

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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In The Matter of the Application of San Diego Gas
& Electric Company (U 902 G) and Southern California
Gas Company (U 904 G) for a Certificate of Public
Convenience and Necessity for the Pipeline Safety &
Reliability Project

Application 15-09-013

**RESPONSE OF APPLICANTS SAN DIEGO GAS & ELECTRIC COMPANY (U902G)
AND SOUTHERN CALIFORNIA GAS COMPANY (U904G) IN OPPOSITION TO THE
MOTION OF THE OFFICE OF RATEPAYER ADVOCATES TO DISMISS
APPLICANTS' APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE
AND NECESSITY TO CONSTRUCT LINE 3602**

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Pursuant to Rule 11.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), San Diego Gas & Electric Company (“SDG&E”) and Southern California Gas Company (“SoCalGas”) (together, “Applicants”) hereby submit this Response in opposition to the Motion of the Office of Ratepayer Advocates (“ORA”) to Dismiss San Diego Gas and Electric Company’s and Southern California Gas Company’s Application for a Certificate of Public Convenience and Necessity to Construct Line 3602 (“ORA Motion to Dismiss”) filed June 17, 2016 in the above-captioned proceeding.

I. INTRODUCTION

On September 9, 2010, a 30-inch diameter natural gas transmission pipeline owned and operated by Pacific Gas & Electric Company ruptured and caught fire in the City of San Bruno, California. The California Legislature and Commission responded by initiating proceedings and adopting regulations aimed at bringing natural gas pipelines into compliance with “modern

standards of safety.”¹ The Commission, in R.11-02-019, undertook “a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines,”² and declared that “all natural gas transmission pipelines in service in California must be brought into compliance with modern standards of safety.”³

Applicants share the Commission’s unwavering commitment to safety in upholding their obligation to provide safe and reliable natural gas service to over 3.2 million people, businesses, and military services in San Diego County. Applicants seek a certificate of public convenience and necessity (“CPCN”)⁴ for the Pipeline Safety & Reliability Project (“Proposed Project”)⁵ in order to:

- Comply with P.U. Code § 958 and D.11-06-017 and enhance the safety of existing Line 1600, a pipeline that was constructed in 1949 using non-state-of-the-art materials;
- Improve system reliability and resiliency by minimizing dependence on a single pipeline; and
- Enhance operational flexibility to manage stress conditions by increasing system capacity.⁶

¹ Commission Decision (“D.”) 11-06-017, at 18; Rulemaking (“R.”) 11-02-019 and California Public Utilities Code (“P.U. Code”) § 958.

² R.11-02-019 at 1.

³ D.11-06-017 at 18.

⁴ P.U. Code § 1001 provides that “[t]his article shall not be construed to require any such corporation to secure such certificate for an extension within any city or city and county within which it has theretofore lawfully commenced operations, or for an extension into territory either within or without a city or city and county contiguous to its street railroad, or line, plant, or system, and not theretofore served by a public utility of like character, or for an extension within or to territory already served by it, necessary in the ordinary course of its business.”

⁵ The Proposed Project involves: 1) the construction of a new, approximately 47-mile long, 36-inch diameter natural gas transmission pipeline in San Diego County and associated facilities (Line 3602), and 2) lowering the pressure of approximately 45 miles of existing Line 1600 for use as a distribution line, once the new line is constructed.

⁶ Application (“A.”) 15-09-013 *Amendment to Application of San Diego Gas & Electric Company and Southern California Gas Company for a Certificate of Public Convenience and Necessity for the Pipeline*

In support of their request, Applicants have not only submitted a detailed Application and Proponent’s Environmental Assessment (“PEA”) to commence this proceeding,⁷ but also provided an Amended Application, PEA Supplement, an exhaustive Cost-Effectiveness Analysis (“CEA”) and prepared direct testimony of eleven witnesses to support that the public convenience and necessity are served by the Proposed Project.⁸ Commission staff appears to be reviewing the extensive information submitted to date, and parties are actively engaged in discovery.

Despite Applicants’ thorough *prima facie* showing, without any contrary testimony, and before any evidentiary hearings, ORA asks the Commission to take the extraordinary step of dismissing Applicants’ pipeline safety Application to “save extensive staff and consultant time and effort.”⁹ ORA’s cavalier disregard of the safety, reliability and cost benefits of the Proposed Project is startling. Pursuant to P.U. Code § 309.5, ORA’s statutory goal “shall be to obtain the lowest possible rate for service consistent with reliable and safe service levels.” ORA’s Motion to Dismiss ignores each element of its statutory directive.

- Relying on Applicants’ determination that Line 1600 currently is safe to operate at a lower Maximum Allowable Operating Pressure (“MAOP”), ORA ignores (a) Applicants’ concern about Line 1600’s future safe operation, and (b) the Commission’s direction and P.U. Code § 958’s mandate that transmission pipelines must either be pressure tested or

Safety & Reliability Project – Volume I, March 21, 2016 (“Amended Application”) at 4-6 (emphasis added).

⁷ A.15-09-013 *Application of San Diego Gas & Electric Company and Southern California Gas Company for a Certificate of Public Convenience and Necessity for the Pipeline Safety & Reliability Project* – Volume I, September 30, 2015 (“Application”); Application Volume II – *Proponent’s Environmental Assessment for the Pipeline Safety & Reliability Project*, September 30, 2015 (“PEA”).

⁸ Amended Application Volume II – *Proponent’s Environmental Assessment Supplement for the Pipeline Safety & Reliability Project*, March 21, 2016 (“PEA Supplement”); Amended Application Volume III – *Cost-Effectiveness Analysis for the Pipeline Safety & Reliability Project*, March 21, 2016 (“CEA”).

