

PUBLIC UTILITIES COMMISSION

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TO PARTIES OF RECORD IN APPLICATION 11-11-002:

This is the proposed decision of Administrative Law Judge Maribeth Bushey. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 3, 2015 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s / MARYAM EBKE for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:dc3

Attachment

Decision PROPOSED DECISION OF ALJ BUSHEY (Mailed 10/30/2015)

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)

**DECISION ON REMANDED ISSUES FOR THE ADOPTED SAFETY
ENHANCEMENT PLANS OF SAN DIEGO GAS & ELECTRIC COMPANY AND
SOUTHERN CALIFORNIA GAS COMPANY**

TABLE OF CONTENTS

Title	Page
DECISION ON REMANDED ISSUES FOR THE ADOPTED SAFETY ENHANCEMENT PLANS OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY	1
Summary	2
1. Background	2
2. Positions of the Parties	5
2.1. TURN and ORA	5
2.2. SoCalGas and SDG&E (The Utilities)	7
3. Description of American Standard Code for Gas Transmission and Distribution Piping, Second Edition (1955).....	8
3.1. History of the Code	8
3.2. Applicability and Testing Requirements of the 1955 Code.....	10
4. Discussion	12
4.1. Standard of Proof.....	12
4.2. Evaluation of Evidentiary Record.....	14
4.2.1. The Utilities’ Practices	14
4.2.2. The Issue of “Cost recovery” of Pressure Testing.....	17
4.2.3. Conclusion.....	18
5. Categorization and Need for Hearing	19
6. Comments on Proposed Decision	19
7. Assignment of Proceeding.....	20
Findings of Fact	20
Conclusions of Law	20
ORDER	22

DECISION ON REMANDED ISSUES FOR THE ADOPTED SAFETY ENHANCEMENT PLANS OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY**Summary**

This decision finds that it was the practice of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) to pressure test natural gas pipelines prior to placing the pipeline in service as of 1956, that records of rush pressure facts should have been retained, and that SoCalGas and SDG&E would have obtained cost recovery from ratepayers for such testing. Accordingly, SoCalGas and SDG&E are responsible for the costs of pressure testing pipeline segments installed between 1956 and 1961 where there are no adequate records of pressure tests. This decision resolves all outstanding issues remanded for reconsideration in Decision (D.) 15-03-049 (Second Rehearing Decision). This decision also grants the Petition for Modification of D.14-06-007 (Original Decision) consistent with the Amended Scoping Memo and Ruling in Application 14-12-016.

The costs of complying with this decision cannot be estimated at this time.

This decision does not otherwise alter the Safety Enhancement plans previously adopted in the Original Decision and makes no operational or policy decisions that would affect the safety of any persons or property near these pipelines.

This proceeding is closed.

1. Background

The Commission first adopted Safety Enhancement plans for Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) in Decision (D.) 14-06-007 (Original Decision). These are

comprehensive plans which require the companies to, as necessary, evaluate, test, or replace significant portions of the natural gas pipeline systems that they own and operate as a part of providing utility service. The Utility Reform Network (TURN) and the Commission's Office of Ratepayer Advocates (ORA) appealed the Original Decision. The first application for rehearing was denied in D.14-11-021 (First Rehearing), but then TURN and ORA filed another application for rehearing of that decision. The Commission found in D.15-03-049 (Second Rehearing Decision) that rehearing should be granted as follows:

To conclusively determine whether ratepayers or shareholders should cover the cost-to-pressure test pipeline installed between 1956-1961, the assigned Commissioner and Administrative Law Judge (Judge) should issue a ruling and set a procedural schedule to obtain evidence regarding the Utilities practices, cost recovery, or other questions necessary to resolve this issue.¹

The Commission also linked this directive to "conclusively determine whether ratepayers or shareholders" should be allocated these costs to the issue of whether ratepayers paid for the alleged first set of pressure tests in the 1950's: "we are concerned that if the evidence TURN referenced exists, and if the Utilities also received costs in revenues to pressure test pipelines installed between 1956-1961, it may have been inappropriate to assign those costs to ratepayers."² In short, the Commission recognized that it would not be appropriate for ratepayers to pay twice to pressure test pipeline—first in the

¹ D.15-03-049 at Ordering Paragraph 3.

