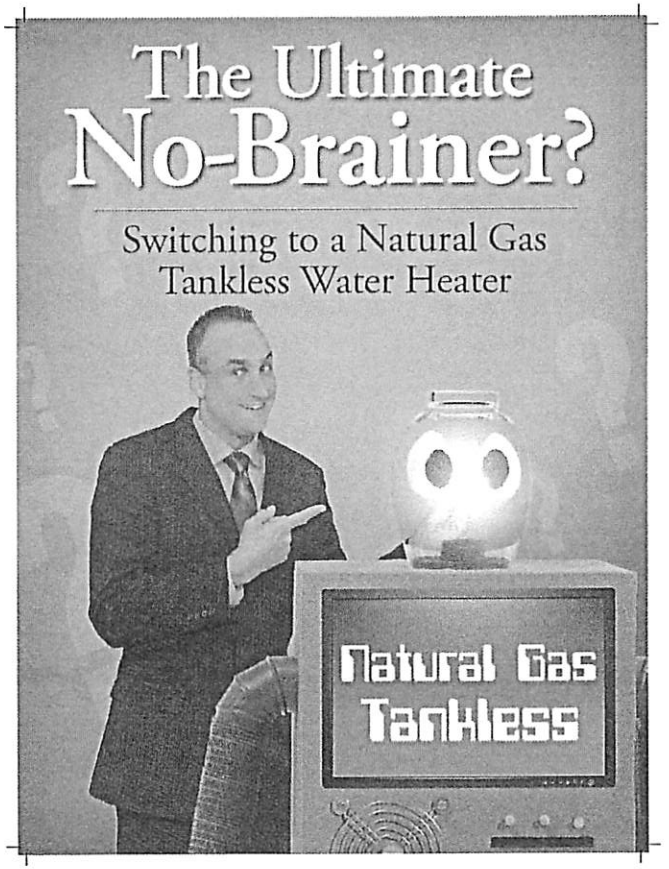
	SWITCH *to Natural Gas*	REPLACE *Old Gas Appliances*	BUILD *with Natural Gas*
Tank Water Heater	$ 500	$ 350	$ 350
High-Efficiency Tank Water Heater	$ 550	$ 400	$ 400
Tankless Water Heater	$ 675	$ 550	$ 550
Furnace	$ 725	$ 500	$ 500
Range	$ 200	$ 100	$ 150
Clothes Dryer	$ 150	$ 100	$ 100
New! Service Reactivation*	$ 350		

Close Full Screen

*Service Reactivation rebate is available for FPU customers in Palm Beach, Broward, Volusia, Seminole, and Marion Counties.

We have delivered multiple postcard mailings to approximately 9,000 inactive households resulting in **36 reactivations** in 2011 and **15 reactivations** so far this year.

2011 Postcard Mailed to all Residences 90 Feet or Less From a Natural Gas Main.



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	SWITCH *to Natural Gas*	REPLACE *Old Gas Appliances*	BUILD *with Natural Gas*
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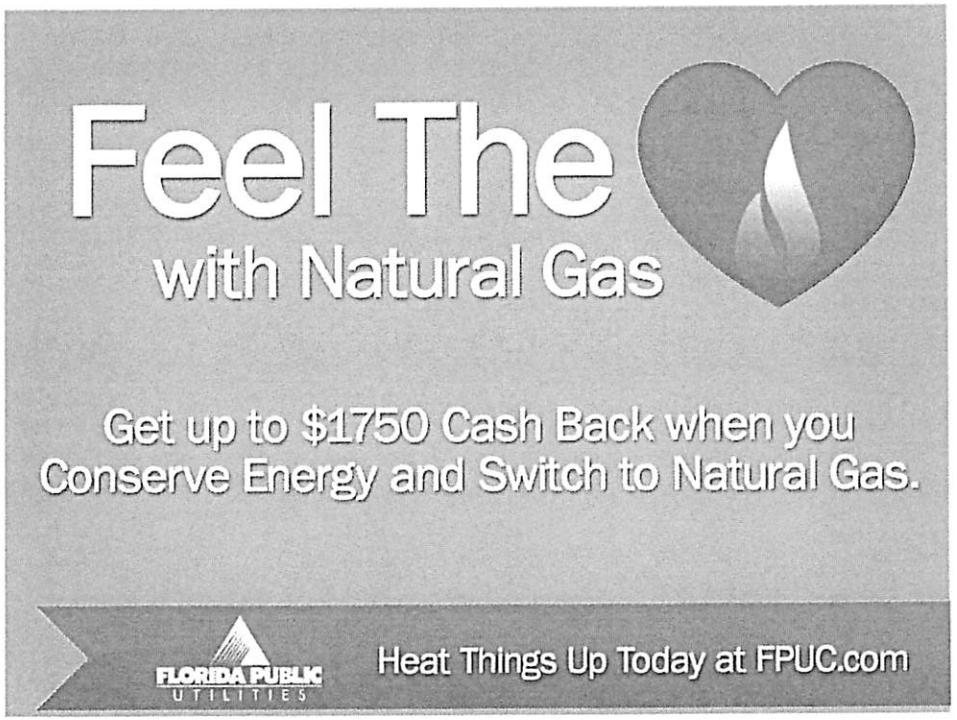
Close Full Screen

