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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) for Authority To Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding.

Application 11-11-002
(Filed November 1, 2011)

ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING

1. Summary

This scoping memo identifies the issues to be considered in this proceeding. It sets a procedural schedule, determines the category of the proceeding as ratesetting, and determines there is a need for hearings pursuant to Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules).¹

2. Background

2.1. Cost Allocation

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (collectively "Applicants") filed the required Triennial

¹ http://docs.cpuc.ca.gov/WORD_PDF/AGENDA_DECISION/143256.PDF

Cost Allocation Proceeding (Cost Allocation).² In this proceeding, Applicants seek, among other things, to:

- (1) establish and revise gas rates to reflect the updated customer class allocations of Applicants' respective base margin costs of service previously authorized by the Commission for recovery in rates;
- (2) update demand forecasts;
- (3) support continuation of 100% balancing account treatment for both Applicants' noncore transportation revenue requirement; and
- (4) continue storage allocations adopted in the 2009 Biennial Cost Allocation Proceeding Phase 1 Settlement (Decision (D.) 08-10-020) through the period 2013 - 2015.

2.2. Safety Enhancement

In Rulemaking (R.) 11-02-019, the assigned Commissioner ruled that this Cost Allocation proceeding for both Applicants would be the most logical proceeding for the SDG&E and SoCalGas reasonableness and ratemaking review of the companies' Safety Enhancement Plans (Safety Enhancement), because this proceeding deals with all cost allocation and rate design. Therefore, it would be beneficial to reassign the Safety Enhancement plans here to take advantage of the evidentiary record and policy decisions emerging on rate design and cost allocation. (*See Ruling dated December 21, 2011.*)

The Commission opened R.11-02-019 to review and establish a new model of natural gas pipeline safety regulation for California. D.11-06-017 ordered all California natural gas transmission pipeline operators to prepare Natural Gas

² The recent history has been for Biennial Cost Allocation proceeding, however this proceeding was extended to a three-year, or Triennial, filing cycle.

Transmission Pipeline Comprehensive Pressure Testing Implementation Plans (Implementation Plans) to either pressure test or replace all segments of natural gas pipelines which were not pressure tested or lack sufficient details related to performance of any such test.³ The Commission required that the Implementation Plans provide for testing or replacing all such pipeline as soon as practicable, and that at the completion of the implementation period, all California natural gas transmission pipeline segments would be (1) pressure tested, (2) have traceable, verifiable, and complete records readily available, and (3) where warranted, be capable of accommodating in-line inspection devices. In addition, the Commission required the operators to implement interim safety enhancement measures, including increased patrols and leak surveys, pressure reductions, prioritization of pressure testing for critical pipelines that must run at or near Maximum Allowable Operating Pressure values which result in hoop stress levels at or above 30% Specified Minimum Yield Stress, and other such measures that will enhance public safety during the implementation period.

On December 2, 2011, SDG&E and SoCalGas filed their Safety Enhancement plans⁴ in the rulemaking. Safety Enhancement, if adopted as filed,

³ The Commission's General Order 112 (effective on July 1, 1961) mandated pressure test requirements for new transmission pipelines (operating at 20% or more of Specified Minimum Yield Stress) installed in California after the effective date. Similar federal regulations followed in 1970, but exempted pipeline installed prior to that time from the pressure test requirement. Such pipeline is often referred to as "grandfathered" pipeline, because pursuant to 47 CFR 192. 619(c), pressure testing is not required.

⁴ The term "Pipeline Safety Enhancement Plan" is the personalized name used by both Applicants in their compliance filings for the "Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plans" ordered in D.11-06-017 and we will use Applicants' name, contracted to Safety Enhancement, hereafter, unless specifically citing to the filing original requirement.

provides for hundreds of millions of dollars in annual investment over more than a decade.

3. Categorization and Need for Hearings

This scoping memo confirms the Commission's categorization of this proceeding as ratesetting as preliminarily determined in Resolution ALJ-176-3284. This determination is appealable under the provisions of Rule 7.6. This scoping memo also determines that hearings are necessary. The application timely appeared on the Commission's daily calendar.