² D.15-03-049 at 7.

1950's prior to service, and then again now due to lack of records of the first test, granted rehearing for the purpose of these determinations.

On April 16, 2015, the assigned Commissioner and assigned Judge issued a modified scoping ruling setting a procedural schedule and a ruling limiting ex parte communications. By subsequent agreement amongst the parties, evidentiary hearings were waived for the purpose of cross-examination, and all served testimony was identified and received by the Judge as a stipulation of parties. On July 03, 2015, opening briefs were filed and served by SDG&E, SoCalGas, TURN, and ORA. On July 17, 2015, those same parties filed and served reply briefs, and the matter was submitted for resolution by the Commission.

On July 24, 2015, Chief Judge Clopton issued a ruling re-assigning this proceeding upon the retirement of Judge Long to Administrative Law Judge Maribeth A. Bushey.

On October 19, 2015, SoCalGas, SDG&E, ORA, TURN, and the Southern California Generation Coalition filed a Petition for Modification of D.14-06-007. The petitioning parties stated that they requested modification to D.14-06-007 solely to clarify that future after-the-fact reasonableness review applications should include completed hydrotest projects. This modification will apply to the twelve in-progress projects originally included in A.14-12-016 but subsequently removed by the July 31, 2015, Assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling in A.14-12-016.³ The petitioning

³ The 12 in-progress projects include: Line 404, Line 406, Line 407, Line 1004, Line 1015, Line 2003, Line 2000 West, Line 2001 West, Line 32-21, Line 37-18F, Line 41-116BP1, and Playa Del Rey Storage Phase 5.

parties state that the modifications proposed are consistent with the Ruling and intended to “reflect the clarified intent of D.14-06-007.” No party opposed the petition for modification.

2. Positions of the Parties

2.1. TURN and ORA

TURN and ORA asked for rehearing arguing that there was persuasive evidence that SoCalGas and SDG&E were complying with industry standards requiring pressure testing of pipeline prior to placing the pipeline in service by 1956, well in advance of the Commission implementing General Order (GO) 112 on July 1, 1961.

TURN, in its direct testimony,⁴ offers the evidence it alluded to but did not offer for receipt in the Original Decision’s record. It is a data response produced by SoCalGas and SDG&E. Known as “TURN-TCAP-PSEP-05-02,” this is a data request and response with three questions and answers.

In the first question, TURN asked for the name and title of any representative of either of company who had “participated in any way in the development of the ASME B31.8-1955 standards.”⁵ SoCalGas and SDG&E responded that there were at least three representatives known to have

⁴ May 1, 2015 testimony of Robert Finklestein at 2-3. The original data response is also attached to the testimony.

⁵ ASME B31.8-1955 standards are the crux of this proceeding: the industry standards were adopted in 1955 and “effective” in 1956 well in advance of GO 112 as updated effective July 1, 1961. The full reference is: American Standard Gas Transmission and Distribution Piping Systems (ASA B32.1.8 -1955-Section 8 of American Standard Code for Pressure Piping (ASA B31.1- 1955). This Code is subsequently referred to in today’s decision as the “1955 Code” and section references are to that version of the Code.

participated⁶, including two utility officers. They acted as Committee Chairman and Committee Secretary for the Standards Committee.

In the second question TURN asked whether SoCalGas and SDG&E voluntarily adhered to the ASME B31.8-1955 standards both generally and particularly with respect to strength testing after construction and record-keeping. TURN also asked that any answer “other than an unequivocal “yes” be accompanied by a detailed explanation of any qualifications to the response, including (if applicable) an explanation of why the utility did not voluntarily adhere to the standards.” The data response stated: “It is our understanding that SoCalGas and SDG&E voluntarily adhered to the ASA B31.8-1955 standards.”

