# PROPOSED RULEMAKING

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

**[ 52 PA. CODE CH. 59]**

**[ L-2012-2294746 ]**

### Establishing a Uniform Definition and Metrics for Unaccounted-for-Gas

The Pennsylvania Public Utility Commission, on June 7, 2012, adopted a proposed rulemaking order which establishes a uniform definition of "UFG" and metrics for UFG.

*Executive Summary*

The Public Utility Commission's (PUC) Bureau of Investigation and Enforcement and Bureau of Audits generated a joint report entitled "UNACCOUNTED-FOR-GAS (UFG) in the Commonwealth of Pennsylvania" dated February 2012. The report identified the following general findings: natural gas distribution companies (NGDC) often report UFG based upon their own definition, which varies from company to company resulting in inconsistent reporting; the lack of a standard definition of UFG may tempt NGDCs to trivialize the importance of minimizing the volume of UFG; the PUC should consider establishing a clear definition of UFG to eliminate any inconsistencies that may currently exist; and the PUC should consider establishing specific metrics to establish and transition to an acceptable level of UFG. As a result of the report, a cross disciplinary team was established to explore proposed regulations and was formed by members of the following Bureaus: Law Bureau, Office of Special Assistants, Audits, and Technical Utility Services. The team also met with industry representatives comprised of the Energy Association of Pennsylvania and several company representatives, to further refine the proposed regulation.

On June 7, 2012, the PUC issued a proposed regulation based on the joint report and input from industry representatives. The proposed regulation, which is directed at NGDCs, is drafted to create a consistent definition for UFG and a cap metric for maximum allowable recovery of UFG. Specifically, the proposed rulemaking aims to establish a uniform definition and methodology for the calculation and reporting of UFG within Pennsylvania. In addition, the proposed rulemaking proposes a maximum allowed recovery for UFG with year one allowing 5% of distribution losses; year two at 4.5%; year three at 4%; year four at 3.5%; and year five at 3%.

Public Meeting held
June 7, 2012

*Commissioners Present*: Robert F. Powelson, Chairperson; John F. Coleman, Jr., Vice Chairperson; Wayne E. Gardner; James H. Cawley; Pamela A. Witmer

*Establishing a Uniform Definition and Metrics for Unaccounted-for-Gas; Doc. No. L-2012-2294746*

**Proposed Rulemaking Order**

*By the Commission:*

Customers of natural gas distribution companies (NGDCs) in Pennsylvania pay for the costs of unaccounted for gas (UFG) through various proceedings that allow for the collection of those costs. In general, UFG is the difference between the amount of gas delivered to the NGDC and that used or sold by the NGDC's customers. The accurate calculation of the cost this gas is of great concern to the Pennsylvania Public Utility Commission (PUC or Commission). Currently, the PUC's regulations lack a definition for UFG, and, as a result, the Commission gets information on UFG based upon individual companies' definition of that term. Due to the lack of consistency in this information, current reported levels of UFG are not comparable and hinder the Commission's ability to effectively monitor UFG levels and their corresponding financial burden to ratepayers.

Accordingly, the Commission has determined that it is important that all UFG be treated in a uniform manner. This uniformity requires a standard definition that has been lacking and a standard set of metrics that will serve as a bright line for the recovery and non-recovery of these costs. With these changes, annual reports will now mandate accurate and uniform UFG reporting.

To that end, we propose to adopt the Staff's recommendation and establish a uniform definition of UFG and metrics for UFG. Therefore, in accordance with Section 501 of the Public Utility Code, 66 Pa.C.S. § 501(b), the Commission is formally commencing its rulemaking process to establish regulations regarding UFG reporting requirements, standards and maximum limits at 52 Pa. Code § 59.111 pursuant to the proposed language in Annex A.