⁹ ORA Motion to Dismiss at 14.

replaced to ensure safety.¹⁰ The Proposed Project would remove Line 1600, constructed in 1949, from transmission service, significantly increasing its safety margin by reducing its MAOP to distribution levels, and replacing its transmission function with a pipeline manufactured and installed to modern standards of safety. ORA's position appears to be that, since Line 1600 has not failed yet, there is no need to even consider whether to replace it. This is contrary to the Commission's order to end historic exemptions and bring all of California natural gas transmission pipelines into compliance with modern standards for safety,¹¹ with emphasis on proactive, rather than reactive steps to enhancing system safety.

- ORA asserts that dismissing the Application “would send a clear message to Applicants to move forward with pressure testing Line 1600, to best achieve the continued safe service of that line.”¹² Leaving aside safety concerns, ORA ignores Applicants' witness Travis Sera's served testimony that, given the known risks of Line 1600's manufacturing methods, “a 20-year time frame [is] a reasonable expectation” to convert Line 1600 to distribution service or replace it.¹³ By contrast, a new state-of-the-art pipeline is expected to operate safely indefinitely.¹⁴ The estimated direct cost to hydrotest Line 1600 is \$112.9 million.¹⁵ Even assuming Line 1600 could then remain in transmission service for 20 years, Applicants' CEA shows that it is more cost-effective to replace Line 1600 now (avoiding the hydrotest cost and future replacement cost), with a pipeline sized to allow Line 1600 to be converted to distribution service, to minimize use of the

¹⁰ P.U. Code § 958 requires all natural gas intrastate transmission line segments that were not pressure tested or that lack sufficient documentation of a pressure test to be pressure tested or replaced “as soon as practicable.”

¹¹ D.11-06-017 at 18.

¹² ORA Motion to Dismiss at 13.

¹³ See Attachment B – Declaration of Travis Sera at Exhibit 1 (Prepared Direct Testimony of Travis Sera at 3-5, 11; *generally* at 3-26). Because ORA has filed its Motion to Dismiss before evidentiary hearings, Applicants submit Declarations from its relevant witnesses, incorporating their served opening testimony.

¹⁴ CEA at 27 and n.64.

¹⁵ See Attachment E – Declaration of Neil Navin at Exhibit 1 (Prepared Direct Testimony of Neil Navin at 29).

Moreno Compressor Station and the associated costs and environmental impacts, and to provide safety, reliability, operational flexibility and capacity benefits.¹⁶ ORA's position is akin to test-driving an older, used car at 120 miles per hour to conclude that it is suitable for highway driving on a daily basis, even though it lacks all the modern safety features and has limited remaining life. ORA does not meet its statutory mandate to "obtain the lowest possible rate for service consistent with reliable and safe service levels."¹⁷

- ORA asserts that Applicants have failed to show a need for the Proposed Project because Applicants' system-wide demand forecast shows roughly flat demand on a 1-in-10 year cold day over the next decade.¹⁸ ORA's attack misses the mark. Applicants have not asserted that the Proposed Project is needed to meet the Commission's design criteria. Applicants assert that the Proposed Project serves the public convenience and necessity because, among other things, it responds to the Commission's order to end historic exemptions and bring California's natural gas transmission pipelines into compliance with modern standards for safety, enhances safety (de-rating the 1949-era Line 1600 and replacing it with a new state-of-the-art pipeline), increases reliability (currently, 3.2 million people are essentially dependent on a single pipeline), provides the operational flexibility and capacity to manage intra-day stresses on the gas system (particularly for electric generation), and is a cost-effective and prudent alternative to conducting expensive pressure testing of Line 1600 to temporarily extend its use.¹⁹ ORA rebuts none of this evidence, but instead looks only at the 1-in-10 year cold day design standard. Contrary to ORA's position, the Commission is concerned about safe, reliable and cost-effective service.

¹⁶ CEA at 35.

¹⁷ P.U. Code § 309.5.

¹⁸ ORA Motion to Dismiss at 13-14.

¹⁹ *See, e.g.*, Application at 4-5; Amended Application at 4-16. *See also* Attachments A through H hereto: Declarations of Douglas M. Schneider, Travis Sera, David M. Bisi, Deanna Haines, Neil Navin, Jani Kikuts, S. Ali Yari, and Gwen Marelli.

ORA agrees that the legal standard applicable to its Motion to Dismiss is “whether the party bringing the motion wins based solely on undisputed facts and on matters of law.”²⁰ ORA has not addressed Applicants’ relevant facts establishing the need for the Proposed Project, much less identified a legal standard that renders such facts irrelevant. ORA’s request for extraordinary relief is untenable and should be denied.

In the end, ORA’s Motion to Dismiss asks the Commission to dismiss the Application based on ORA’s belief that Applicants’ CEA did not comply with the January 22, 2016 Joint Assigned Commissioner and Administrative Law Judge’s Ruling Requiring an Amended Application and Seeking Protests, Responses, and Replies (“Joint Ruling”). To the contrary, the CEA complies with each aspect of the Joint Ruling. Ignoring the safety and reliability concerns raised by the Application because of ORA’s quibbles with Applicants’ CEA would not be prudent or serve California customers well. To the extent that ORA has additional questions, it may continue with discovery and serve yet more data requests (ORA already has served 19 data requests with 163 enumerated questions, not counting all the subparts).²¹ In short, the Application for this important safety and reliability project should not be dismissed in whole before the Commission has had an opportunity to hear the extensive evidence supporting it.

Applicants request the ORA’s Motion to Dismiss be denied in its entirety.

II. LEGAL STANDARD APPLICABLE TO ORA’S MOTION TO DISMISS

As ORA admits: “A motion to dismiss essentially requires the Commission to determine whether the party bringing the motion wins based solely on undisputed facts and on matters of

²⁰ ORA Motion to Dismiss at 4 (quoting D.06-04-010 at 3).