4. Record and Restrictions on *Ex Parte* Communications

This Scoping Memo adopts a schedule that includes formal hearings. (See Rules 7.1(a) and 7.3(a) and Rule 7.5.) The record will be composed of all documents filed and served on parties. It will also include testimony and exhibits received at hearing. Parties shall use the procedures contained in Rule 11.3 to seek resolution of discovery disputes. Parties are directed to either resolve disputes or expeditiously refer disputes to the assigned Administrative Law Judge (Judge) to avoid adverse impacts on the schedule. (See § 10.)

In a ratesetting proceeding involving hearings, *ex parte* communications are permitted only if consistent with certain restrictions, and are subject to reporting requirements. (See Pub. Util. Code § 1701.3(c) and Rules 8.2, 8.3, and 8.5.) Parties shall electronically serve the assigned Commissioner and Judge all three-day notices required by Rule 8.2(c)(2) for all *ex parte* meetings with decisionmakers.

5. Scope

Interested parties were provided an opportunity to comment on what issues should be included in the scope of this proceeding in their protests to the application and again at the January 31, 2012 prehearing conference. Parties

should develop prepared testimony to address any issues on which factual information or policy opinion may be helpful to explain or support their positions. Issues that turn solely on interpretation of law may be deferred to briefing. In the interest of minimizing delay, however, the parties are cautioned against narrowly interpreting the scope of prepared testimony.

There will be two phases to this proceeding. First, this proceeding will address Safety Enhancement for both SDG&E's and SoCalGas' systems. In a second phase we will address all cost allocation and rate design issues for both companies, with one exception, noted below.

5.1. Phase 1 Safety Enhancement

We include Safety Enhancement here on the presumption that the Commission will timely order the reassignment of both Applicants' Safety Enhancement from R.11-02-019 to this proceeding. We will only address the reasonableness and the scope of the individual plans for Safety Enhancement by SDG&E and SoCalGas. The only issue of cost allocation applicable to Phase 1 and not Phase 2 is the first-level determination of whether any portion, and, if so, how much, of the Safety Enhancement costs should be borne by shareholders and not ratepayers. This is a reasonableness issue: whether any portion of the proposed Safety Enhancement is not a true enhancement to pipeline safety but is instead remediation of past neglect or failure by SDG&E or SoCalGas to properly operate and maintain the system or to spend the full allocation of funding included in prior rates.

We note also that Applicants only seek specific approval for funding Safety Enhancement projects for the years 2012 through 2015. Thereafter, the Applicants propose to seek incremental authority in general rate cases. Therefore, we note that parties should address the reasonableness of such a

proposal. We also note that no approval will result here that in anyway authorizes any project which requires specific permits or other authority including compliance with the California Environmental Quality Act because neither SDG&E nor SoCalGas have requested any permits nor has either company made any analytical showing in compliance with the California Environmental Quality Act in this proceeding.

5.1.1. Safety Enhancement Workshop

Parties indicated a strong desire for moderated workshops to explore not only the Safety Enhancement filings made by Applicants, but also the report filed by the Commission's Consumer Protection and Safety Division (Safety Division). *The Technical Report of the Consumer Protection and Safety Division Regarding the Southern California Gas Company and San Diego Gas & Electric Company Pipeline Safety Enhancement Plan* (Safety Division Report), was filed January 17, 2012 in R.11-02-019. I agree that a workshop led by a neutral facilitator makes sense here. For maximum value, the workshop should be held before the completion of discovery and service of intervenors prepared testimony. It should provide a forum for an open exchange among all interested parties and yield meaningful understanding of (1) the scope and justifications for the companies Safety Enhancement proposals, and (2) the concerns and opinions expressed in the Safety Division Report. I direct Safety Division to make the appropriate staff available for the workshop to further ensure the workshop's usefulness, I will also direct the Energy Division, in its advisory capacity, to participate with its relevant staff present. I will ask the Chief Judge assign a trained neutral judge. The neutral judge will coordinate with the parties prior to scheduling the workshop and developing a workshop agenda

In addition, the workshop may serve as a preparatory stage to an informed settlement process. If parties subsequently engage in settlement negotiations and request assistance in reaching a mediated settlement, the neutral judge may later serve as the mediator. I do not expect settlement to emerge directly from the workshop on Safety Enhancement and the Safety Division Report.