*Service Reactivation rebate is available for FPU customers in Palm Beach, Broward, Volusia, Seminole, and Marion Counties.

2012 "Feel the Love" Campaign Targets Inactive Households and New Prospects Living 10 Feet or Less from a Gas Main.



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2012 Penetration Study

With the help of a third party marketing research firm, Florida Public Utilities conducted a recent penetration study of new (never had a gas service line) and inactive prospects.

The goal of the study was to understand why residents living adjacent to our natural gas main (10 feet or less) were not customers and to specifically identify the obstacles that prevent people from converting from electric to gas.

The study identified two main obstacles which are preventing people who would be likely to switch to natural gas. They are **cost** and the **perceived complexity** of the process of switching from electric to gas appliances.

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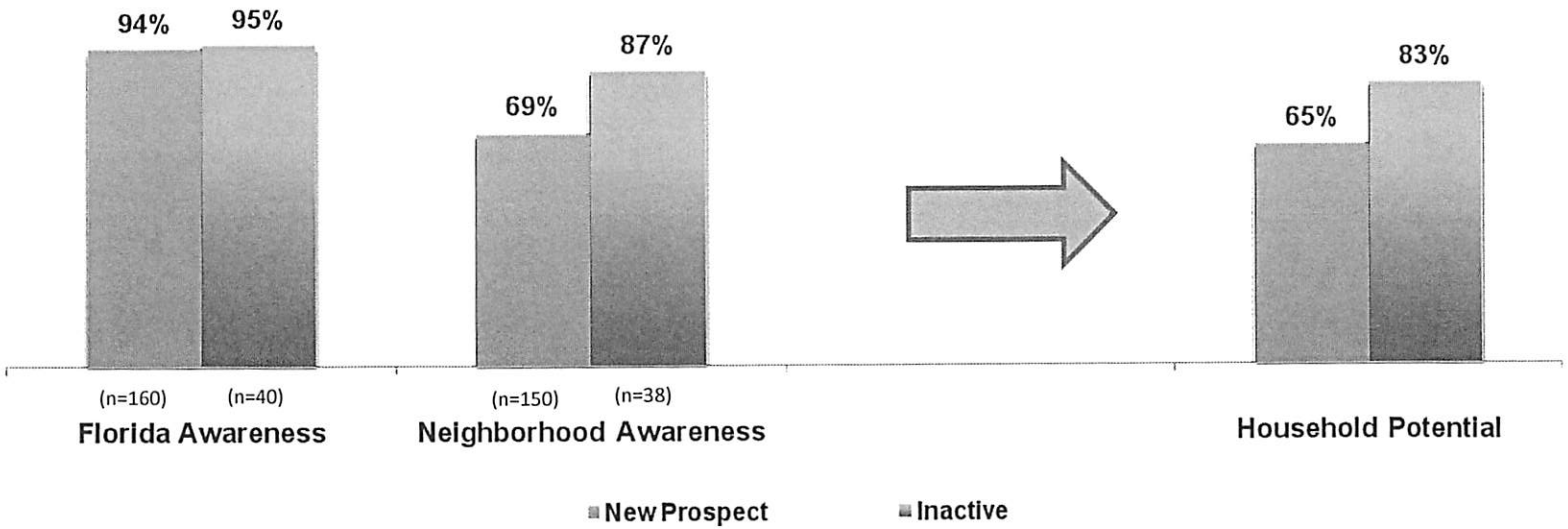
Awareness of Natural Gas Availability

Of the people surveyed in the inactive account category, **87%** were aware that they live in a natural gas neighborhood.