The third request was for all available documentation of policies with regard to “adherence with the B31.8-1955 standards, or an explanation ... should there be no such documentation.” The data response contended that no such documentation exists, and the companies explained that their understanding regarding the voluntary adherence to the B31.8-1955 standards “is based on the fact that strength testing records exist for numerous pipelines constructed after issuance of ASA B31.8-1955 standards (i.e., after 1955). It is also based on the fact that we had several representatives on the Section 8 Committee” (*See* response TURN-TAP-PSEP-05-02(a) above).

TURN thus argues SoCalGas and SDG&E have plainly stated that the companies not only complied with the industry’s standards as of 1955, but they

⁶ Given the passage of time we do not expect anyone currently working at SDG&E or SoCalGas to have a “living memory” or personal knowledge. We therefore necessarily accept these answers as a result of document reviews.

were also significant participants in the development of ASA B31.8-1955 standards.

ORA argues⁷ in its testimony that SoCalGas and SDG&E themselves stated in comments on the Judge's proposed decision, which became D.14-06-007, that: "... while SoCalGas and SDG&E, as industry leaders in promoting pipeline safety, voluntarily conducted pressure testing during this era, [1956-1961] the standards did not require them to retain records of all pressure tests. Nor were they put on notice [by the Commission, presumably] that a failure to retain such records would result in financial penalties over fifty years later."⁸ ORA believes that SDG&E and SoCalGas had a "routine policy of pressure testing pipeline ... even on pipe operating below 30% Specified Minimum Yield Strength (SMYS). The Commission should [therefore] hold utilities accountable for their statements and promises of following industry standards and best practices."⁹

2.2. SoCalGas and SDG&E (The Utilities)

The Utilities argue that the Commission has determined twice that it would not be "fair to penalize these Utilities by denying cost recovery" and that TURN has provided no new evidence to support its assertion that the Utilities uniformly pressure tested all new pipeline before placing it in service in the years 1955 to 1961.¹⁰ The Utilities argue that TURN's data response, showing that Utility personnel served on the ASA Standards Committee which drafted

⁷ Ex. ORA-1-RH2, (testimony for the rehearing phase).

⁸ SoCalGas and SDG&E comments on Proposed Decision at 2. (ORA-1-RH2 at 4.)

⁹ *Id.*

¹⁰ Utilities' Opening Brief at 4.

the voluntary standards, does not make it more likely that the Utilities would have adopted and consistently applied all the then-voluntary standards.

In their reply brief, the Utilities summarize their arguments and admit that “there is no dispute that *some* pipelines in this era were tested and test records retained.”¹¹ The Utilities go on to contend, however, this admission does not lead to the conclusion that the Utilities consistently applied the ASA pressure testing standards from 1956 to 1961, and, even if it did, the ratepayers should pay for “new, technically advanced and fully documented pressure tests after this pipe has been in service for more than half a century.”¹²

3. Description of American Standard Code for Gas Transmission and Distribution Piping, Second Edition (1955)

3.1. History of the Code

As explained in the Foreword section of the Code, the American Society of Mechanical Engineers sponsored the creation of the first draft Code nearly a century ago:

The need for a national code for pressure piping became increasingly evident from 1915 to 1925. To meet this need the American Standards Association initiated Project B31 in March 1926 at the request of the American Society of Mechanical Engineers and with that society as the sole sponsor. After several years’ work by the Sectional Committee B31 and its subcommittees, a first edition was published in 1935 as an American Tentative Standard Code for Pressure Piping.

¹¹ Reply Brief at 4 (emphasis in original).

¹² Reply Brief at 7.

A revision of the original tentative standard was begun in 1937, . . . and culminated in the 1942 American Standard Code for Pressure Piping.

In 1944 and 1947, the American Standards Association published Supplements to the 1942 Code.