*Statement of Scope and Purpose*

The regulations in Annex A are being proposed to create a consistent definition for UFG within Pennsylvania and will apply to any filing made by NGDCs to the Commission. In addition, a UFG metric is being established to set the maximum level of financial recovery of UFG for NGDCs. The addition of a UFG definition and metric for cost recovery purposes should not be construed to supersede the Commission's ability and obligation to ensure safety, in particular the powers enumerated in the Public Utility Code at Sections 331, 501, 1501 and 1504 (66 Pa.C.S. §§ 331, 501, 1501, and 1504) or the Commission's partnership with the federal government and enforcement powers governed by 49 U.S.C. § 601 and 49 C.F.R. §§ 190—193 and 199.

The Commission views the adoption of this definition to be a potential addition to its safety efforts in conjunction with those tools. It intends to use these new standardized reports as the basis for future action in the safety area. Additionally, the Commission may also require NGDCs to file plans or perform additional remediation in conjunction with a rate proceeding or similar settlement if the NGDC's level of UFG is worsening, even if the NGDC's level of UFG is below the metric established in Annex A.

*Background*

NGDCs are required to report their level of UFG in at least three separate filings with the Commission.[1] Generally, within Pennsylvania, UFG is the difference between the amount of gas delivered to the NGDC and that which is sold to/used by the NGDC's customers. However, the definition varies widely between companies and there is little case law within Pennsylvania defining UFG. The level and cost of UFG can be excluded or adjusted within formal rate proceedings if the Commission deems the level filed by the utility to be "excessive." The inconsis-

[1] Schedule 505 (Gas Account-Natural Gas) of the Gas Annual Report is required by 66 Pa.C.S. § 504, GCR and PGC filings are required by 66 Pa.C.S. § 1307(e) and (f), Department of Transportation (USDOT) Pipeline and Hazardous Material Safety Administration (PHMSA) Form 7100.1-1 is provided to states according to 49 U.S.C. § 60105. These requirements are discussed below.

tency in definition and lack of focus on UFG has hindered the Commission's ability to effectively monitor and compare UFG levels and its corresponding financial burden on ratepayers.

In February 2012, the Commission's Bureau of Investigation and Enforcement (BI&E) and the Bureau of Audits (Audits) internally released a report to the Commission entitled "UNACCOUNTED-FOR-GAS In the Commonwealth of Pennsylvania" (Report). A copy of this Report is available on the Commission's web site.

In the Report, Staff found that NGDCs often report UFG based upon their own definition, which varies from company to company, resulting in inconsistent reporting. See Report, p. 6. Also, the lack of a standard definition of UFG may tempt NGDCs to trivialize the importance of minimizing the volume of UFG. Id. at 7. In addition, the Report identifies and attempts to summarize the financial impact on Pennsylvania ratepayers related to UFG. Id. at 12. The Report recommends that the Commission consider establishing a clear definition of UFG to eliminate any reporting inconsistencies that may currently exist. Id. at 12. It also suggests that the Commission consider establishing specific metrics to identify and transition to an acceptable level of UFG, as well as consider creating a cap for NGDC cost recovery. Id. at 13.

*Discussion*

As explained above, the term "unaccounted for gas" is used in one form or another throughout the Commission and by NGDCs in a variety of rate proceedings, filings, reviews, and documents. In fact, UFG is reported to the Commission in at least three regularly required filings:

- Schedule 505 of the Gas Annual Report;
- 66 Pa.C.S. § 1307(f) filings through which Purchased Gas Cost (PGC) filings and Gas Cost Rate filings (GCR) are made; and
- U.S. Department of Transportation (USDOT) Pipeline and Hazardous Material Safety Administration (PHMSA) Form 7100.1-1 (USDOT Report).

Gas utilities submit Schedule 505 to the Commission as part of their Annual Report,[2] encompassing data from January 1 to December 31. A review of Schedule 505 indicates that there are three main components and various subcomponents to gas accounting, which include gas received, gas delivered, and UFG. Schedule 505 specifically states, "The purpose of this schedule is to account for the quantity of natural gas received and delivered by the respondent adjusted for any differences in pressure bases used in measuring a thousand cubic feet (MCF) of natural gas received and delivered." Given this statement, UFG can be simply defined as the difference between total gas received and the sum of total gas delivered and company use within a gas system for a calendar year. In addition, NGDCs are allowed to adjust for temperature or pressure variations on measured results. To make an effective analysis of UFG, the Annual Reports will now include accurate reporting of UFG as defined by the proposed regulation. Further the Commission will develop a template for the reporting of UFG as part of that Annual Report to maintain consistency.