²¹ See Attachment I – Declaration of Shirley Amrany at paragraph 3.

law. The Commission treats such motions as a court would treat motions for summary judgment in civil practice.”²² The Commission has held:

A motion for summary judgment in a formal proceeding, comparable to a motion for summary judgment under state civil procedure, will be granted by the Commission if the declarations and affidavits, admissions, answers to interrogatories, depositions, and matters of which official notice may be taken show there is no triable issue as to any material fact, and the moving party is entitled to disposition of the proceeding in its favor as a matter of law. ... The affidavits and supporting documents of the moving party will be strictly construed; those of the party opposing the motion will be liberally construed.²³

The only evidence submitted by ORA to support its Motion to Dismiss is a copy of Applicants’ response to ORA Data Request 12, which in fact shows that the “risk score” of Line 1600 currently would significantly decrease if Line 1600 were de-rated to distribution service, and that proposed Line 3602 also would have a significantly lower “risk score” than Line 1600 currently.²⁴ Under the applicable standard, ORA’s Motion to Dismiss may be granted only if none of the facts stated in the Application, Amended Application, the CEA, or the Declarations of Douglas M. Schneider, Travis Sera, David M. Bisi, Deanna Haines, Neil Navin, Jani Kikuts, S. Ali Yari, and Gwen Marelli could establish that the public convenience and necessity are served by the Proposed Project.²⁵ As discussed below, the Commission’s decisions and statute

²² ORA Motion to Dismiss at 4 (quoting D.06-04-010 at 3).

²³ D.07-01-014 at 5.

²⁴ ORA Motion to Dismiss at Declaration of Nathaniel Skinner, Attachment A (Applicants’ Response to ORA Data Request 12, Questions 10-12.)

²⁵ ORA’s Motion to Dismiss contends both that: (a) on undisputed facts or matters of law, Applicants cannot demonstrate that the Proposed Project serves the public convenience and necessity under P.U. Code § 1001, and (b) Applicants’ pleadings (the Application and Amended Application, which include the PEA, PEA Supplement and CEA) do not meet the Joint Ruling’s requirements. The first argument is a motion for summary judgment under Commission Rule 11.1, and both Applicants’ verified pleadings and Declarations demonstrate that there are material facts, not even contested by ORA, that could permit the Commission to find that the Proposed Project serves the public convenience and necessity. For purposes of ORA’s Motion to Dismiss, Applicants’ pleadings and Declarations are liberally construed to determine whether a dispute of material fact exists. Such Declarations are submitted for purposes of responding to ORA’s Motion, and Applicants recognize that the declarants’ testimony will undergo cross-

establish that safety and reliability may establish need for a project.²⁶ ORA's Motion to Dismiss must be denied.

III. BACKGROUND

ORA suggests that the Commission's design criteria are the only basis upon which the Commission may approve a new natural gas pipeline project, but safety and reliability are independent bases upon which the Commission may base findings that a project serves the public convenience and necessity.

A. Safety May Establish the Need for the Proposed Project

The Commission and the California Legislature have been clear that safety may justify a natural gas pipeline project. The California Natural Gas Safety Act of 2011 added safety regulations for intrastate pipelines, including P.U. Code § 958, which requires all natural gas intrastate transmission line segments that were not pressure tested or that lack sufficient documentation of a pressure test to be pressure tested or replaced "as soon as practicable."

The Commission has declared that "all natural gas transmission pipelines in service in California must be brought into compliance with modern standards of safety."²⁷ To accomplish this, the Commission directed all California natural gas pipeline operators to submit pipeline safety plans, which set forth their plans to test or replace those pipelines that lacked a pressure test or sufficient documentation of a pressure test.

examination in evidentiary hearings before the Commission determines what evidence to admit for all purposes. The second argument is essentially a motion to dismiss based on the pleadings under Commission Rule 11.2, and the issue is whether such pleadings, taken as true, meet the Joint Ruling's requirements.

²⁶ See, e.g., P.U. Code § 958 (safety); D.14-06-007 (safety), D.11-06-017 (safety); D.06-09-039 at 170 ("Emergency concerns for which utility should plan include the failure of a major component of the delivery or storage system").

²⁷ D.11-06-017 at 18.

To comply with D.11-06-017, Applicants filed their proposed Pipeline Safety and Enhancement Plan (“PSEP”), which among other things sets forth a plan to pressure test or replace relevant pipeline segments. Specifically, PSEP prioritizes pipeline segments in more populated areas and utilizes the concepts in a “Decision Tree” which takes an analytical approach to testing or replacing pipelines to enhance the safety of the Applicants’ gas transmission system.

Applicants’ PSEP, including the Decision Tree,²⁸ was approved in D.14-06-007. In approving the PSEP Decision Tree, the Commission explained, “by adopting the analytical approach in the Decision Tree we address all pipelines to ensure the system as a whole can be relied upon to be safe, not just complying with the safety rules of a bygone era.”²⁹ The Commission also indicated that Applicants’ proposal to construct “Line 3602” to replace Line 1600, as well as all other new construction must be addressed in “new applications for those projects.”³⁰ The Commission noted: “If we have learned one institutional lesson it would be that we need to look at safety generally, and Safety Enhancement in particular, as an integrated and ongoing commitment and that it is not a couple of quick fixes.”³¹

In sum, the Commission made plain that safety is a compelling objective that may demonstrate the need for a project.

B. Reliability May Establish the Need for the Proposed Project

While the Commission has established certain design criteria for natural gas systems in California,³² the Commission has been clear that utilities have an obligation to provide reliable

²⁸ D.14-06-007, Attachment I.

²⁹ *Id.* at 22-23.

³⁰ *Id.* at 16-17.

³¹ *Id.* at 16.

³² *See, e.g.*, D.06-09-039.

service that is not limited to meeting the design criteria. Reliability means actually delivering gas to customers, and requires having reasonable capacity, operational flexibility and the ability to respond in emergency situations. Ultimately, the Commission determines what is “reasonable,” here in the context of assessing what serves the public convenience and necessity.