5.1.2. The Potential for Under Collection of Safety Enhancement Costs

We expect a decision in R.11-02-019 to authorize an interim memorandum account each for Applicant. At the prehearing conference both Applicants argued that there is a concern that a significant under collection may occur if cost recovery is not addressed promptly. We therefore advise both Applicants that we will expeditiously consider any motion to adopt an interim rate, subject to refund, based on the current authorized cost allocation and rate design to avoid a large under collection for Safety Enhancement. Interested parties would be allowed to respond, as permitted by our rules, before a proposed order would be placed before the Commission. We set no schedule for such a motion at this time but we warn SDG&E and SoCalGas that they have an obligation to avoid accumulating a large under collection in the memorandum accounts and imposing a burden on ratepayers later to amortize that balance.

5.1.3. Record from the Rulemaking

5.1.3.1. Existing Record in R.11-02-019

Although we do not consolidate the proceedings, there are various documents in the record of R.11-02-019 that may be relevant to our consideration of both Applicants' Safety Enhancement proposals in this proceeding. Therefore,

both Applicants are directed to meet and confer⁵ with the parties to identify a proposed list of documents currently in the rulemaking's record (whether filed or in evidence) to be included in this proceeding's record, and to file a motion to introduce those documents into this proceeding (with the documents attached) within 14 days of mailing of this scoping memo. The motion shall identify whether any party objects to the introduction of any particular document and, with respect to such document, show its relevance. Interested parties may, if necessary, respond to the motion within 7 days with any objections to the motion, or to propose the introduction of any additional documents that they believe should be included in the record and, with respect to such document, show its relevance.

The presiding officer shall rule on the admission of all documents proposed by the motion or the other parties' responses.

**5.1.3.2. Previously Served Documents Not in the Record
for R.11-02-019**

Both the Applicants and any Interested Party must also re-serve all documents previously served but not filed in the rulemaking whether or not it has been received into evidence. These items must be served on this proceeding's service list. Similarly, any documents served by other parties in the rulemaking must be re-served in this proceeding. Parties are strongly encouraged to pre-number their prepared testimony, using an individual sequential system (e.g., SDG&E-1, SDG&E-2, etc.; or TURN-1, TURN-2, etc.)

⁵ Applicants may meet and confer with interested parties in person, electronically, or telephonically.

5.2. Phase 2 Cost Allocation

Within the Phase 2 on Cost Allocation we include all issues as proposed by both Applicants in the application and all issues as identified by parties in their protests. In broad terms, we include all issues typically addressed in Cost Allocation to reasonably allocate the cost of service to the various customer classes, and then to develop a rate design that will provide a reasonable opportunity for SDG&E and SoCalGas, respectively, to recover the cost of service from the respective customer base. Therefore, all issues of cost-causation or responsibility, fairness, and general issues of equity between classes, are includable issues.

5.2.1. Supplemental Testimony on Cost Allocation

At the prehearing conference, all parties agreed that the proper sequence for this proceeding should be a first phase addressing Safety Enhancement and a second phase for cost allocation. Both Applicants argued for a separate cost allocation process solely addressing all Safety Enhancement cost allocation and rate design related questions to be included in the scope of Phase 1. This is unnecessary and burdensome. We will examine all issues associated with costs allocated to ratepayers, including all Safety Enhancement rate design issues, in Phase 2. That is, we will only consider the Safety Enhancement program costs allocable to ratepayers and otherwise adopted or approved in Phase 1 concurrent with all other rate design and cost allocation issues included in Phase 2. Note that we will address shareholder versus ratepayer cost responsibility in Phase 1.

Including Safety Enhancement costs assigned to ratepayers in Phase 2 Cost Allocation will require, however, that both Applicants serve specific revised Cost Allocation testimony and work papers to (1) incorporate Safety Enhancement,

and (2) any other updates or corrections identified or necessary to expedite the proceeding.