In 1948, the American Standards Association and the American Society of Mechanical Engineers determined that a comprehensive review, reorganization, and clarification of the 1942 Code were needed. The sectional committee and various subcommittees were reorganized with “some 30 to 40 different engineering societies, government bureaus, trade associations, institutes, and the like” represented. This work resulted in the American Standard B31.1-1951, as approved by the American Society of Mechanical Engineers.

A separate publication of the section of the Code for Pressure Pipeline dealing with gas transmission and distribution piping to “provide an integrated document for gas transmission and distribution piping that would not require cross-referencing to other sections of the Code” was authorized in 1951 by the Section Committee. The integrated document was entitled “American Standard Code for Pressure Piping, Section 8, Gas Transmission and Distribution Piping Systems” and was first published in 1952.

To account for “modern materials and methods of construction and operation,” a new subcommittee was organized in 1952 to amplify Section 8, and resulted in the 1954 edition, which came to be known as the “Second Edition (1955) of American Standard Code for Gas Transmission and Distribution Pipeline Systems, Section 8 of the American Standard Code for Pressure Piping,” and is referred to in today’s decision as the “1955 Code.” The Section 8 subcommittee was comprised of 73 members representing gas utilities and major industrial companies from across the United States. Southern California Gas

Company had two representatives, G.G. Dye and C.T. Schweitzer, and Pacific Gas and Electric Company had one, Roscoe D. Smith. The representative from Bechtel Corp, Pipeline Division, Fredric A. Hough, chaired the subcommittee through 1955. There were also four vice-chairmen, and Chairs of each of the nine subgroups.

3.2. Applicability and Testing Requirements of the 1955 Code

The scope of the 1955 Code is very broad and the Code spans 111 pages; it applies to all aspects of natural gas transmission and distribution pipeline ownership. The first section of the Code states that it applies to:

“the design, fabrication, installation, inspection, testing, and the safety aspects of operation and maintenance of gas transmission and distribution systems, including gas pipelines, gas compressor stations, gas metering and regulating stations, gas mains, and gas services up to the outlet of the customers meter set assembly.”

The Scope and Intent Section goes on to state that “it is intended that all worked performed within the scope of this section shall meet or exceed the safety standards expressed or implied herein.” The Section also explains that it is “concerned with: (a) Safety of the general public [and] (b) Employee safety to the extent that it is affected by basic design, quality of the materials and workmanship, and requirements for testing and maintenance of gas transmission and distribution facilities.”

Chapter IV of the 1955 Code sets forth the requirements for Design, Installation, and Testing of pipeline. The overall framework for these requirements continue in effect to this day. For example, the construction and testing standards vary based on population, with more densely populated areas having more stringent standards. Defining the population for each level of

standard is therefore a foundational exercise. Accordingly, the first section of Chapter IV of the 1955 Code creates two population density indices that are used to classify locations for design and testing purposes: (1) the one-mile density index, which applies to any specific mile of pipeline; and (2) the ten-mile density index, which applies any specific ten-mile section of pipeline. These two indices are then used to classify pipeline based on the population density surrounding it.

Class 1 Locations include waste lands, deserts, rugged mountains, grazing or farm land, with low population density under both indices. Class 2 Locations include areas where the degree of development is intermediate between Class 1 locations and Class 3 locations such as fringe areas around cities and towns, and farm or industrial areas. Class 3 locations include areas subdivided for residential or commercial purposes and where the lots have been built upon but the prevalent height is three stories or less. Class 4 locations are where multistory buildings are prevalent, and where traffic is heavy or dense and where there may be numerous other utilities underground.

The currently effective Pipeline and Hazardous Materials Safety Administration (PHMSA) rules also vary by population density and have four Class locations. *See* 49 CFR Part 192 §§ 192.5, 192.609, and 192.611.