In assessing ORA’s contention that Applicants’ Application should be dismissed because Applicants’ long-term gas demand forecasts suggest design criteria are met by the current system, the Commission has held:

- “Emergency concerns for which utility should plan include the failure of a major component of the delivery or storage system....”³³
- “An exclusive reliance on long-term commitments to determine system adequacy would not do enough to ensure that the system would function well during emergencies, since an integrated system such as this must be planned and managed in an integrated way.”³⁴
- “Each utility must continue to study and report on the adequacy of its entire system, including local transmission, and act to ensure that it remains reliable.”³⁵
- “In addition to the use of open seasons to allocate access to constrained resources, SDG&E and SoCalGas shall include the expansion of local transmission facilities in its usual system planning process, and undertake expansion projects as needed to serve all types of customers.”³⁶

In short, Applicants’ obligations go beyond simply meeting the design criteria. Applicants are obligated to provide reliable gas service to their customers. As set forth below, Applicants have presented evidence that the Proposed Project is needed to provide reliable natural gas service.

³³ *Id.* at 170 (Finding of Fact 1).

³⁴ *Id.* at 174 (Finding of Fact 33).

³⁵ *Id.* at 180 (Conclusion of Law 9).

³⁶ *Id.* at 185 (Ordering Paragraph 10).

IV. LINE 1600 IS CURRENTLY SAFE TO OPERATE, BUT NEAR TIME AND FUTURE SAFETY ARE ENHANCED BY THE PROPOSED PROJECT

Line 1600 lacks a post-construction pressure test since its installation in 1949 and as such, to remain in transmission service it must be pressure tested or replaced to comply with P.U. Code § 958 and D.11-06-017. In response to safety recommendations issued by the National Transportation Safety Board on January 3, 2011 and an Advisory Bulletin issued by the Pipeline Hazardous Materials Safety Administration on January 10, 2011,³⁷ Applicants proactively reduced the pressure on Line 1600 from a historical MAOP of 800 psig to the current MAOP of 640 psig in order to increase the margin of safety on the line.³⁸ In addition, as an interim measure to validate the safety of Line 1600, Applicants performed in-line inspection (“ILI”) of the pipeline. While the assessment data from the ILI results demonstrate that Line 1600 is currently fit for service at its current MAOP of 640 psig, the ILI data also confirmed that Line 1600 does indeed have numerous hook cracks along its electric flash-welded long seam and other manufacturing anomalies, such as crack-line anomalies and metal loss.³⁹

The State’s directive to pressure test or replace gas transmission lines creates a unique and arguably one-time opportunity to permanently address the long-term risks associated with operating the 1949 vintage, non-state-of -the-art Line 1600 pipeline by replacing its transmission function with a new pipeline, Line 3602. Converting Line 1600 to distribution service, rather

³⁷ Advisory Bulletin (ADB-11-01), *Pipeline Safety: Establishing Maximum Allowable Operating Pressure or MOP Using Record Evidence, and Integrity Management Risk Identification, Prevention and Mitigation*.

³⁸ See Report of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) on Actions Taken in Response to the National Transportation Safety Board Safety Recommendations (April 15, 2011) filed in R.11-02-019.

³⁹ See Attachment A – Declaration of Douglas Schneider at Exhibit 1 (Prepared Direct Testimony of Douglas Schneider at 9-16); See also Attachment B – Declaration of Travis Sera at Exhibit 1 (Prepared Direct Testimony of Travis Sera at 3-12).

than conducting a difficult and expensive pressure test and temporarily returning the line to transmission service, would provide a greater margin of safety.

In sum, the results of the in-line inspection, along with knowledge of the manufacturing methods and overall operating history of Line 1600, led Applicants, as knowledgeable operators of their gas system, to conclude that the long-term safety of Line 1600 would be better addressed through de-rating of this legacy pipeline, rather than through a pressure test that at best would only temporarily extend its use at transmission pressure.⁴⁰ ORA's argument is not a basis to dismiss the Application. To the contrary, the evidence presented, which ORA does not refute, would permit the Commission to find need for the Proposed Project.

IV. APPLICANTS' CEA FULLY COMPLIES WITH THE JOINT RULING

ORA asserts various complaints about the Amended Application, PEA Supplement and CEA that Applicants submitted in compliance with the Joint Ruling. These issues are addressed in order below. In some instances, ORA identifies information that is unavailable, in others ORA misconstrues information clearly explained in the filing or overlooks an attachment to the PEA. In all the cases, however, the issues are easily clarified and should not serve as a basis to dismiss this Application without the Commission having an opportunity to hear the evidence presented about the need for the Proposed Project.

A. Applicants Have Provided Available and Adequate Information on Pipeline Volumes

ORA asserts that Applicants have failed to provide, as requested by the Joint Ruling, information regarding: 1) ten-year forecasted (maximum daily and annual average daily) volumes in the area to be served by proposed Line 3602, 2) ten-year historic monthly volumes through Line 1600, and 3) ten-year historic daily and annual maximum volumes through Line

⁴⁰ *Id.*

1600. Contrary to ORA’s claims, Applicants have provided the information available and thus have complied with the Joint Ruling.

Ten-year forecasted (maximum daily and annual average daily) volumes in the area to be served by proposed Line 3602

The proposed Line 3602, a major backbone transmission line bringing gas from Rainbow Metering Station into San Diego County, will serve the entire SDG&E service territory. In compliance with the Joint Ruling, Applicants provided SDG&E’s long-term demand forecast under the Commission’s mandated design standards (maximum daily demand on the 1-in-35 year cold day and 1-in-10 year cold day), broken out by customer class, and noted that the annual average demand forecasts by customer class may be found in the California Gas Report.⁴¹ The provided information meets the Joint Ruling’s request.