Although GCR and PGC filings are separate and distinct mechanisms, they both approach UFG similarly. UFG is defined for PGC and GCR filings in 66 Pa.C.S. § 1307(h):

> As used in this section, the terms "natural gas costs" and "gas costs" include the direct costs paid by a natural gas distribution company for the purchase and the delivery of natural gas to its system in order to supply its customers. Such costs may include costs paid under agreements to purchase natural gas from sellers; costs paid for transporting natural gas to its system; costs paid for natural gas storage service from others, including the costs of injecting and withdrawing natural gas from storage; all charges, fees, taxes and rates paid in connection with such purchases, pipeline gathering, storage and transportation; and costs paid for employing futures, options and other risk management tools. "Natural gas" and "gas" include natural gas, liquefied natural gas, synthetic natural gas and any natural gas substitutes.

Under this provision, UFG is generally considered a cost of service and is included as a component of the cost of gas established in § 1307 Gas Cost proceedings.

UFG is reported to the Commission pursuant to 52 Pa. Code § 59.81—84 by Form-IRP[3]-Gas 1A Annual Gas Demand Requirements. Since our regulations do not provide a definition for UFG, the § 1307(f) NGDCs provide this data in their annual PGC filings based upon each company's unique definition of UFG. See Report, p. 6. For GCR companies, UFG is computed by Audits from company data presented in their annual GCR filings. The GCR companies file supporting data from either September to August or November to October. Id. at 2. In contrast, PGC companies file pursuant to a schedule filed in the *Pennsylvania Bulletin*.[4] Based on each company's filing, Audits, BI&E, or interveners can propose adjustments to the gas cost rates if the level of UFG is considered "excessive." Id.

USDOT Reports are required by regulation at 49 C.F.R. § 191 and duplicate reports are provided to state agencies under 49 U.S.C. § 60105. The Commission's Gas Safety Division and Audits use this data to assess company performance. See Report, p. 3. In the Gas Distribution System Instructions for Completing Form PHMSA[5] F7100.1-1 Part G- Percent of Unaccounted for Gas, USDOT provides the following definition and calculation for UFG:

> "Unaccounted for gas" is gas lost; that is, gas that the distribution system operator cannot account for as usage or through appropriate adjustments. Adjustments are appropriately made for factors as variations in temperature, pressure, meter-reading cycles, or heat content; calculable losses from construction, purging, line breaks, etc., where specific data are available to allow reasonable calculation or estimate; or other similar factors.
>
> State the amount of unaccounted for gas as a percent of total input for the 12 months ending June 30 of the reporting year.
>
> [(Purchased gas + produced gas) minus (customer use + company use + appropriate adjustments)] divided by (purchased gas + produced gas) equals percent unaccounted for.
>
> Do not report "gained" gas. If a net gain of gas is indicated by the calculations, report "0%" here. (Decimal or fractional percentages may be entered.)[6]

As stated above, the directions define the time period as being the "12 months ending June 30 of the reporting

[2] See http://www.puc.state.pa.us/filing_resources/online_forms/natural_gas_online_forms.aspx (2011 Natural Gas Distribution Annual Report Form)

[3] 52 Pa. Code § 59.81 discusses the requirements associated with a NGDCs Integrated Resource Planning Report or IRP. § 59.82 discusses the Annual Conservation Report; § 59.83 discusses Evaluating Methodologies; and § 59.84 discusses Formats.

[4] See Pa.B. 4603, Saturday, August 20, 2011, for the 2012 schedule of § 1307(f) NGDC filing dates.

[5] U.S. DOT Pipeline and Hazardous Materials Safety Administration (PHMSA).