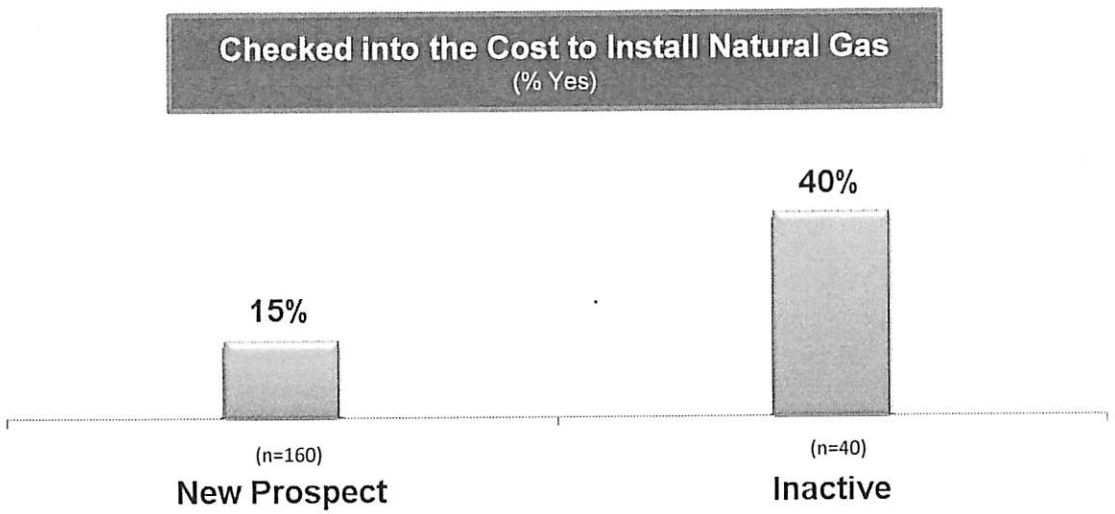


Q7. Are you aware that natural gas is available in Florida?
Q8. Are you aware that natural gas is available in your neighborhood?

Inactive Accounts Interested in Natural Gas

The study indicated that **40%** of respondents with inactive service have checked into the cost of reinstalling natural gas.

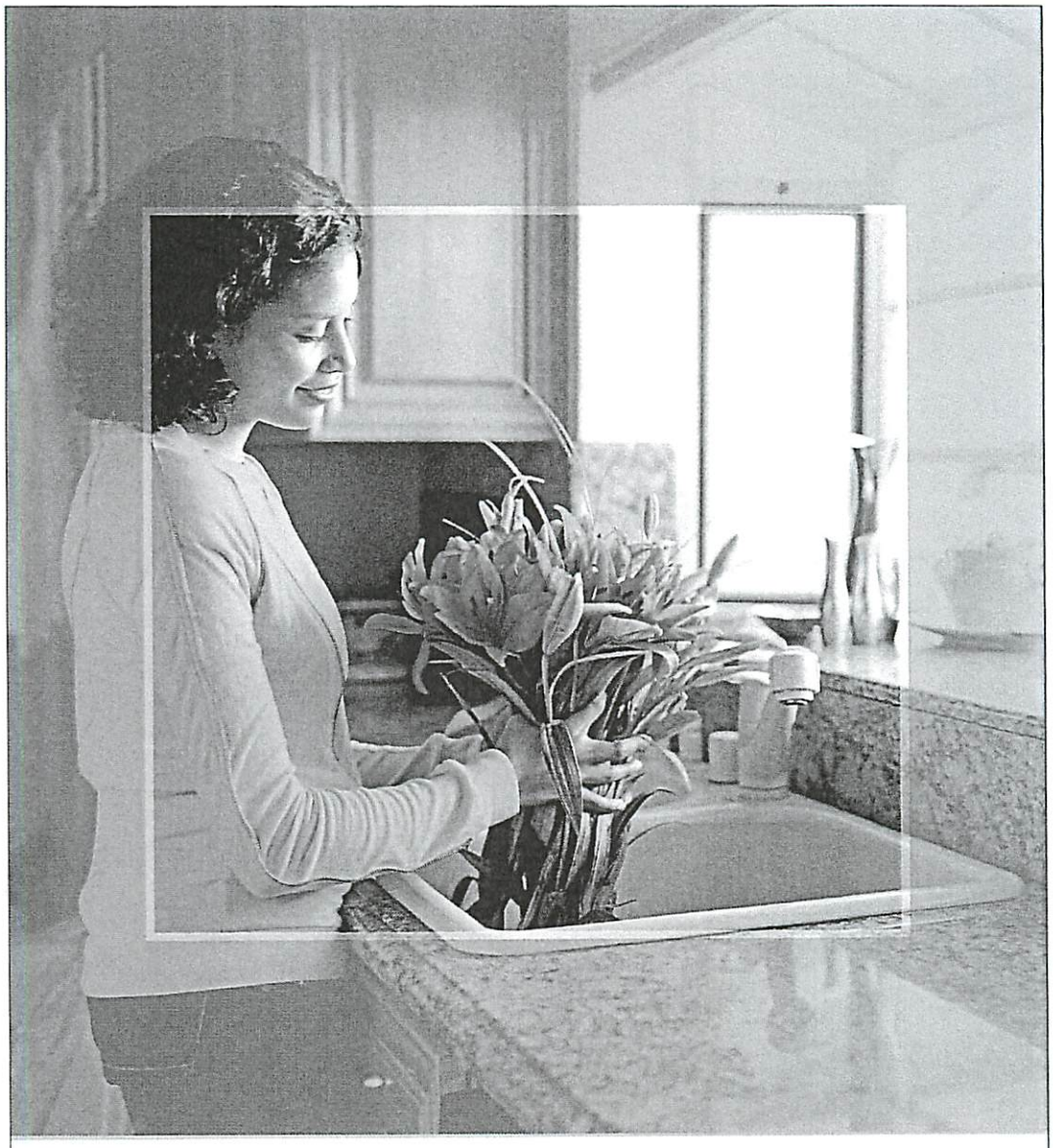
13 % said they would be highly likely to reinstate natural gas within a year or two.