Ten-year historic volumes through Line 1600 and Ten-year historic daily and annual maximum volumes through Line 1600

As set forth in the Amended Application and clarified in discovery, Applicants provided the available historic volumes delivered into Line 1600 in Appendix E to the Amended Application.⁴² While it is accurate that SDG&E does not measure throughput by individual pipeline for the majority of pipelines on its system, as of May 2011,⁴³ it does have metered deliveries into Line 1600 at the custody transfer point with SoCalGas located at the Rainbow Metering Station.

⁴¹ See Amended Application at 40-41.

⁴² See Amended Application at 41; Applicants’ Reply to Protests to Amended Application at 5, n. 6 (“The data provided in Appendix E of the Amended Application was inadvertently characterized as ‘the combined daily throughput for Line 1600 and Line 3010’ when in fact it represents just the past volumes delivered to Line 1600 (for the 2011-2014 time period).”); Attachment C – Declaration of David Bisi at Exhibit 1.

⁴³ Prior to May 2011, measurement at the Rainbow Metering Station was not differentiated by volumes delivered into Line 1600 or Line 3010.

ORA's complaint appears to be that Applicants have not identified the gas volumes that have gone "through" Line 1600. As noted by Applicants, the volumes provided are those delivered into Line 1600 at the Rainbow Meter Station. Line 1600 has two other unmetered interconnects with the rest of the SDG&E system south of the Rainbow Meter Station which impact its transported volumes.⁴⁴ However, Applicants have identified volumes that have gone into, and thus "through" some portion of, Line 1600. Thus, Applicants complied with the Joint Ruling.

B. Applicants Complied with the Joint Ruling by Fully Analyzing the No Project Alternative

ORA contends that Applicants did not use the PEA definition for the No Project Alternative in the CEA. To the contrary, Applicants complied with the Joint Ruling and analyzed the No Project Alternative in the CEA as it is defined in the PEA. To fully respond to the Joint Ruling, Applicants completed a detailed Line 1600 Hydrotest Study and Cost Estimate ("Hydrotest Study"), which was submitted as Attachment B to the Prepared Direct Testimony of Neil Navin on March 21, 2016.⁴⁵ The detailed Hydrotest Study concludes that the No Project Alternative hydrostatic testing activities should occur during the "shoulder months" (between April 1 and June 1 and between October 1 and December 15) to avoid testing during peak gas usage months and therefore minimize customer impact. Further, the Hydrotest Study concludes that testing in the shoulder months would take between two and three years (approximately 33 months).

⁴⁴ See PEA at 2.3, Figure 2-1: SDG&E Gas System Map. Note the two "other transmission pipeline" that intersect Line 1600 south of Rainbow Station.

⁴⁵ See Attachment E – Declaration of Neil Navin at Exhibit 1 (Prepared Direct Testimony of Neil Navin, Attachment B (March 21, 2016)).

Based on this detailed analysis, Applicants updated the description of the No Project Alternative in the PEA via the March 2016 PEA Supplement,⁴⁶ and accordingly used a three year time period for hydrotesting in the CEA. As explained in the Prepared Direct Testimony of Neil Navin, while the No Project Alternative may take four years from regulatory approval to closeout, the duration of the actual hydrotest is estimated to take approximately 33 months.⁴⁷ Accordingly, for purposes of calculating the costs of the No Project Alternative the CEA uses a hydrotest duration of three years.⁴⁸ While the description of the No Project Alternative in the CEA contains a typographical error when it references a four year time period; a three year time period was used for calculating costs and benefits of the No Project Alternative.

At the same time, it was determined that the scope of the Proposed Project includes replacing only 45 of the 49.7 miles of Line 1600 because the southernmost segment may not need to be hydrostatically tested pursuant to D.14-06-007 if the northern 45 miles are replaced. This reduced the number of segments that needed to be tested from 24 to 19. This update was similarly included in the March 2016 PEA Supplement,⁴⁹ and accordingly used for the CEA analysis.

C. Applicants' CEA Addresses the "Northern Baja Alternative" as Part of the Otay Mesa Alternatives, Because They Effectively are the Same

ORA complains that Applicants' CEA did not duplicate analysis of the same alternative under two different names, contending that Applicants did not analyze the Northern Baja

⁴⁶ PEA Supplement at Appendix A: PEA Corrections and Modifications

⁴⁷ See, Attachment E – Declaration of Neil Navin at Exhibit 1 at 30 (Prepared Direct Testimony of Neil Navin, Attachment B).

⁴⁸ See, CEA at 1, Work Papers Table – Avoided Cost Model Inputs (AC 1.1), Inputs and Assumptions for Avoided Cost Model By Project Alternate. See also, CEA at 12 (citing to Line 1600 Hydrotest Study and Cost Estimate for additional information about the Hydrotest Alternative and Line 1600 Hydrotest Study and Cost Estimate at 8, stating that if testing is done in the “shoulder months” the hydrotest will take approximately 33 months).

⁴⁹ PEA Supplement at Appendix A: PEA Corrections and Modifications.

Alternative or the Non-Physical (Contractual) or Minimal Footprint Solutions as required by the Joint Ruling.⁵⁰ That is not correct. Applicants complied with the Joint Ruling in their analysis of the Otay Mesa Alternatives and described the basis for addressing the two alternatives under a single name in the CEA:

The Ruling identifies two alternative projects utilizing the Otay Mesa receipt point: Non-Physical (Contractual) or Minimal Footprint Solutions (Alternative E); and the Northern Baja Alternative (Alternative F). Both of these rely upon the use of Otay Mesa receipt point (Otay Mesa) capacity in place of the Proposed Project. Accordingly, the Applicants will refer to the two alternatives as a single project titled “Otay Mesa Alternatives.”⁵¹

As stated in the CEA, the Northern Baja Alternative (as described in the PEA) is indistinguishable in terms of costs and benefits to the Non-Physical or Minimal Footprint Solution identified in the Ruling.⁵² This is because both alternatives rely upon the use of Otay Mesa capacity in place of the Proposed Project and require the same physical construction of new pipeline facilities via an expansion of the North Baja Pipeline systems.⁵³ Accordingly, it was proper to address both alternatives in the CEA under a single name, the “Otay Mesa Alternatives.” Given that the information about each alternative is entirely the same, ORA’s contention exalts form over substance for no apparent purpose.