[6] See http://www.phmsa.dot.gov/pipeline/library/forms.

year." In addition, the USDOT Report only applies to distribution systems. PHMSA has a separate UFG report for transmission, production/gathering, and/or storage losses.

The lack of an actual UFG definition provides an inconsistent and often incomparable metric. All three reports can include different types of facilities (i.e., distribution, transmission, storage, and production/gathering). Schedule 505 is unclear whether UFG should include production/gathering, storage, and interstate transmission losses. See Report, pp. 6-7. A review of the 2010 Annual Report of the ten 1307(f) companies reveals that different companies report and/or track different types of UFG. Id. at 7.

The inconsistency among definitions has also introduced errors within reported UFG levels. See Report, pp. 8-9. As presented in Table 1 and the discussion on GCR companies below, various NGDCs have reported negative UFG. Since a closed system cannot spontaneously generate gas, the negative UFG suggests a flaw in the measurement, calculation or definition of UFG. Id. at 9. There may be conditions leading to UFG (as presented in the GCR Company's comments within GCR Filings discussed below), which are often argued by utilities through timing of bills, and meter inaccuracies, for example. However, a consistent definition for UFG would eliminate the potential for these errors leading to a net negative UFG level.

Many of the GCR companies file little or no UFG. In fact, eight out of twelve GCR companies[7] file zero or negative UFG in their GCR filings.[8] These low UFG numbers are not an indication of the distribution system operations, but rather are due to metering. Specifically, these eight companies are not metering their source (gas produced) and, therefore, their losses are absorbed by their production affiliates. Although ratepayers may currently benefit from this relationship, the Commission has no relevant UFG information about these GCR distribution systems. We wish to make it clear that, as part of this proceeding, we will not require these GCR companies to install meters necessary to fully track UFG at this time. Nonetheless, this is an option that will require additional study and could be implemented sometime in the future. A consistent definition of UFG may not correct the practice of allowing production affiliates to absorb these losses, but it should help highlight the importance of tracking UFG due to the Commission's refined and consistent approach to UFG.

[7] Andreassi, Chartiers. Herman Oil & Gas., Herman Riemer, Orwell, Sergeant, Sigel, and Wally all report zero or negative UFG in their GCR Filings.

[8] Analysis taken from data provided to the Commission in the 2009, 2010, and 2011 GCR filing by GCR companies.

**Table 1**
**Unaccounted For Gas Levels for PGC Companies**

| | *Columbia* | | | *Dominion*[4-1] | | | *Equitable* | | |
|---|---|---|---|---|---|---|---|---|---|
| *Year* | *Annual Report* | *1307(f) Filing* | *USDOT Report* | *Annual Report* | *1307(f) Filing* | *USDOT Report* | *Annual Report* | *1307(f) Filing* | *USDOT Report* |
| 2005 | 1.11% | 1.90% | 1.88% | 5.12% | 3.48% | 2.68% | 10.23% | 9.95% | 5.10% |
| 2006 | 0.06% | 1.90% | 1.88% | 5.91% | 4.32% | 3.46% | 11.91% | 7.31% | 7.60% |
| 2007 | -0.05% | 1.30% | 1.30% | 9.01% | 5.09% | 3.94% | 9.32% | 6.95% | 5.40% |
| 2008 | -0.66% | 1.60% | 1.30% | 6.39% | 4.90% | 4.32% | 10.01% | 7.34% | 7.60% |
| 2009 | -0.23% | 1.90% | 1.90% | 4.55% | 5.99% | 3.20% | 5.01% | 7.00% | 5.00% |
| 2010 | 0.06% | 2.00% | 2.00% | 6.13% | 5.42% | 2.85% | 4.18% | 5.18% | 5.40% |
| | *NFG* | | | *PECO* | | | *PGW* | | |
| 2005 | 0.31% | 2.50% | 0.67% | 2.84% | 2.40% | 2.40% | 3.40% | 3.90% | 2.80% |
| 2006 | -1.52% | 2.50% | 0.42% | 2.10% | 2.90% | 2.90% | 1.89% | 4.00% | 2.00% |
| 2007 | 0.02% | 2.50% | 0.42% | 3.71% | 3.60% | 3.60% | 7.56% | 4.10% | 2.80% |
| 2008 | -0.52% | 0.36% | 0.41% | 4.49% | 4.20% | 3.58% | 2.52% | 3.90% | 2.80% |
| 2009 | -0.42% | 0.44% | 0.31% | 2.98% | 4.30% | 4.21% | 2.91% | 3.80% | 2.20% |
| 2010 | 1.90% | 0.44% | 0.00% | 2.80% | 4.40% | 4.44% | 5.90% | 3.70% | 2.20% |
| | *TW Phillips* | | | *UGI Utilities* | | | *UGI—Penn Natural Gas* | | |
| 2005 | 4.57% | 4.57% | 4.59% | -0.40% | -0.20% | 0.20% | 0.25% | 0.45% | 0.40% |
| 2006 | 4.11% | 4.11% | 4.21% | 0.42% | 0.50% | 0.20% | -1.03% | 0.57% | 0.40% |
| 2007 | 4.25% | 4.25% | 4.16% | 0.60% | 0.70% | 0.50% | -0.30% | 0.55% | 0.50% |
| 2008 | 3.74% | 4.34% | 3.15% | 0.38% | 0.73% | 0.70% | 0.70% | 0.59% | 0.68% |
| 2009 | 5.40% | 5.10% | 5.10% | 0.47% | 0.51% | 0.50% | 0.91% | 1.11% | 1.08% |
| 2010 | 4.11% | 3.80% | 3.90% | 0.23% | 0.40% | 0.16% | 0.45% | 0.50% | 0.53% |

