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DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS  
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July 31, 2012

Jeffrey D. Wiese  
Associate Administrator for Pipeline Safety  
Pipeline and Hazardous Materials Safety Administration  
1200 New Jersey Ave, S.E.  
Washington, D.C. 20590

Dear Mr. Wiese:

This letter is in response to your June 13, 2012 request for information regarding Michigan's plans and programs for management of high risk pipeline materials, specifically cast iron. The Michigan Public Service Commission (Commission) did respond to the original request for information in April 2011; however, I feel that an update is warranted at this time due to the progress that has been made in the development and implementation of those programs.

Commission Gas Operations Section Staff (Staff), who are responsible for administering the pipeline safety program in Michigan, regularly reviews and analyzes the gas distribution system annual data as submitted by operators. Staff reviews have become increasingly more focused on high risk materials in distribution systems such as cast iron. The analyses have included comparisons of miles of main and number of services, number of leaks, leak rates, and operators' efforts to reduce high risk material to effectively reduce leaks. This information has been used by Staff to encourage and support accelerated infrastructure replacement programs.

Of the 11 companies operating distribution systems in Michigan, there are three companies currently operating cast iron mains: Consumers Energy, Michigan Consolidated Gas Company (MichCon), and SEMCO Energy Gas Company (SEMCO). At the end of 1991, the systems currently operated by those companies<sup>1</sup> contained 4,237 miles of cast iron main, which represented all of the cast iron main in Michigan. As of the end of 2011, those companies operated a combined total of 3,153 miles of cast iron main, which represents a 1,084 mile, or approximately 25%, reduction at an average annual rate of 54 miles per year over the 20-year period from 1991 to 2011. Despite the progress made in cast iron distribution main reduction,

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<sup>1</sup> In 1991, Battle Creek Gas Company, Michigan Gas Company, and Southeastern Michigan Gas Company operated cast iron mains, but those systems are now all operated by SEMCO.

nearly 6% of Michigan's distribution main is still cast iron. The need to accelerate the reduction of high risk material has been recognized by each operator of cast iron distribution main and generally supported by Staff.

In the data reported for the calendar year ending in 2011, SEMCO currently operates 31 miles of cast iron distribution main. Compared to the 239 miles of cast iron distribution main operated by Battle Creek Gas Company, Michigan Gas Company, and Southeastern Michigan Gas Company in 1991, the amount of cast iron main has been reduced by over 85%. In June 2010, SEMCO proposed in its application in Case No. U-16169, that they be allowed to collect certain capital costs associated with the accelerated replacement of high risk main materials. In January 2011, the Commission issued an order approving a settlement agreement between the parties. The agreement stipulated that SEMCO maintain its average nine miles per year of main renewal and initiate a main renewal program (MRP), spending at least an average of \$4.4 million annually and targeting approximately 13 miles of incremental main annually.

In the data reported for the calendar year ending in 2011, Consumers Energy currently operates 623 miles of cast iron distribution main. Compared to the 1,053 miles of cast iron main operated in 1991, Consumers Energy has reduced the amount of cast iron in their system by over 40%. In September 2011, Consumers Energy proposed in its application in Case No. U-16855 to implement a comprehensive main replacement program (MRP) to replace certain high risk material, including the replacement or retirement of all cast iron main, over the course of the 25-year program. In June 2012, the Commission issued an order approving a settlement agreement between the parties, which stipulated that Consumers Energy would fund an MRP at \$56 million annually until funding is reviewed and reset in the next rate case.

In the data reported for the calendar year ending in 2011, MichCon currently operates 2,499 miles of cast iron distribution main. Compared to the 2,945 miles of cast iron main operated in 1991, MichCon has reduced the amount of cast iron main in their system by 15%. Gas Operations Staff participated in MichCon's gas rate case, Case No. U-15985 filed with the Commission in June 2009, in order to address the condition of MichCon's distribution system, specifically addressing leak remediation, meter conditions and main renewal. Staff recommended in their testimony filed in that case that MichCon be required to file a plan case that sufficiently dedicates resources to main renewal and specifically addresses the reduction of cast iron main. The Commission supported Staff's recommendation in the June 2010 order issued and required MichCon to submit a plan detailing their long term plan for main renewal and reduction of cast iron main. MichCon subsequently filed their long term main renewal plan in Case No. U-16407. The 10-year plan of 15 miles of planned main replacement, 15 miles of planned main retirement, and 3-5 miles of unplanned main replacement on average annually was generally supported by Staff and approved by the Commission with modifications in a September 2011 order with cost recovery to be addressed in MichCon's next general rate case. In April 2012, MichCon filed a general rate case, Case No. U-16899, to address the cost recovery of the MRP. MichCon proposed in that case to expand the MRP to include an additional 24 miles of main in 2012 and going forward beginning in 2013 the MRP would target 66 miles of main

per year. Staff is currently reviewing the proposal for the increased MRP program and its cost recovery.

The Commission orders approving each of the programs in Case Nos. U-16169, U-16855, and U-16407 (<http://efile.mpsc.state.mi.us/efile/>) included requirements for each of the operators to file for Staff review an annual report detailing the MRP activity for the calendar year, including miles of main replaced or retired.

In the first MRP annual report filed by SEMCO for 2011, the first year of SEMCO's MRP approved in Case No. U-16169, they reported 19.13 miles of main replaced and 16.64 miles of main retired, far exceeding their annual goal of 13 miles of main renewal. Although the amount of cast iron is not detailed in the MRP report, approximately 2 miles of the main replaced or retired by SEMCO in 2011 was cast iron based on data from the distribution system annual reports for 2010 and 2011.

Since a Commission order approving MichCon's MRP in Case No. U-16407 was not issued until September 2011; MichCon revised its 2011 plan to include approximately 11.2 miles of main replacement and 6 miles of main retirement. The first MRP annual report was filed by MichCon in which they reported 13.95 miles of planned main replacement, 6.85 miles of planned main retirement, and 5.85 miles of unplanned main replacement in 2011. Approximately 12.58 miles of the main replaced or retired as part of the MRP in 2011 was cast iron.

The Commission and Staff recognize the need to eliminate cast iron and other high risk materials in order to improve public safety.

Thank you for the opportunity to continue to provide feedback on this important issue and I appreciate the continued effort we are engaging in to improve pipeline safety.

Sincerely,

John D. Quackenbush, Chairman  
Michigan Public Service Commission