Q15. Have you ever checked into how much it costs to install gas to your home?

Conclusion

- We have seen growth in conversions of inactive to reactivated accounts despite a weak economy. We attribute this partly to an aggressive marketing strategy .
- Marketing efforts have successfully created awareness about natural gas availability.
- There are inactive customers who are highly likely to reactive their service in the near future.
- The main obstacles preventing conversions are cost and perceived complexity of the process of switching from electric to gas appliances, as well as poor economic market conditions.
- Reactivation initiatives support Florida Public Utility's safety and public awareness objectives by keeping the public informed and poised to convert when the time is right for the potential customer.



Natural Gas. Style and Savings.

TECO
PEOPLES GAS

Parties/Staff Handout
event date 07/19/12
Docket No. 120068-GU

These days, we're all a little more cost conscious – and we appreciate our responsibility for the environment. That's why Natural Gas makes sense today. With Natural Gas, you'll enjoy precise temperature control in the kitchen, plenty of hot water in the bathroom and warm heat for a cozy home. And when it comes to being earth friendly, the average Natural Gas home has a 46% smaller carbon footprint than the average all-electric home. The energy efficiency and annual cost savings are pretty swell, too.

Natural Gas Water Heating

- Heats water up to twice as fast as electricity and provides comfort during a power outage
- Tankless technology heats water on demand and is up to 40% more energy efficient
- Tankless models are durable, lasting 20 years on average

Natural Gas Home Heating

- Maximum efficiency – today's models are up to 98% efficient
- Enhanced comfort with air up to 25 degrees warmer than an electric heat pump
- Sustainable cost savings over time with less energy use

Natural Gas Clothes Drying

- A green laundry room essential for the eco-conscious homeowner
- Clothes dry nearly twice as fast – saving money, energy and time
- Stretch your wardrobe investment with shorter drying times that are gentler on clothes

Natural Gas Cooking

- Cook with the precise temperature control preferred by 96% of professional chefs
- An easy style and performance upgrade for the heart of your home
- Instant on and off provides the ultimate in convenience and control

Natural Gas Fireplace

- Easy to incorporate into any design
- Ambiance with exceptional comfort and convenience
- Enhanced indoor air quality over wood burning

Natural Gas Outdoor Living

- Convenient, clean grilling for endless entertaining
- Lighting adds timeless charm without attracting bugs
- Extend the swim season with energy efficient pool and spa heating

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peoplesgas.com

999.0838 v2 CorpComm 7/12 5M DP

Parties/Staff Handout
event date 07/19/12
Docket No. 120068-GU

Clothes Drying

Spend less time, money and energy on laundry. A natural gas dryer dries clothes more thoroughly and faster than an electric dryer.