4-1. Calculated Annual Report value, based on financial accounting entries that do not represent the actual calendar-month physical volumes received and delivered by the Company.

*Note*: UGI—Central Penn Gas is not included due to the 2008 acquisition from PPL Gas.

*Source*: Annual Reports, USDOT Annual Reports for year ended June 30 and 1307(f) data provided to the Commission from the utilities.

**Table 2**

**Unaccounted For Gas Levels for GCR Companies**

| | *2009* | | | *2010* | | |
|---|---|---|---|---|---|---|
| *Company* | *Annual Report* | *GCR* | *USDOT Report* | *Annual Report* | *GCR* | *USDOT Report* |
| North East Heat and Light | 1.25% | 1.25% | 1.62% | 0.53% | 0.53% | 1% |
| Pine-Roe Natural Gas | N/A | 8.50% | N/A | N/A | 6.60% | N/A |
| Pike County Power & Light | -0.11% | -1.00% | 0.10% | 0.05% | -0.50% | 0.80% |
| Valley Energy | -0.88% | -0.88% | 2.40% | -1.76% | -1.76% | 1.75% |

*Source*: Annual Reports, USDOT Annual Reports for year ended June 30 and GCR data provided to the Commission from the utilities.

The Commission has established benchmarks for certain utility services in order to aid in determining prudent, reliable and/or safe utility service. The Commission has already established Electric Reliability Standards at 52 Pa. Code § 57.191, Telephone Quality Service Standards at 52 Pa. Code § 63.51, and a standard for excessive amounts of unaccounted-for-water at 52 Pa. Code § 65.20(4). A consistent definition of UFG would provide the Commission with the framework to review and compare UFG within Pennsylvania. Additionally, a UFG metric for 1307 cost recovery based upon a consistent definition has the potential to provide a meaningful and beneficial mechanism to track and quantify the impact of UFG upon Pennsylvania ratepayers. See Report, p. 10.

The total financial impact of UFG is estimated to be $25.5 million to $131.5 million per year. See Report, p. 10. However, the exact impact of UFG within Pennsylvania and on its ratepayers is currently unknown due to the lack of a consistent definition. Id. at 9. Ultimately, the metric and disallowance for any "excess" loss above the proposed standard would shift the financial burden of any "excess lost gas" from the ratepayer to the utility. Therefore, the continued focus and potential financial impact of UFG could drive a reduction or retain UFG levels below the metric within Pennsylvania. Id. at 11-12. Ultimately, the Commission will have the ability to effectively monitor, enforce, and review UFG levels. Id. at 10-12.