As set forth in section 841.3, which is titled "Testing After Construction," all pipelines, mains and services shall be tested after construction, with a minor exception for tie-in sections. The 1955 Code requires higher levels of test pressure for pipeline to be operated at a hoop stress for 30% or more of specified minimum yield strength and based on the Class location of the pipeline. Steel piping that is to operate at stresses less than 30% of the specified minimum yield strength but in excess of 100 psi in location classes 2, 3 and 4 shall be tested to at least 1.5 times the maximum operating pressure.

This standard remains in effect to this day. See PHMSA rules at 49 CFR Part 192, §§ 192.503, 192.505, 192.507, and 192.517.

The 1955 Code also contains a record retention requirement that obligates the pipeline operator to retain pressure test records for the “useful life of the pipeline:”

Section 841.417 Records: The operating company shall maintain in its file for the useful life of each pipeline and main, records showing the type of fluid used for test and the test pressure.

This standard is carried forward into the currently applicable PHMSA regulations at 49 CFR Part 1092, §192.517(a).

4. Discussion

4.1. Standard of Proof

Pursuant to Pub. Util. Code § 451 all rates and charges collected by a public utility must be “just and reasonable,” and a public utility may not change any rate “except upon a showing before the commission and a finding by the commission that the new rate is justified.” (§ 454.) The Commission requires that the public utility demonstrate with admissible evidence that the costs it seeks to include in revenue requirement are reasonable and prudent. The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable.

In the earlier decisions in this docket, the Commission determined that the cost of pressure testing pipeline installed after 1961, and for which pressure test records cannot be produced, are not properly included in revenue requirement pursuant to Pub. Util. Code § 451. The rationale supporting this conclusion is that after 1961 natural gas system operators in California were required to pressure test pipelines prior to placing them in service as required by the original

GO 112. Accordingly, the operators are presumed to have complied with the GO and pressure tested pipeline installed after 1961. Similarly, the costs of such testing are presumed to have been included in the operator's revenue requirement as a just and reasonable cost of providing natural gas service. Having performed these expensive and important pressure tests, the operator then had an obligation to create and retain the records of these tests to document such compliance as well as to be consistent with good engineering principles. If and to the extent the operator cannot now produce the records of such tests, then the Commission has determined that the costs of pressure testing these pipelines again is not properly assigned to ratepayers, who would have paid for first such test prior to the pipeline being placed in service. The Utilities have not contested the Commission's treatment of the cost-to-pressure test pipeline installed after the effective date of GO 112 and for which there are no pressure test records available.

At the other end of the timeline - that is, pipeline installed prior to 1956, the Commission had determined that the cost of pressure testing pipeline of that vintage should be included in regulated revenue requirements and recovered from ratepayers. The rationale for this conclusion is that this pipeline was not required to have been pressure tested prior to being placed into service and as a factual matter was not actually pressure tested. No dispute remains pending regarding the Commission's allocation to ratepayers of the costs of pressure testing pipeline installed before 1955.

At issue in today's decision is whether the Commission should allocate to ratepayers the costs of pressure testing pipeline installed between 1956 and 1961.

4.2. Evaluation of Evidentiary Record

As set forth in Ordering Paragraph 3 of D.15-03-049, the Commission remanded this issue to complete the record and allow the Commission to conclusively determine whether ratepayers or shareholders should be assigned cost-of-conducting pressure tests for pipelines installed between 1956 and 1961 and for which no pressure records can be located. The specific issues set out in Ordering Paragraph 3 are the “Utilities’ practices” and “cost recovery” with regard to pressure testing pipelines installed between 1956 and 1961.

As analyzed below, we conclude that the evidentiary record supports the conclusion that the Utilities’ practice by 1956 was to pressure test natural gas pipelines prior to placing it in service, and to prepare a record of such test which should have been retained. We also conclude that it was and is the Utilities’ habit and custom to seek to include in revenue requirement all costs of providing public utility service, and that consistent with their habit and custom, the Utilities would have sought and received cost recovery for pre-service pressure testing of pipelines.

