

Executive Summary

Peoples Gas is engaged in an unprecedented system modernization program (“SMP”) to ensure the safety and viability of its gas pipeline delivery system in the City of Chicago.

The SMP is immense, technically complicated and very necessary. Chicago’s natural gas delivery system consists of tens of thousands of segments of natural gas pipeline, some of which are more than 100 years old and made of deteriorating materials. Replacement of old and degraded pipes became a national priority after high-profile pipeline explosions in San Bruno, California in 2010 and Allentown, Pennsylvania in 2011. These events, as well as more than 80 explosions across the nation since 2001, prompted then-United States Transportation Secretary Ray LaHood to issue a “Call to Action” that urged pipeline owners and operators to conduct comprehensive reviews, identify high risk pipeline and accelerate critical repair and replacement work.

Even before the federal Call to Action, Peoples Gas was accelerating the pace of its pipe replacement program, which requires removing and replacing over 2,000 miles of at-risk underground pipe, which in many cases is century-old low pressure, cast iron. The project includes the upgrading over 300,000 customer service lines; upgrading to safer, higher-pressure pipes; and relocating meters from inside to outside customers’ premises, each piece adding complexity to the project. Every mile of pipe replacement requires tearing up pavement and subsequent ground surface repair to meet stringent safety and beautification standards of the City of Chicago.

Adding to the SMP’s challenges has been admitted mismanagement by the former leadership of Peoples Gas; for years oversight was lacking and the project’s cost and timeline grew significantly. This is where the ICC, working with stakeholders such as the Illinois Attorney General’s Office, the Citizens Utility Board (CUB) and the City of Chicago, has and will continue to hold Peoples Gas accountable. In 2013, the ICC engaged an independent consultant to audit and report quarterly on the scope and pace of the project, while providing recommendations to improve efficiency. The company recently completed implementing over 80 recommendations by the independent consultant to improve operations within Peoples’ gas main replacement program.

Further, the ICC and the Attorney General’s Office negotiated a record \$18.5 million settlement with Peoples after it was determined that Peoples officials knowingly withheld cost information from the ICC while the company’s sale to Wisconsin Energy Corporation was pending. ICC staff then led a workshop process with Peoples Gas, the Attorney General’s Office, CUB, Gas Workers Union Local 18007, the City of Chicago, and the Illinois Industrial Energy Consumers, in which additional areas for improvement were identified and potential revisions to scale, scope and schedule of the project were analyzed.

Docket No. 16-0376 was subsequently initiated to further analyze the issues. The Proposed Order prepared by the ICC Administrative Law Judge (ALJ) in this docket recommends that the Commission approve a three-year rolling schedule for the project, with annual projects prioritized by neighborhood to ensure the highest-risk pipe is addressed first. Other modifications to the project moving forward include:

- The use of new, widely-accepted metrics to measure the project's pace and effectiveness, on most of which Peoples Gas will report quarterly to the ICC.
- The ICC will engage two consultants (paid for by Peoples Gas), one to assist staff in auditing the cost of the project, and the other an engineering consultant to assist ICC staff in continuous monitoring of the project.
- Peoples has agreed to work with CUB to pilot a project to determine the efficiency of advance methane leakage detection technology.

In 2013, the General Assembly passed a law authorizing gas utilities to recover, through a Qualifying Infrastructure Plant (QIP) Rider, the costs of infrastructure upgrades including replacing old and deteriorating pipes, increasing system pressure, and moving meters outside of buildings, where they're easier to read, inspect and repair. The QIP legislation sets an annual amount that can be recovered through the QIP Rider at 4% of base delivery revenues, or 5.5% in any given year. Peoples Gas will appear before the Commission each year to request recovery for its QIP costs pursuant to its QIP Rider.

Docket No. 15-0209, Peoples Gas's first Rider QIP reconciliation case, addresses 2014 calendar year QIP costs from the project that can be passed onto rate-payers after a Commission determination that those costs are prudent and reasonable. The 2015 and 2016 calendar year QIP costs are currently docketed cases at the Commission and are being investigated by Staff.

The Commission is expected to consider and vote on Dockets 15-0209 and 16-0376 in January 2018. The ICC will continue its oversight of the pace and schedule of the system modernization project and, through the annual QIP proceedings and Peoples Gas general rate cases, will determine which costs are passed on to consumers. It is important to note that the QIP legislation automatically sunsets on December 31, 2023, at which time the General Assembly can review and determine if changes are needed to the law.

The ICC's mission is to balance the interests of consumers and utilities to ensure safe and reliable energy distribution at the least-cost to consumers. In this instance, the safety of the overall system must be balanced against the cost to complete an infrastructure project of this scale. The ICC can and will hold Peoples Gas responsible for the project's costs and how they are reflected in customer's rates, while closely monitoring the project's execution to ensure the safety and reliability of the pipeline system in the long-term.