The proposed rulemaking is in general support of various other regulations and orders before the Commission and the USDOT's PHMSA. Pursuant to 74 FR § 63906,[9] the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006, NGDCs must develop and implement a distribution integrity management program (DIMP). Within each company's DIMP, the NGDC must identify and reduce risks which would include high levels of UFG resulting from breaks or leaks. Therefore, a metric for UFG should position the Commission's efforts with PHMSA's direction to minimize risks within distribution systems. See Report, p. 11. In addition, Commission orders at Docket No. M-2011-2271982 (entered on November 10, 2011, December 1, 2011 and December 22, 2011) aim to improve the safety of the NGDCs through enhanced frost patrols and replacement of high risk pipelines (i.e., bare steel and cast iron). The proposed definition and metric for UFG aligns with the Commission's efforts to improve safety in natural gas pipelines. As NGDCs enhance their frost patrols and replace high risk pipe with more contemporary materials, their respective levels of UFG should decrease.

[9] Final Rule Integrity Management Program for Gas Distribution Pipelines. Effective—February 2, 2010.

*Proposed Rulemaking*

*Section 59.111(a).*

The terms used within the UFG calculation are fully defined in this section. More specifically, UFG is defined as the calculation for all lost gas and is derived from the difference in gas received and the accumulation of gas delivered and adjustments. All gas considered received, delivered or adjustments made shall be based upon metered data or sound engineering practices.

*Section 59.111(b).*

The proposed UFG calculation is based on the USDOT Report calculation and is generally aligned with current NGDC definitions of UFG. Since the Commission has jurisdiction over public utility gathering, transmission (pursuant to 52 Pa Code § 59.31(a)), distribution and storage, losses from all aspects of operating an NGDC should be recorded and reported within a company's filings. This is highlighted within proposed Sections 59.111(b)(3) and 59.111(b)(5). Losses for each system should be calculated to the extent possible with actual gas volumes or if unattainable, through supported, transparent and consistent estimation calculations.

*Section 59.111(c).*

A declining distribution metric was proposed to align the UFG metric with PHMSA's DIMP, the Commission's December 2011 Order at Docket No. M-2011-2271982 and other efforts within the gas industry. A starting point of 5% UFG was established based upon reported utility performance within the PGC, GCR, Annual Report and USDOT Report filings. All but two PGC companies (out of 9 presented)[10] and one GCR company (out of 12)[11] reported UFG levels below 5% in 2010 on their PGC or GCR filings. Therefore, the starting point for the metric is set at the worst performing levels within Pennsylvania. The end point of 3% was also established based upon current levels of UFG filed with the Commission. Only four PGC companies and none of the GCR companies reported UFG levels above the 3% final threshold in their respective 2010 Annual Reports (or three PGC companies and no GCR Companies filed above 3% in the 2010 USDOT Report). It should also be noted that the UFG data provided in the Annual Reports includes losses from non-distribution related facilities. Therefore, the UFG levels provided in the Annual Report would likely be

[10] One of the PGC companies was excluded due to a recent acquisition; however, this Company's UFG was below 5% and has since improved.

[11] Although the Commission does not have any information on the actual level of UFG at most GCR companies, it should be noted that the metric will not have any financial impact on these companies. Because the Companies already absorb (through a production affiliate) the costs of any lost gas, this metric would not change this financial burden, instead it only changes the maximum amount GCR companies could recover if or when they include UFG levels in their GCR filing.

higher than the company's level of distribution UFG. Ultimately, a majority of NGDCs are already performing below the final proposed level of 3% and improvements are being made that should help drive UFG downward. Therefore, the final distribution metric of 3% appears to be an obtainable level for NGDCs that is fiscally responsible for Pennsylvania and ratepayers. Notably, Companies with UFG levels below the metrics are expected to maintain or improve their UFG levels and, if increasing, must provide a specific rationale in an appropriate filing and/or proceeding to explain why their UFG is increasing and why it is in the public interest to pass the additional UFG cost to ratepayers.