4.2.1. The Utilities’ Practices

As directed by D.15-03-049, additional evidence of the “Utilities practices” with regard to pressure testing natural gas transmission pipeline prior to placing it in service in the years 1956 to 1961 has been presented. There is no dispute that the Utilities admit that some pipeline installed during that time was pressure tested and that the Utilities possess complete and reliable records of such pressure testing. ORA contends that of the 740 miles of pipeline the Utilities installed between 1956 and 1961, the Utilities have located pressure test records for 678 miles and are missing records for 62 miles or less than 8% of the total mileage.

The dispute that has been remanded is over how to allocate the costs of pressure testing or replacing pipeline installed between 1956 and 1961 and for which the Utilities do not possess complete pressure test records. The principles we can distill from the Commission's treatment of the other time periods is that: (1) where pressure tests were not conducted prior to placing the pipeline in service, ratepayers should be allocated the costs of the testing, (2) when natural gas system operators were required to perform pressure tests, they are presumed to have complied with that requirement, and to the extent records of such tests are missing, ratepayers should not be required to pay for a second pressure test caused by poor record keeping.

The Utilities have pressure test records for most, but not all, pipeline placed in service during this time. The Utilities have presented no coherent explanation for set of pipeline segments for which pressure test records are available. Such an explanation would have allowed us to infer that during the years 1956 to 1961 the "Utilities' practice" was to pressure test certain pipeline and prepare records of such tests but not others prior to placing the pipeline in service. Because the record does not include a reasonable explanation for the pipeline segments for which pressure test records are available, we are unable to infer from the record any "practice" as required by D.15-03-049 that the Utilities were distinguishing between pipeline segments during those years and pressure testing some but not others. The apparently random nature of these records, instead, suggests that something other than deliberate actions caused this particular collection of records to exist today. The lack of coherence in the extant pressure test records also undermines the assertion that similar pipeline segments for which records are not available were not previously pressure tested at ratepayer expense. Therefore, we conclude that the records presented by the

Utilities do not conclusively show that their “practice” was to pressure test some but not all natural gas pipelines prior to placing it in service.

We next turn to external evidence of the “Utilities’ practice” with regard to pipeline pressure testing during 1956 to 1961. As detailed above, the industry standard was set by the American Society of Mechanical Engineers and the American Standard Association and as early as 1935 included uniform pressure testing of all natural gas transmission and distribution pipelines prior to placing the pipeline in service. By 1955, the revised Code stated that “all work performed within the scope of this section shall meet or exceed the safety standards expressed or implied herein” and that the Code was “concerned with Safety of the general public and employee safety.” Representatives of utilities and the pipeline industry from across the country participated in the multi-year process to prepare and adopt this Code. The Utilities have presented no evidence that, despite having participated in the development and adoption of the 1955 Code which required pressure testing prior to placing pipeline in service, instead their “practice” in 1956–1961 was, contrary to the requirements of the 1955 Code, to place some but not all natural gas transmission and distribution pipelines in service without pressure tests. Therefore, we conclude that the external evidence of industry practices does not support a finding that the “Utilities’ practice” was to pressure test some but not all natural gas pipelines prior to service.

In summary, neither the records presented by the Utilities nor industry standards indicate that the “Utilities’ practice” was only to pressure test certain pipelines installed between 1956 and 1961. To the contrary, all record evidence points to the conclusion that the “Utilities’ practice” by at least 1956 was to

pressure test pipelines prior to placing it in service, and to prepare a record of the test.

4.2.2. The Issue of “Cost recovery” of Pressure Testing

As noted above, Pub. Util. Code § 451 requires all rates and charges collected by a public utility must be “just and reasonable.” The Commission requires that the public utility demonstrate with admissible evidence that the costs it seeks to include in revenue requirement are reasonable and prudent. The Commission is charged with the responsibility of ensuring that all rates demanded or received by a public utility are just and reasonable. Therefore, the Commission would approve revenue requirements for SoCalGas and SDG&E to provide sufficient revenues authorized in rates to operate the pipeline systems in a safe and reliable manner and make expenditures for all necessary purposes while those rates were in effect.

