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IN REPLY REFER TO:

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December 10, 2015

VIA E-PORTAL FILING

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 150259-GU -- Petition for the Commission to issue an order to show cause against Peoples Gas System for violations of Chapter 25-12, F.A.C., request for imposition of fines, and request for rate relief, by Office of Public Counsel

Dear Ms. Stauffer:

Attached for filing with the Commission on behalf of Peoples Gas System, please find its Response to the Petition filed by the Office of Public Counsel in the above docket.

Thank you for your usual assistance.

Sincerely,


Ansley Watson, Jr.

AWjr/a
Enclosures

cc: Danielle M. Roth, Esquire
J.R. Kelly, Esquire
Charles Rehwinkel, Esquire
Braulio Baez
Charlie Beck, Esquire
John Villafrate, Esquire
Ms. Kandi M. Floyd

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for the Commission to issue an order to)
show cause against Peoples Gas System for violations) Docket No. 150259-GU
of Chapter 25-12, F.A.C., request for imposition of fines,)
and request for rate relief, by Office of Public Counsel.) Filed: December 10, 2015
_____)

**PEOPLES GAS SYSTEM’S RESPONSE TO
PETITION OF OFFICE OF PUBLIC COUNSEL**

Peoples Gas System (“PGS” or the “company”), by and through undersigned counsel, responds to the Petition filed in this docket by the Office of Public Counsel (“OPC”), and says:

Background

PGS is a public utility as defined by §366.02, *Florida Statutes*, and subject to the regulatory jurisdiction of the Commission under Chapter 366, *Florida Statutes*, with respect to rates and service, and under Part I of Chapter 368, *Florida Statutes*, with respect to safety. The company is engaged in the distribution and sale of natural gas to residential, commercial, industrial and electric generation customers located in 14 separate geographic areas (“divisions”) of the state. It has approximately 540 employees, is headquartered in Tampa, Florida, and operates the largest natural gas distribution system in Florida. The company primarily provides transportation of customer-owned natural gas to its electric generation, industrial and larger commercial customers, and makes sales of gas on a delivered basis to its residential and smaller commercial customers.

As indicated above, PGS has 14 operating divisions. Each division is subject to inspection every year by Commission field inspectors. The same is true of the seven short transmission pipeline assets operated by the company, resulting in at least 21 separate Commission field inspections each year. In addition, PGS’s distribution and transmission integrity management plans and its other required plans are periodically inspected by Commission field inspectors.

Under the administrative and operational control of its 14 divisions, PGS owns, operates and maintains a system of approximately 12,500 miles of distribution mains and 160 miles of transmission lines, and provides natural gas service to over 365,000 customers. It currently operates approximately 1,250 regulator stations and 80 gate stations (points of interconnection between the company's facilities and the facilities of interstate or intrastate natural gas pipelines).

Of the required compliance inspections and surveys PGS must conduct on a statewide basis, over 987,000 are "date-driven." The required inspections/surveys must, under the applicable safety regulations, be performed annually, every three years, every five years, or every 10 years.

It should be recognized that when a Commission "field inspection" is made of a PGS division or transmission pipeline, the large majority of the field inspection involves review of historical information. While the company may take the Commission inspector to a particular location designated by the inspector to look at a valve, regulator station, etc., much of the inspection is of records related to work performed the previous year. For example, the vast majority of an inspection conducted in 2013 would focus on records of inspections/surveys required to be performed by PGS during 2012 (the year prior to the year in which the inspection was conducted by the Commission inspector).

Safety is PGS's number one priority, outweighing all other considerations. It is important to note that no instance of noncompliance identified in Commission audit reports referenced in Appendices A and B to the Petition, resulted in any PGS employee, PGS customer, or member of the public experiencing any injury or damage to property.

Audit Findings and PGS Compliance Efforts

PGS acknowledges that the 2013 audit disclosed violations of the Commission's rules and areas in which the company needed improvement to address compliance with the rules. The 2015 audit acknowledged progress and indicated that continued efforts are necessary.

Since the issuance of the report of the 2013 audit, significant changes have been made by PGS, and other changes are ongoing. PGS was aggressive in its response both to issues identified by the Commission audit staff and to issues the company identified through its own inquiries during the course of the Commission audit. Even before the 2013 audit reported in Appendix A to the Petition was complete, PGS had constructed multi-year corrective action plans to address issues found by the Commission's auditors. These multi-year plans are comprehensive, and portions of them are extensive in nature and have been scheduled and put into service over a number of months. As an example, the GL Noble Essentials software program ("Essentials") was selected and implemented by the company ahead of schedule in an effort to address the "date-driven" compliance issues identified in the 2013 report. In late 2013 through 2014 a project team was put in place to implement PGS's new company-wide compliance software. This implementation included software configuration, interfacing with other company systems, data clean-up and migration and inventory and reclassification of 13,000 previous paper records into the Company's GIS mapping system. The use of Essentials in the Company's operating divisions started in January 2015 and was successfully rolled-out across the state the first quarter of 2015. The major benefits of this implementation should be clearly evident in the 2016 audits of the Company's 2015 compliance performance results.