Due to the fact that an inconsistent definition of UFG can raise doubt on the factual levels of UFG within Pennsylvania, we propose that the distribution metric should be implemented one year after the proposed definition is adopted. This time delay should afford all NGDCs the ability to test any changes to their reported UFG based upon the proposed definition through the regulatory review process and implementation, effectively affording approximately three years until the 5% takes effect. Since the NGDCs 1307(f) filing dates are inconsistent between the companies, the metric shall be based upon a consistent calendar year basis as stated by § 59.111(c)(2). This information is already required to be filed to the Commission through the Annual Report.

*Regulatory Review*

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)), on October 4, 2012, the Commission submitted a copy of this proposed rulemaking to the Independent Regulatory Review Commission (IRRC) and to the Chairpersons of the House and Senate Committees. In addition to submitting the proposed rulemaking, the Commission provided IRRC and will provide the Committees with a copy of a detailed Regulatory Analysis Form. A copy of this material is available to the public upon request.

Under section 5(g) of the Regulatory Review Act, IRRC may convey any comments, recommendations or objections to the proposed rulemaking within 30 days of the close of the public comment period. The comments, recommendations or objections must specify the regulatory review criteria which have not been met. The Regulatory Review Act specifies detailed procedures for review, prior to final publication of the rulemaking, by the Commission, the General Assembly and the Governor of comments, recommendations or objections raised.

*Conclusion*

The proposed regulations issued for comment by this Order represent the first step in establishing a consistent definition and metric for UFG for all jurisdictional NGDCs. This step is necessary to enhance the Commission's ability to monitor and compare UFG levels and their corresponding financial burden to Pennsylvania ratepayers. The Commission, therefore, formally commences its rulemaking process to amend its existing regulations by establishing 52 Pa. Code § 59.111 consistent with Annex A to this Order.

Accordingly, pursuant to Sections 501, 504, 523, 1301, 1501, and 1504, and Public Utility Code, 66 Pa.C.S. §§ 501, 504, 523, 1301, 1501, and 1504, and Sections 201 and 202 of the Act of July 31, 1968, P. L. 769 No. 240, 45 P. S. §§ 1201—1202, and the regulations promulgated thereunder at 1 Pa. Code §§ 7.1, 7.2, and 7.5; Section 204(b) of the Commonwealth Attorneys Act, 71 P. S. § 732.204(b); Section 745.5 of the Regulatory Review Act, 71 P. S. § 745.5; and Section 612 of the Administrative Code of 1929, 71 P. S. § 232, and the regulations promulgated thereunder at 4 Pa. Code §§ 7.231—7.234, we are considering adopting the proposed regulations as set forth in Annex A; Therefore,

*It Is Ordered That:*

1. A proposed rulemaking be opened to consider the regulations set forth in Annex A.

2. The Secretary shall submit this proposed rulemaking order and Annex A to the Office of Attorney General for review as to form and legality and to the Governor's Budget Office for review of fiscal impact.

3. The Secretary shall submit this proposed rulemaking order and Annex A for review and comments to the Independent Regulatory Review Commission and the Legislative Standing Committees.

4. The Secretary shall certify this proposed rulemaking order and Annex A and deposit them with the Legislative Reference Bureau to be published in the *Pennsylvania Bulletin*.

5. An original and 15 copies of any written comments referencing the Docket Number L-2012-2294746 be submitted within 30 days and reply comments within 45 days of publication in the *Pennsylvania Bulletin* to the Pennsylvania Public Utility Commission, Attn: Secretary, P. O. Box 3265, Harrisburg, PA 17105-3265 and comments and reply comments shall be electronically mailed, in Word format, to Nathan Paul at npaul@pa.gov. Attachments may not exceed three megabytes.

6. A copy of this proposed rulemaking order and Annex A shall be served on the Bureau of Audits, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, and all jurisdictional Natural Gas Distribution Companies.