The Commission sets most rates on a forecast basis; that is it conducts a general rate case, which looks at the expected costs and sales (revenues) in the future. This is called test year ratemaking, where the forecast is derived from prior results and foreseeable future events. Included in that forecast is an allowance for all reasonably foreseeable operating expenses, capital investment and an allowance for a return (profit) to equity investors for assuming the operating and financial risks of providing service in that test year. The revenue requirement ultimately adopted by the Commission consists of the forecasted costs to provide utility service and an allowance to cover the interest expenses for long-term debt and a return on equity.

We find that it was the custom and practice of the Utilities to seek cost recovery from ratepayers of the just and reasonable costs of providing natural

gas service. As set forth in Evidence Code § 1105, “evidence of habit or custom is admissible to prove conduct on a specified occasion in conformity with the habit or custom.” Further, we find that no evidence has been presented that the Utilities excluded the costs of pressure testing pipelines from their requested revenue requirement, or that the Commission ever denied such a request.

No evidence has been presented that the Commission disallowed the Utilities cost recovery for costs of pressure testing pipelines installed between 1956 and 1961. Similarly, no evidence has been presented that any party ever argued that such costs were not a just and reasonable cost of providing public utility natural gas service.

Therefore, we conclude that, consistent with their custom and practice of seeking cost recovery for all just and reasonable costs of service, the Utilities sought and obtained cost recovery for the cost of pressure testing pipelines prior to placing it in service during the years 1956 to 1961.

4.2.3. Conclusion

As required by D.15-03-049, we find that the Utilities’ practice during 1955 to 1961 was to pressure test natural gas pipelines prior to placing it in service. We also find that it was the Utilities’ practice to prepare a record of its tests and such records should have been retained. Finally, we find that consistent with their custom and practice, the Utilities would have sought cost recovery from ratepayers for the cost of such pressure testing. No evidence exists that the utilities did not receive the requested costs recovery.

Based on these findings, we conclude pursuant to D.15-03-049 that the costs of pressure testing pipelines installed between 1955 and 1961 should not be included in the Utilities’ revenue requirement for recovery from ratepayers.

4.3. Petition for Modification of D.14-06-007

We find that it is reasonable to modify D.14-06-007 to clarify that future after-the-fact reasonableness review applications should include completed hydrotest projects for the 12 in-progress projects originally included in Application (A.) 14-12-016 but subsequently removed by the July 31, 2015, by assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling, specifically, Line 404, Line 406, Line 407, Line 1004, Line 1015, Line 2003, Line 2000 West, Line 2001 West, Line 32-21, Line 37-18F, Line 41-116BP1, and Playa Del Rey Storage Phase 5 in A.14-12-016.

Further, where such pipeline segment is replaced rather than pressure tested, the utility must absorb an amount equal to the average cost of pressure testing a similar segment, or where such pipeline segment is abandoned, the utility must absorb the un-depreciated plant in service balance.

5. Categorization and Need for Hearing

The proceeding was originally categorized as Ratesetting and Evidentiary Hearings were held. This decision addressed issues on remand from a rehearing order, D.15-03-049. Hearings were scheduled and then subsequently waived by the active parties.

6. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

7. Assignment of Proceeding

Michel Florio is the assigned Commissioner and Maribeth A. Bushey is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E and SoCalGas are public utilities that operate natural gas pipeline transmission systems subject to the jurisdiction of this Commission.

2. It was the practice of SDG&E and SoCalGas to consistently follow industry standards including ASA B31.8-1955 no later than January 1, 1956.

3. It was SDG&E's and SoCalGas' practice in the 1956-1961 period to prepare records of pressure tests.

4. All pressure test records should have been retained.

5. SDG&E's and SoCalGas' custom and habit was to seek cost recovery from ratepayers of all just and reasonable costs of providing natural gas service.