D. Applicants’ Analysis of the Otay Mesa Alternatives Does not Conflict with the PEA

ORA contends that Applicants assumed more capacity at the Otay Mesa receipt point than defined in the PEA. This is simply a misreading of Applicants’ PEA. As the PEA identifies, the project objectives include creation of additional system reliability, resiliency, and

⁵⁰ ORA Motion to Dismiss at 8.

⁵¹ CEA at 13.

⁵² *Id.*

⁵³ See Attachment H – Declaration of Gwen Marelli at Exhibit 1(Prepared Direct Testimony of Gwen Marelli at 3:16-4:3).

operational flexibility in Applicants’ natural gas transmission system. The Northern Baja Alternative identified in the PEA is an alternative to the Proposed Project which was analyzed to determine if it could meet these project objectives; this alternative was not intended to analyze a project that would simply replace the capacity of Line 1600 and therefore not meet most of the project objectives. Applicants determined that 400 million cubic feet per day (“MMcfd”) is the maximum available capacity at the Otay Mesa receipt point, all of which would need to be delivered on a firm basis to the SDG&E system at the Otay Mesa receipt point to allow for the requisite redundancy to meet or approximate these project objectives.⁵⁴ While not providing the same operational and reliable control as the physical asset described in our Application, the Ruling directed the Applicants to assume feasibility of an alternate pipeline route through Mexico. Since the Applicant does not operate the pipeline system in Mexico, the Applicant used public information to provide responses regarding this alternate.

As set forth in Applicants’ witness Gwen Marelli’s served testimony:

To meet the resiliency benefit described in the next Section, the Otay Mesa Alternatives require an expansion on the North Baja Pipeline Systems to deliver 400 MMcfd on a firm basis to the SDG&E system at the Otay Mesa receipt point.⁵⁵

As further explained by Ms. Marelli:

In evaluating the resiliency benefit for the Otay Mesa Alternatives against the Proposed Project, or replacing Line 1600 with only a 16-inch diameter line (Alternatives C.3 and D in the Ruling and Cost-Effectiveness Analysis), there would need to be a reliable, cost-effective supply source to make up for the lost capacity during an extended, unplanned outage on Line 3010 or the Moreno Compressor Station.⁵⁶

⁵⁴ See Attachment H – Declaration of Gwen Marelli at Exhibit 1 (Direct Testimony of Gwen Marelli at 4:7-9).

⁵⁵ *Id.*

⁵⁶ See Attachment H – Declaration of Gwen Marelli at Exhibit 1 (Direct Testimony of Gwen Marelli at 6:16-20).

This does not conflict with the PEA. As detailed in the PEA, the Northern Baja Alternative comprises three pipelines: North Baja Pipeline, Gasoducto Rosarito (“GR”), and Transportadora de Gas Natural de Baja California (“TGN”). The 185 MMcfd of capacity discussed in the PEA (which may not necessarily be available for SDG&E to obtain with a firm contract) refers to the capacity of only one of these three pipelines, the “existing North Baja Pipeline.” As described elsewhere in the PEA, in total, SDG&E can receive up to 400 MMcfd from the Northern Baja Alternative if supply is available.⁵⁷

E. Applicants Properly Interpreted Their Own PEA in Identifying the CEA Alternatives

ORA contends that Applicants’ defined other alternatives differently in the PEA and the CEA. Applicants’ definition of alternatives in the CEA complied with the Ruling. As discussed above, through creation of the Hydrotest Study, Applicants determined that only 45 of the miles of Line 1600 needed to be hydrostatically tested or replaced pursuant to D.14-06-007 at this time. This reduced the number of segments that needed to be tested or replaced from 24 to 19. Accordingly, this resulted in a necessary update to not only the length and number of segments to be hydrotested⁵⁸ but also a corresponding update to the length and number of segments to be replaced as part of the Line 1600 in Place Replacement Alternative in the CEA’s analysis.

Applicants also complied with the Joint Ruling with regard to Alternative G. For Alternative G, the Ruling required Applicants to analyze an LNG Storage (Peak-Shaver) Alternative that is “Similar to the PEA’s ‘United States LNG Alternative’ but at a smaller scale with LNG storage sited at or near natural gas peaker generation sites.”⁵⁹ This is exactly what the

⁵⁷ PEA at 3-5.

⁵⁸ PEA Supplement, Appendix A: PEA Corrections and Modifications.

⁵⁹ Joint Ruling at 13.

CEA analyzed.⁶⁰ The Joint Ruling did not require the CEA to analyze a particular storage capacity or a particular permanent footprint.

V. APPLICANTS HAVE NOT VIOLATED DECISION 14-06-007

ORA contends that “the Amendment to the Application Fails to Follow D.14-06-007 by No Longer Proposing to Test Line 1600.”⁶¹ ORA’s claim is incorrect.

As an initial matter, D.14-06-007 does not order Applicants to pressure test Line 1600. ORA cannot cite any such Ordering Paragraph or language in the Decision to that effect. Instead, ORA cites a footnote in Attachment I, which is Applicants’ Decision Tree – a flow chart representing Applicants’ analytical approach to testing or replacing pipelines to enhance the safety of their integrated natural gas transmission system, and Applicants’ brief in that proceeding. The Commission stated: “We adopt the Phase 1 analytical approach for Safety Enhancement to ensure the safety and reliability of San Diego Gas & Electric Company and Southern California Gas Company as embodied in the Decision Tree (Attachment I) and Reconciliation (Attachment 2) and related descriptive testimony.”⁶² Applicants have followed the analytical approach in their PSEP, and nothing therein dictates pressure testing Line 1600 if it is removed from transmission service.