Your clothes dryer is one of the largest energy users in your home. On average, the electric energy needed to dry a typical load of laundry costs 30 to 40 cents, while natural gas dryers costs 15 to 20 cents. A high efficiency natural gas dryer may cost more initially, but it saves money in the long run. When choosing your next clothes dryer purchase a model with a moisture sensor. When the clothes are dry, the machine shuts off rather than continue to run until the time is up. Also, look for a model that has a cool-down or perma-press period. These cycles use cool air and tumble dry in the last few minutes of the drying process, rather than continuing to use heat.

Why Natural Gas Drying?

- Saves time & money
- Cost less to operate than electric
- Gentler on fabrics
- Heats up faster with shorter drying time
- Better temperature control = fewer wrinkles
- Fewer moving parts than electric dryers so they are less likely to break down
- Increases your property value

Be a SUPER hero everyday with natural gas!

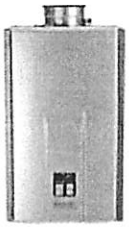
Tankless Water Heating

Natural gas water heaters provide a seemingly endless supply of hot water at a fraction of the cost than other fuel types.

Many homes today feature large bathrooms with luxury spa baths and other amenities. Natural gas tankless water heaters can provide you with an endless supply of hot water.

More and more customers are demanding green products. Natural gas tankless water heaters are also environmentally friendly. In fact, they were named as one of the "Top Green Products" by Building Products Magazine.

Why Tankless?



- Cost up to 70% less to operate than a traditional electric water heater
- Conserves energy
- Tankless water heaters can be installed on virtually any wall inside or outside of homes
- Multiple venting options
- Tankless water heaters give homeowners the opportunity to provide high-value upgrades to their homes
- Tankless systems take up less floor space
- Flexibility to meet the hot water demands of any size home
- A life span of up to twice as long as conventional tank systems
- Increases your property value

Never run out of hot water again! Go Tankless!

Water Heating

Natural gas water heaters are fast, efficient, and easy on the environment. For all the hot water you need - when and where you need it - the natural choice!

Don't worry about running out of hot water with natural gas water heaters; they heat water twice as fast as electric and cost 50% less to operate. Your family will always have hot water when they need it most, for less money. And because it's clean, natural gas water heaters emit up to half the carbon emissions of an electric water heater.

Why Natural Gas Water Heating?

- Heats water twice as fast as an electric water heater
- Costs 50% less to operate
- Up to 50% fewer carbon emissions
- Provides hot water even when the electricity goes out
- More durable due to less working parts
- Comes in a variety of sizes to choose from
- Okaloosa Gas provides emergency service 24/7
- Increases your property value

No worries during storm season!

Heating

A natural gas furnace or hydro heat system provides better warmth than an electric heat pump.

The most popular form of home heating in America is natural gas. 70% of U.S. homes are heated by natural gas. That's why the majority of home buyers in the U.S. choose natural gas as their primary heating source. In most areas, a high efficiency gas furnace costs up to 40 percent less to operate than an electric heat pump. You have a variety of heating systems to choose from: forced air furnace, hydro heat, radiant, hydronic, and space heaters. Another great way to consider supplemental heat to an addition to your home or outdoor room is a natural gas decorative fireplace.

Why Natural Gas Heating?

- Up to 98% energy efficient
- Natural gas heat provides up to 25˚ warmer air than an electric heat pump
- Warms your home more quickly and efficiently
- Natural gas space heating systems cost less to operate than electric
- A natural gas furnace will last six years longer than an electric heat pump
- Natural gas heating systems are available in a wide variety of high efficiency models
- Increases your property value

That's HOT! Natural Gas Heat--Warm & Cozy!

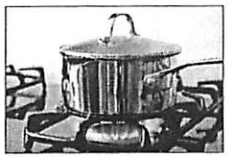
Cooking

Discover what professional chefs already know. 96% of professional chefs prefer to cook with natural gas.

Just like professional chefs all over the world, home chefs like you want the same even heat and temperature control that only comes from cooking with Natural Gas. And with Natural Gas the kitchen is always open, even during a power outage. No wonder everyone ends up there.

Today's gas ranges, ovens, cook tops and grills will have you cooking like a pro; you'll save energy and money because Natural Gas is efficient and can be turned on or off instantly. In fact, it costs about half as much to cook with a Natural Gas range as a electric one. Any way you look at it, you can't beat Natural Gas in the kitchen.

Why Natural Gas Cooking?