6. No evidence has been presented that SDG&E and SoCalGas ever excluded the cost of pressure testing pipelines from their respective revenue requirement requests or that the Commission ever denied cost recovery of such costs.

7. SDG&E and SoCalGas would have sought and obtained cost recovery from ratepayers for the cost-of-pressure testing pipeline prior to placing it in service during 1956 to 1961.

Conclusions of Law

1. As required by Pub. Util. Code § 451 all rates and charges collected by a public utility must be "just and reasonable," and a public utility may not change any rate "except upon a showing before the commission and a finding by the commission that the new rate is justified," as provided in Pub. Util. Code § 454.

2. Pub. Util. Code § 451 requires safe operation of a natural gas system. It is a long-standing and continuing responsibility, not a one-time obligation.

3. The burden of proof is on SDG&E and SoCalGas to demonstrate the reasonableness of the rate request.

4. The standard of proof is that of a preponderance of evidence, which means such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.

5. The record for remand phase supports the application of the January 1, 1956, adoption of industry standard ASA B31.8-1955 by SDG&E and SoCalGas.

6. The purpose of the remanded issues as set forth in D.15-03-049 was to conclusively determine whether ratepayers or shareholders should cover the cost-to-pressure test pipeline installed between 1956-1961.

7. Due to the determinations that SDG&E's and SoCalGas' practice was to pressure test pipeline prior to placing it in service during 1956 to 1961 and seek and obtain cost recovery from ratepayers, shareholders should cover the cost to pressure test pipeline installed between 1956-1961 and for which pressure test records are not available.

8. SDG&E and SoCalGas should absorb the costs of pressure testing where the company cannot produce records that provide the minimum information to demonstrate compliance with the industry or regulatory strength testing and record keeping requirements then applicable as of January 1, 1956.

9. Where pipelines are replaced without testing, SDG&E and SoCalGas should absorb an amount equal to the average cost of pressure testing where the company cannot produce pressure test records after the adoption of 1955 Code effective January 1, 1956.

10. SDG&E and SoCalGas should absorb the un-depreciated balances of any abandoned pipelines wherever they should have testing records after January 1, 1956.

11. The October 19, 2015, Petition for Modification should be granted.
12. This decision should be effective today.
13. This proceeding should be closed.

O R D E R**IT IS ORDERED** that:

1. Southern California Gas Company and San Diego Gas & Electric Company must exclude from regulated revenue requirement all costs associated with pressure testing pipeline segments installed between January 1, 1956 and July 1, 1961, where pressure test records are not available that provide the minimum information to demonstrate compliance with the industry or regulatory strength testing and record keeping requirements then applicable; further, where such pipeline segment is replaced rather than pressure tested, the utility must absorb an amount equal to the average cost of pressure testing a similar segment, or where such pipeline segment is abandoned, the utility must absorb the un-depreciated plant in service balance.

2. No later than 45 days after the effective date of this order, Southern California Gas Company and San Diego Gas & Electric Company must file and serve on the Energy Division and all parties a compliance filing, with supporting workpapers, showing that all costs excluded from revenue requirement by Ordering Paragraph 1 have been removed from the Safety Enhancement Capital Cost Balancing Account and the Safety Enhancement Expense Balancing Accounts, and file a Tier 2 Advice Letter that conforms tariff language for such balancing accounts to Ordering Paragraph 1.

3. Decision 14-06-007 is modified to clarify that future after-the-fact reasonableness review applications should include completed hydrotest projects for the 12 in-progress projects originally included in Application (A.) 14-12-016 but subsequently removed by the July 31, 2015, assigned Commissioner and Administrative Law Judge's Amended Scoping Memo and Ruling, specifically, Line 404, Line 406, Line 407, Line 1004, Line 1015, Line 2003, Line 2000 West, Line 2001 West, Line 32-21, Line 37-18F, Line 41-116BP1, and Playa Del Rey Storage Phase 5 in A.14-12-016.

4. Application 11-11-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California.