⁶⁰ CEA at 13. (“This LNG Alternative entails the construction of four independent LNG storage and regasification facilities, each located adjacent to an existing electric generating plant. This alternative is similar to the PEA’s “United States – LNG Alternative” but at a smaller scale . . .”). *See also*, CEA at 25 (“The estimate for this Alternative was based on evaluating the costs for a similar LNG storage facility project, and developing factored estimates for the supply and construction of four LNG storage facilities based on each facility’s operation requirements.”)

⁶¹ ORA Motion to Dismiss at 11.

⁶² D.14-06-007 at 59 (Ordering Paragraph 1).

In addition, D.14-06-007 does not adopt a Decision Tree that requires a result, but rather provides a first cut allocation of projects.⁶³ As discussed extensively in the PSEP proceeding, Applicants, as operators of their integrated natural gas transmission system, are most knowledgeable of that system. Applicants use the Decision Tree and its concepts to guide their decision-making process, but ultimately, they may deviate from the Decision Tree, if in their professional judgment, doing so is reasonable, enhances safety and benefits their customers. There are numerous factors, outside the Decision Tree, that Applicants would consider when determining whether to test or replace.⁶⁴

In D.11-06-017, the Commission ordered submission of plans “to achieve the goal of orderly and cost effectively replacing or testing all natural gas transmission pipeline that have not been pressure tested.”⁶⁵ P.U. Code § 958(a) similarly provides: “Each gas corporation shall prepare and submit to the commission a proposed comprehensive pressure testing implementation plan for all intrastate transmission lines to either pressure test those lines or to replace all segments of intrastate transmission lines that were not pressure tested or that lack sufficient details related to performance of pressure testing.” (Emphasis added). Applicants’ PSEP does not require testing or replacement of distribution lines.

⁶³ *Id.* at 14 (“The Decision Tree results in a first cut allocation of SDG&E and SoCalGas’s pipelines into the proposed phases 1A, 1B, and Phase 2. It is the heart of SDG&E and SoCalGas’s Safety Enhancement process.”)

⁶⁴ Applicants, as prudent operators, would “consider cost and engineering factors for the improvement of the pipeline asset.” A.11-11-002, Exh. SCG-20, R. Phillips Rebuttal Testimony, at 8-9. In addition, Applicants may identify situations in which spending incremental dollars to replace a pipe segment today will avoid the need to request additional funds in a future regulatory proceeding to make a line piggable, add capacity, or replace sections of a pipeline that qualifies for replacement due to leakage history. For example, the Applicants may identify situations where the installation of a new pipeline may improve the overall safety of the system and quality of life of the pipeline asset because the newer pipe can have structural advantages compared to earlier vintage lines. (A.11-11-002, Exh. SCG-20, R. Phillips Rebuttal Testimony, at 8-9).

⁶⁵ D.11-06-017 at 1 (emphasis added).

ORA's complaint is odd because Applicants are seeking to save imposing additional costs on their customers, while ORA seems to insist on imposing those costs whether or not incurring those costs is necessary. Applicants have determined that Line 1600 can be de-rated to distribution service once the Proposed Project is constructed, and neither PSEP, D.11-06-017 nor P.U. Code § 958(a) require the de-rated Line 1600 to be pressure tested. Rather than applaud this cost savings, ORA seems to suggest that Applicants should pressure test Line 1600 even if the Proposed Project is constructed. Applicants are not aware of a compelling reason to do so.

ORA also wrongly suggests that Applicants agreed it is technically feasible to pressure test Line 1600 "in response to the original protests."⁶⁶ Not so. Applicants' PEA made plain that it is possible, though difficult and expensive, to pressure test Line 1600 in its evaluation of the No Project Alternative.⁶⁷ Again, it is peculiar that ORA would complain that Applicants determined that pressure testing is feasible, albeit, in Applicants' view, not cost-effective.

ORA also mistakenly contends that the "Amendment to the Application also deviates from the adopted PSEP proposal in D.14-06-007 of using pre-1946 pipe, by proposing replacement of a new category of age-dependent pipe (1949)."⁶⁸ Nowhere in the Application, Amended Application, PEA, CEA or testimony of eleven witnesses do Applicants take this position. While the analytical approach of Applicants' PSEP, as shown in the Decision Tree, indeed says "If pipe is Pre-1946 it will be abandoned and replaced," nothing therein suggests that post-1946 pipe could not be replaced. That is the purpose of this proceeding—to determine whether the public convenience and necessity are best served (a) by expensive pressure testing of the 1949 Line 1600 to temporarily extend its useful transmission service life, or (b) by

⁶⁶ ORA Motion to Dismiss at 12.

⁶⁷ PEA at 5-35.

⁶⁸ ORA Motion to Dismiss at 13.

converting it to distribution service and constructing a new state-of-the-art Line 3602, which replaces Line 1600's transmission function and will provide safety, reliability and operational flexibility benefits for a century.

Nothing in D.14-06-007 warrants dismissal of Applicants' CPCN Application without the Commission considering the safety, reliability and operational flexibility benefits of the Proposed Project.

VI. ORA FAILS TO SHOW UNDISPUTED FACTS THAT THE PROPOSED PROJECT DOES NOT SERVE THE PUBLIC CONVENIENCE AND NECESSITY

ORA asserts: "As A Matter Of Undisputed Material Fact, Applicants Have Failed To Show Need Of The Proposed Project."⁶⁹ To support this claim, ORA notes: "Applicants' forecast numbers for 1-in-10 year cold day demand show natural gas *decreases* for each of the coming ten years."⁷⁰ Based solely on this fact, ORA erroneously concludes that "Applicants have failed to show the need for the Proposed Project."⁷¹

As ORA admits: "A motion to dismiss essentially requires the Commission to determine whether the party bringing the motion wins based solely on undisputed facts and on matters of law." For ORA to prevail based on this argument, ORA would have to show that, under the Commission's interpretation of P.U. Code § 1001, the only way Applicants could show that that Proposed Project serves the public convenience and necessity is to prove that the forecast 1-in-10 year cold day demand show an increase in natural gas needs. That is simply not the case.