7. The contact person for legal matters for this proposed rulemaking is Lawrence F. Barth, Assistant Counsel, Law Bureau, (717) 787-5000. The contact person for technical matters for this proposed rulemaking is Nathan Paul, Bureau of Audits, (717) 214-8249. Alternate formats of this document are available to persons with disabilities and may be obtained by contacting Sherri DelBiondo, Regulatory Coordinator, Law Bureau, (717) 772-4597.

ROSEMARY CHIAVETTA,
*Secretary*

**Fiscal Note:** 57-289. No fiscal impact; (8) recommends adoption.

## Annex A

## TITLE 52. PUBLIC UTILITIES

## PART I. PUBLIC UTILITY COMMISSION

## Subpart C. FIXED SERVICE UTILITIES

## CHAPTER 59. GAS SERVICE

## UNACCOUNTED-FOR-GAS

### § 59.111. Unaccounted-for-gas.

(a) *Definitions.* The following words and terms, when used in this section, have the following meanings, unless the text clearly indicates otherwise:

*Adjustments*—Gas used by an NGDC or city natural gas distribution operation for safe and reliable service, such as company use, calculable losses from construction, purging, other temperature and pressure adjustments, and adjustments for heat content of natural gas. Adjustments must be supported by metered data, sound engineering practices or other quantifiable results that clearly support the utility's need for the adjustment. Adjustments must be consistent from filing to filing.

*Gas delivered*—Gas provided by the distribution, transmission, storage or production/gathering facilities of an NGDC or city natural gas distribution operation, regardless of use, adjusted for temperature or pressure variations. This category includes quantities of gas consumed by an end user, exchange gas supplied to another utility, gas delivered to transportation customers or other gas delivered to a user other than the utility. When bill timing issues arise, an effort shall be made to reasonably estimate consumption.

*Gas received*—Gas that is supplied to the distribution, transmission, storage or production/gathering facilities of an NGDC or city natural gas distribution operation, regardless of use, adjusted for temperature or pressure variations. This category includes gas for sales, storage, transportation quantities, exchange gas received or other quantity of gas that otherwise enters the utility's facilities.

*NGDC*—Natural gas distribution company.

*UFG—Unaccounted-for-gas*—The calculation for gas lost by the system, including gas lost due to breaks, leaks, theft of service, unmetered consumption, meter inaccuracies or other point of lost, unidentifiable or nonrevenue producing gas.

(b) *Calculation.*

(1) UFGx = Gas Receivedx - Gas Deliveredx - Adjustmentsx

(2) $\%UFG_x = (UFG_x) / (\text{Gas Received}) * 100$

(3) X denotes the system type (distribution, transmission, storage or production/gathering). When possible, UFG must be computed and reported by system type.

(4) Gas received, gas delivered and adjustments must represent actual gas quantities. Estimates may be provided but must be clearly identified and have supporting justification, assumptions and calculations.

(5) Adjustments must be individually identified by category (that is, company use, calculable losses from construction, purging, other temperature and pressure adjustments, and adjustments for heat content of natural gas).

(6) The definition of "UFG" in subsection (a) and the calculation under this subsection apply to UFG filed with the Commission.

(c) *Metrics for distribution system losses.*

(1) Each NGDC and city natural gas distribution operation shall, at a minimum, reduce distribution system loss performance in accordance with the metrics in the following table beginning with its first subsequent Purchased Gas Cost (PGC) or Gas Cost Rate (GCR) filing after __________ (*Editor's Note*: The blank refers to 1 year after the effective date of adoption of this proposed rulemaking.). The metric starts with 5% in the first year and decreases by 0.5% every year in the subsequent years until it reaches 3% as shown in the following table:

| *Year* | *Percent UFG* |
|---|---|
| 1 | 5.00% |
| 2 | 4.50% |
| 3 | 4.00% |
| 4 | 3.50% |
| 5 | 3.00% |

(2) The distribution metrics shall be applied on an annual basis for the year ending December 31.

(3) Amounts of UFG in excess of the standard may not be recovered within the current or a future PGC or GCR filing unless approved by the Commission.

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