Additionally, we find that SDG&E and SoCalGas must specifically update and expand testimony and work papers to adequately address the concerns identified in the protests. These include:

- (1) Explain and justify in detail the Transition Adjustment. (Southern California Generation Coalition's Protest at 2 - 3.)
- (2) Explain and justify in detail the proposed elimination of the Modified Fixed-Variable Rate Option for Backbone Transmission Service. (Id. at 4.)
- (3) Explain and justify in detail the proposed Backbone-Only rates for new Backbone Transmission Service customers, and related questions. (Id. at 4, also, Indicated Producers' Protest at 2 - 4 and Appendix A.)
- (4) Explain and justify in detail the Storage capacity allocation pursuant to Decision (D.) 08-12-020. (City of Long Beach Protest at 2.)
- (5) Explain and justify in detail the justification for using the "Rental Method" and not the "New Customer Only" methodology. (Division of Ratepayer Advocates' Protest at 4, and The Utility Reform Network's (TURN) Protest at 2.)
- (6) Calculate and provide necessary work papers and explanations using the New Customer Only method consistent with the use of this method in D.00-04-060. (TURN at 2- 4.)
- (7) Explain and justify any distinctions between SDG&E's proposed Residential Customer Charge and Pacific Gas & Electric Company's proposed charge rejected in D. 11-05-047. (TURN at 4 - 5.)

SDG&E and SoCalGas must file the above updates based on the protests within 21 days of mailing this scoping memo. We will allow Applicants a complete update of Cost Allocation testimony and work papers to include Safety

Enhancement related testimony and work papers to be served on or before June 1, 2012. A second facilitated workshop may be held prior to service of Phase 2 intervenor testimony on November 9, 2012.

6. Schedule

We adopt the following two-phase schedule:

A. 11-11-002 SDG&E & SoCalGas 2012 Safety Enhancement & Cost Allocation	
Event	Date
Safety Enhancement - Phase 1	
Workshops	Scheduled by facilitator in coordination with parties for April or May, 2012
Concurrent Intervenor Testimony served	June 19, 2012
Concurrent Rebuttal Testimony served	July 18, 2012
Public Participation Hearings	To be Determined
Evidentiary Hearings at 10:00 a.m. State Building Commission Courtroom 505 Van Ness Avenue San Francisco, CA 94012	August 20, 2012 Through no later than August 31, 2012
Concurrent Opening Briefs & Request for Final Oral Argument filed	October 1, 2012
Concurrent Reply Briefs for Phase 1 on Safety Enhancement filed	October 19, 2012
Cost Allocation - Phase 2	
Supplemental Testimony of SDG&E and SoCalGas (See § 5) served	June 1, 2012
Concurrent Intervenor Testimony served	November 9, 2012
Workshop (potential)	Prior to intervenor testimony
Concurrent Rebuttal Testimony served	December 7, 2013
Public Participation Hearings	To be Determined

Evidentiary Hearings at 10:00 a.m. State Building Commission Courtroom 505 Van Ness Avenue San Francisco, CA 94012	January 7, 2013 Through no later than January 18, 2013
Concurrent Opening Briefs & Request for Final Oral Argument filed	February 15, 2013
Concurrent Reply Briefs for Phase 2 on Cost Allocation filed	March 8, 2013

Based on the schedule above, we expect this proceeding to be concluded within eighteen months of the date of mailing this scoping memo pursuant to Pub. Util. Code § 1701.5.

7. Briefs

Parties shall use a common outline for briefs. The outline is to be developed jointly by the parties. The parties may bring any unresolved disputes regarding the outline to the attention of the Judge before the end of evidentiary hearings.

Parties are strongly encouraged to avoid the use of acronyms in testimony, briefs, and other filings. Clear plain language will enhance the accessibility of the complex issues and arguments we face in this proceeding to all audiences including the general public, the media, and others interested in this proceeding. Obvious and common acronyms may be used. (E.g., Btu (for British Thermal Unit), SDG&E, TURN (for The Utility Reform Network), DRA (for Division of Ratepayer Advocates), etc.)

8. Settlement Requirements

Any settlements between parties, whether regarding all or some of the issues, must comply with Article 12 of the Rules and shall be served in writing. Such settlements must include a complete explanation of the settlement and

complete explanation of why it is reasonable in light of the whole record, consistent with the law and in the public interest. The proposing parties bear the burden of proof as to why the settlement should be adopted by the Commission.