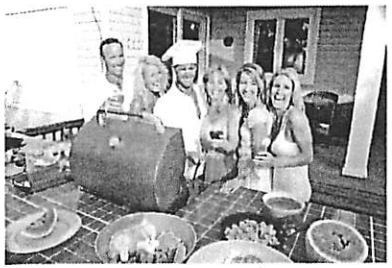


- Costs less to operate
- Creates better tasting meals
- NEW - Indoor pizza ovens
- Heats up faster than electric
- Total reliability - even in a power outage
- Precision control, instant on, instant off
- Simple and elegant cooking options
- Natural gas ranges last longer than electric ranges
- Increases your property value

Create a perfect meal every time with natural gas!

Grilling

Today, there are a wide range of natural gas grills and grill islands available to suit just about every budget, décor and size.



Everyone who likes to cook will love being spoiled by a natural gas grill. They are the key to gourmet grilling. Natural gas provides complete control of the flame, from low heat for slow smoking and grilling, to high heat for braising and searing.

Natural gas grills are convenient, safe, fast and easy to use. Forget the worry of running out of propane in the middle of a barbecue and the hassle of refilling the tank. Gas grills tap directly into your home's natural gas supply.

Why Natural Gas Grilling?

- Natural gas grills are convenient, safe, fast and easy to use
- Gas grills are less expensive to operate than propane, charcoal and electric grills
- They never run out of gas as do propane tanks
- There is no need waiting for coals to get hot and disposing of ashes as with charcoal grills
- They can help reduce heat in the kitchen during the summer, lowering air conditioning costs
- They can extend your outdoor cooking season to year-round
- Increases your property value

NO worries during storm season!

Fireplaces

Natural gas logs heat your home more economically and efficiently than wood burning fireplaces.

Natural gas fireplaces are one of the hottest" products on the market whether you're building a new home, putting on an addition or remodeling your existing home. A natural gas fireplace offers incredible installation flexibility in a wide variety of styles. Best of all, the fire in a gas fireplace is now so realistic that it is difficult to tell the difference from a wood-burning fireplace. These beautiful units can offer everyone the chance to relax in front of a fire at the touch of a button without the worry and hassle of harmful emissions like wood-burning fireplaces. In addition, many of them can operate without electricity, providing comfort during power outages.

Why Natural Gas Fireplace & Logs?

- Vent free models are 99% energy efficient
- Convenient and instantaneous
- Clean, low-maintenance and environmentally friendly
- No harmful emissions, soot or ash
- Realistic wood-like flames
- Flexible installation options
- Multitude of designs and styles
- Decorative source of supplemental heat
- Total reliability even in a power outage
- Increases your property value

Great source for supplemental heat!

Outdoor Living

Give your outdoor living space year-round comfort with natural gas patio heating, pool heating, grilling and lighting.

An outdoor room can be as simple as a grilling area or an entire backyard oasis. Check out the many gas products that are available to enhance your outdoor experience:

- **Grills** start with the push of a button and are ready to cook on in minutes
- **Fireplaces** are available in many styles and sizes
- **Fire pits** can be built-in or portable. They radiate heat in a complete circle, similar to a campfire
- **Patio heaters** can radiate heat 20 to 25 feet in all directions
- **Pool and spa heaters** are very efficient. They heat water seven to ten times faster than an electric heater
- **Gaslights** are a great way to add style and ambiance to your outdoor room. Plus, gaslights do not attract insects

Why Natural Gas for the Outdoors?

- Increases your property value
- Patio heaters and outdoor fireplaces take the chill out of the winter air
- Outdoor living is one of the hottest trends for homeowners
- Pool heaters are more efficient than electric
- Lighting adds a gentle glow and extra security
- Never have to worry about running out of fuel

Outdoor Living + Natural Gas = Good Times

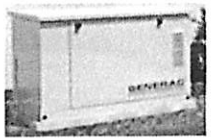
Generator

Never be left in the dark again. A natural gas generator provides reliable electricity without having to store fuel.

Don't lose all the comforts of home just because the electricity goes out! You don't have to spend another storm season in the dark or in long lines for food, ice, charcoal, batteries and sweating in the heat! Be the envy of the neighborhood!

Natural gas backup generators are available in sizes to fit your electrical needs, from a few circuits to the whole house. It has an auto-start capability that allows the generator to start up on its own after the power fails. Many units have weatherproof enclosures that allow permanent installation and quiet operation.

Why A Natural Gas Generator?



- Automatic and dependable
- Permanently installed
- Variety of sizes from selected appliances to whole house power
- Perfect for residential, commercial or industrial
- No need to store and maintain a supply of fuel
- Reduced maintenance due to a clean-burning natural gas engine
- Reduced emissions into the environment when compared to other fuels
- Increases your property value

NO worries during storm season!