As set forth above, Commission Decisions establish that Applicants are obligated to provide their customers with safe and reliable gas service, including the ability to deliver gas

⁶⁹ ORA Motion to Dismiss at 13. (section heading)

⁷⁰ *Id.* (emphasis in original)

⁷¹ *Id.*

when needed and during emergencies.⁷² ORA has not pointed to any Commission decision that instructs Applicants that meeting the design criteria is the only permissible consideration in planning their gas transmission system, and that safety and reliability should be ignored if the design criteria are met.

Applicants have presented substantial evidence upon which the Commission could conclude that the public convenience and necessity are served by the Proposed Project, including but not limited to: (1) enhanced safety from converting Line 1600 to distribution service and replacing its transmission function with a new state-of-the-art pipeline;⁷³ (2) providing resiliency for the 3.2 million customers, businesses and military installations that rely on a gas transmission system that is currently over-dependent on a single compressor station and one 30-inch pipeline by replacing Line 1600's transmission function with an appropriately sized new pipeline;⁷⁴ (3) providing operational flexibility through additional capacity to serve intra-day fluctuations in demand, particularly for electric generation;⁷⁵ (4) avoiding difficult and expensive pressure testing of the 1949-era Line 1600 that would only temporarily extend its useful transmission life⁷⁶ without providing the safety enhancements, or any reliability or operational benefits,

⁷² See, e.g., D.11-06-017 and D.06-09-039, discussed above.

⁷³ Application at 4-5; Amended Application at 4-16; Attachment A – Declaration of Douglas Schneider (Exhibit 1, Prepared Testimony at 5-14), Attachment B – Declaration of Travis Sera (Exhibit 1, Prepared Testimony at 1-26) and Attachment D – Declaration of Deanna Haines (Exhibit 1, Prepared Testimony at 2-20); CEA at 39.

⁷⁴ Application at 4-5; Amended Application at 4-16; Attachment A – Declaration of Douglas Schneider (Exhibit 1, Prepared Testimony at 16-19), Attachment F – Declaration of Jani Kikuts (Exhibit 1, Prepared Testimony at 1-11), Attachment C – Declaration of David Bisi (Exhibit 1, Prepared Testimony at 6-9), Attachment H – Declaration of Gwen Marelli (Exhibit 1, Prepared Testimony at 2-10), Attachment G – Declaration of Ali Yari (Exhibit 1, Prepared Testimony at 1-2); CEA at 46.

⁷⁵ Application at 4-5; Amended Application at 4-16; Attachment A – Declaration of Douglas Schneider (Exhibit 1, Prepared Testimony at 19-20), Attachment C – Declaration of David Bisi (Exhibit 1, Prepared Testimony at 10-16); CEA at 49-50.

⁷⁶ Attachment E – Declaration of Neil Navin (Exhibit 1, Prepared Testimony at 27-30), Attachment H – Declaration of Gwen Marelli (Exhibit 1, Prepared Testimony at 10-11), Attachment C – Declaration of David Bisi (Exhibit 1, Prepared Testimony at 5-6); CEA at 28-30.

offered by the Proposed Project; and (5) avoiding ongoing Moreno Compressor Station emissions and operation costs and future Line 1600 replacement costs.⁷⁷

In ORA's Motion to Dismiss, there is no debate about these facts. ORA must prove it "wins based solely on undisputed facts and on matters of law."⁷⁸ Moreover, ORA's "affidavits and supporting documents ... will be strictly construed; those of the party opposing the motion will be liberally construed."⁷⁹ ORA cannot prevail on this ground.

VII. SAFETY AND RELIABILITY SHOULD NOT BE SACRIFICED TO PRESERVE "STAFF TIME"

ORA contends: "By granting this motion to dismiss, the Commission would promote and protect the administration of justice, expedite litigation, and save extensive staff and consultant time and effort." P.U. Code § 1001 and the Commission's Rules provide for utilities to file CPCN applications so that the Commission may determine whether projects serve the public convenience and necessity. ORA exists "to obtain the lowest possible rate for service consistent with reliable and safe service levels."⁸⁰ Saving "staff and consultant time and effort" is not an independent justification for dismissing the Application, particularly when the safety and reliability of Applicants' natural gas service is at issue. In fact, Commission staff and parties are already engaged in active discovery and review of the voluminous materials submitted to date in this important pipeline safety proceeding.

As of June 30, 2016, nine months have elapsed since the Application was filed. Since that time, Applicants have submitted extensive additional analysis and information (*i.e.*, Amended Application, PEA Supplement and CEA), and have responded to hundreds of data

⁷⁷ CEA at 27-32; Attachment E – Declaration of Neil Navin (Exhibit 1, Prepared Testimony, Attachment A at Attachment XII: Moreno Compressor Station – Operation Analysis), and Attachment B – Declaration of Travis Sera (Exhibit 1, Prepared Testimony at 3-5, 11).

⁷⁸ ORA Motion to Dismiss at 4 (quoting D.06-04-010 at 3).

⁷⁹ D.07-01-014 at 5.

⁸⁰ P.U. Code § 309.5.

ATTACHMENTS A through I

Declarations of Douglas M. Schneider, Travis Sera, David M. Bisi, Deanna Haines, Neil Navin, Jani Kikuts, Ali Yari, Gwen Marelli, and Shirley Amrany

TAKE NOTICE THAT due to the considerable size of this Response, which exceeds a single transmission 20.0 megabytes in size, Attachments A through I was tendered for filing at the Commission's Docket Office at the State Building, 505 Van Ness Avenue, San Francisco, California 94102 in an ARCHIVAL CD-ROM/DVD format.