As noted above, both phases of the proceeding will have a neutral judge available to facilitate workshops and subsequently mediate settlement discussions.

9. Final Oral Argument

Pursuant to Rule 13.13(b), a party in a ratesetting proceeding, where there has been a hearing, has the right to make a final oral argument before the Commission if the final oral argument is requested within the time and manner specified in the scoping memo or later ruling. This request must be made by written motion. By this scoping memo requests for final oral argument are due concurrently with the opening briefs in both Phase 1 and Phase 2.

10. Discovery

Parties should begin discovery now if they have not already started. Discovery should be conducted pursuant to the Commission's longstanding guidelines. However, to expedite resolution of disputes we specifically direct the parties that SDG&E and SoCalGas must expeditiously: inform any party when there will be a delay in responding; convey any questions for clarification; raise any dispute on relevance, confidentiality, or any other basis where a response may be withheld; and disclose any other challenge or dispute concerning the Discovery request. Rather than delay the proceeding for motions to compel, etc., any party may inform the assigned Judge and all parties on the service list, of the dispute and a timely conference call will be scheduled to discuss and mediate the dispute. These conferences may be on short notice and need not be reported. If necessary, the Judge may require a motion and reply to resolve the matter.

11. Motions for Party Status

On January 12, 2012 a motion was filed requesting party status on behalf of Ruth Henricks who operates Special Delivery San Diego, a non-profit food preparation and food delivery service to clients living with a life threatening illness. (Henricks Motion at 3.) The motion is granted and the service list has been updated to reflect the addition.

12. Presiding Officer

Pursuant to Rule 13.2, Judge Douglas M. Long is designated as the presiding officer.

IT IS RULED that:

1. This proceeding is categorized as ratesetting. This ruling is appealable within 10 days under Rule 7.6.
2. The Commission's preliminary determination that hearings are necessary is affirmed.
3. The issues to be considered are those described in Section 5.
4. All permitting or other environmental analysis for any Safety Enhancement project that requires specific permits or other authority including all compliance with the California Environmental Quality Act (Act) are specifically excluded from the scope of this proceeding. San Diego Gas & Electric Company or Southern California Gas Company must fully comply with all permitting and/or the Act's requirements in other appropriate and timely filings before either this Commission or other appropriate permitting or lead agencies pursuant to all permitting regulations and/or the Act.
5. The schedule is as described in Section 6.
6. The Consumer Protection and Safety Division (Safety Division) must make all relevant staff available for Phase 1 workshops addressing the Safety

Enhancement plans filed by San Diego Gas & Electric Company and Southern California Gas Company and the Safety Division's January 17, 2012 Technical Report of the Consumer Protection and Safety Division Regarding the Southern California Gas Company and San Diego Gas & Electric Company Pipeline Safety Enhancement Plan.

7. The Energy Division, in its advisory capacity, must make all relevant staff available for Phase 1 workshops.

8. The Chief Judge will assign a member of the Commission's panel of trained facilitators, to facilitate the Phase 1 workshop. The facilitator shall coordinate with the parties prior to scheduling the workshop and developing a workshop agenda. If parties subsequently engage in settlement negotiations and request assistance in reaching a mediated settlement, the facilitator shall serve as the mediator.

9. San Diego Gas & Electric Company and Southern California Gas Company must make the various filings and service of supplemental testimony as designated herein, particularly in Section 5.

10. Rules 8.2, 8.3 and 8.5 governing ex parte communications apply to this proceeding.

11. Any proposed settlements must comply with Article 12 of the Commission's Rules of Practice and Procedure.

12. Final oral argument is permissible as described in Section 9.

13. Expedited discovery procedures are described in Section 10.

14. Parties are strongly encouraged to avoid the use of acronyms in testimony, briefs, and other filings.

15. Judge Douglas M. Long is designated as the presiding officer.

Dated February 24, 2012, at San Francisco, California.

/s/ MICHEL PETER FLORIO

Michel Peter Florio
Assigned Commissioner