The implementation of Essentials was preceded by numerous actions on the part of the company, including but not limited to the following:

- System-wide reorganization and standardization of processes statewide
- Creation of a centralized Operational Shared Services department
- A thorough assessment of repeat violations

- Company management's holding of multiple meetings with territory team members directly involved with compliance activities to evaluate status for the year and to develop ways to ensure compliance
- Hiring of outside contractors to assist with compliance work
- Weekly operational performance ("huddle") calls by the Director of Gas Operations with territory and division managers and supervisors
- Establishment of a centralized GIS team
- Improvements to the accuracy of records and mapping for the company's system
- Transitioning from a traditional operator qualification program to a new and nationally recognized personnel qualification program (ASME B31Q) that contains higher standards and requirements than traditionally required. This required a three-year transition and the retraining and requalification of the company's 250 field technicians, and was completed in June 2015.

OPC's Petition makes references to fraud or fraudulent conduct on the part of the company. The referenced conduct, which was inconsistent with the company's high ethical standards and commitment to compliance, involved falsification of records by three team members in one of the company's divisions. As soon as PGS became aware that misconduct may have occurred, the Company, on its own volition, instituted an internal investigation by the TECO Energy Director of Corporate Ethics and Compliance. The investigation confirmed that certain leak survey records had been falsified. As stated in the report of the Commission's 2015 audit (Appendix B to the Petition, page 11), "[t]he investigation was thorough, including a review of the original allegations, other allegations that came to light during the inquiry, and interviews with all Ocala division personnel." The three PGS employees involved in the incident were terminated.

As a result of the falsifications, the company has re-performed not only the leak surveys that may have been falsified, but all the 2014 required leak surveys for that division (approximately 9,900).

In light of the results of PGS's internal investigation in its Ocala division, the company initiated, through the TECO Energy Audit Services Department, a broader investigation to determine whether there is evidence of similar conduct in the company's other operating divisions. That investigation, in which TECO Energy Audit Services has engaged KPMG LLP, to assist, has been underway since early November, and a report on its findings is expected in early 2016. That report will be shared with the Commission and the Office of Public Counsel.

Safety is at the top of PGS's "core values," and the company is committed to compliance with all regulations affecting the safety of its customers, employees, and the general public. Even in the face of ever-changing regulations and requirements, the company will work to continuously improve and update its programs, processes and controls, and to instill a culture of safety in its team members.

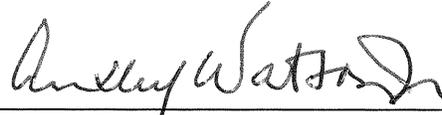
Issues Raised by OPC's Petition in this Docket

Throughout both the 2013 and 2015 audits reported in the appendices to OPC's Petition, PGS was forthcoming in providing access to personnel and requested records to the Commission's auditors, and was fully transparent and cooperative. The company has not disregarded, or been indifferent to, the need for compliance with the applicable provisions of Chapter 25-12, F.A.C. referenced in the Petition. To the contrary, the company has devoted countless hours of management and other employee time and effort, and expended significant resources, in an effort to correct the issues found in the 2013 audit.

Throughout the entire time period from the 2013 audit to date, PGS has maintained the same cooperation and transparency in dealing with the Commission's auditors, inspectors, and other staff. Given the magnitude of the company's efforts to improve its compliance systems and the anticipated benefits once all of those improvements have been fully implemented, PGS

does not believe that the relief requested in OPC's Petition is appropriate. The company will continue to work openly and cooperatively with the Commission and the Office of Public Counsel in this docket to reach a mutually acceptable resolution of the issues raised in the Petition.

Respectfully submitted,



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Attorneys for Peoples Gas System

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the forgoing Response has been furnished by electronic mail this 10th day of December, 2015, to the following individuals:

J.R. Kelly, Office of Public Counsel

Charles Rehwinkle, Office of Public Counsel

Danielle Roth, Office of Public Counsel

Braulio Baez, Florida Public Service Commission

Charles Beck, Florida Public Service Commission

John Villafrate, Florida Public Service Commission



Ansley Watson, Jr.