

**Subcommittee on Energy**  
**Hearing on**  
**“The State of Pipeline Safety and Security in America”**  
**May 1, 2019**

**Commissioner Lawrence Friedeman**  
**Public Utilities Commission of Ohio**

**The Honorable Richard Hudson (R-NC)**

1. Thank you for being here today. As a public utility commissioner, you have to be mindful of the cost of services, and sometimes you have to make difficult decisions. Ultimately, it's the States' responsibility to balance reliability, safety, and affordability.
  - a. Can you explain the process you use to balance safety and consumer costs?

**RESPONSE:**

The PUCO examines each issue that comes before it on a case-by-case basis. Safety is always at the forefront of concerns, but the Commission recognizes that resources are not unlimited. In addition to that, each operator under Commission regulation faces unique challenges and circumstances that must be addressed. Important to note as well, the responsibility for safety falls first and foremost on the owner/operator of the facility/plant. It is this owner/operator that has responsibility to assess risks and to address risks. In some cases, safety related performance of a firm or firms is overseen by an agency such as the PUCO and the supervising agency may take action to address inadequate performance. But these supervising agencies do so within the legal framework, including rules, established by legislatures (local, state and federal or other delegating authorities).

Under traditional regulation (cost-plus regulation), the cost of meeting safety requirements is but one of the costs that are taken into account by regulatory authorities to set the overall compensation for firms that are subject to economic regulation by a regulator such as the PUCO. Costs prudently incurred to meet legitimate safety needs are typically included in the overall compensation. Excessive or imprudent expenditures may be excluded. However, the rates and charges which the regulator may authorize a firm to bill and collect does not necessarily mean that the firm will recover all its costs of providing service since competition and other forces may limit the amount of such authorized rate or charge which is actually collectable.

In the PUCO's case, the scope of its economic regulation authority does not include all firms that may be obligated to meet safety requirements. For example, while the PUCO may have pipeline safety related responsibilities in the case of a master meter natural gas system operator, this type of operator may not be subject to the economic regulation authority of the PUCO.

However, when a pipeline safety issue does arise, PUCO staff has been invested with the statutory authority to perform a thorough audit and investigation into the matter. This examination attempts to look at the many factors involved and balance them in a way that maximizes the benefits to Ohioans. Risk analysis plays an important role in the process. Staff consults with the operator on the various safety risks that the company faces. These risks can vary based on many factors such as the amount of pipe the operator has, the materials used to make the pipe and other infrastructure, the age of the pipe, the location of the pipe, the population density, the terrain of the operators' various territories, the type and quality of the gas being passed through the pipes, and any other factors that the operator believes contribute to the safety risk of the pipe. Staff uses its own experience with these factors in consultation with industry guidelines, guidance from PHMSA, and information from other states to evaluate the information provided by the operator and works to come to a consensus on the risks that most need addressed.

This is important because, as mentioned before, resources are not unlimited. Families rely on natural gas to keep them warm and safe and businesses rely on natural gas to keep running. If that product is unaffordable, it is to the detriment of Ohio's businesses and families. Therefore, the funds collected from ratepayers must be used prudently and efficiently to address the risks on a given system.

The pipeline safety code has evolved with the industry over the years and addresses the minimum standards that must be maintained by the operator to keep its system safe. In addition to that, operators must address its aging infrastructure and technological improvements in the industry. It takes time and money to replace facilities so operators must consider relative risk when trying to determine what facilities to replace. The Commission has placed an emphasis on balancing safety and costs by placing appropriate cost caps so that impacts to customers are minimized while still providing utilities adequate cost recovery to make necessary replacements.

In sum, balancing safety with consumer costs is a difficult task. We try to ensure that operators have the funds needed to maintain and improve safety and that they make prudent investments with the funds, while at the same time account for the impact this will have on consumers' bills and the effect it will have on their ability to afford these essential services.