



**FILED**  
10-10-16  
04:59 PM

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) to Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts.

A.16-09-005

**SOUTHERN CALIFORNIA GENERATION COALITION  
PROTEST OF THE  
SOUTHERN CALIFORNIA GAS COMPANY AND  
SAN DIEGO GAS & ELECTRIC COMPANY  
APPLICATION TO RECOVER COSTS RECORDED IN THE PIPELINE  
SAFETY RELIABILITY MEMORANDUM ACCOUNT,  
THE SAFETY ENHANCEMENT EXPENSE BALANCING ACCOUNTS, AND  
THE SAFETY ENHANCEMENT CAPITAL COST BALANCING ACCOUNTS**

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Dated: October 10, 2016

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THE SAFETY ENHANCEMENT CAPITAL COST BALANCING ACCOUNTS**

In accordance with Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Southern California Generation Coalition (“SCGC”) respectfully protests the September 2, 2016 Application of the Southern California Gas Company (“SoCalGas”) and San Diego Gas and Electric Company (“SDG&E”) (jointly, “Applicants”) to recover Pipeline Safety Enhancement Plan (“PSEP”) costs recorded in their Pipeline Safety and Reliability Memorandum Accounts (“PSRMAs”), their Safety Enhancement Expense Balancing Accounts (“SEEBAs”), and their Safety Enhancement Capital Cost Balancing Accounts (“SECCBAs”)

As discussed below, the Application proposes the recovery of costs without an adequate showing and even proposes the recovery of costs for projects that are not authorized by the Commission. Thus, recovery of costs as proposed by the Applicants would unjustifiably raise the cost of the gas transmission service that the Applicants provide to SCGC members.

Accordingly SCGC requests that the Application be set for an evidentiary hearing.

## I. BACKGROUND.

Pursuant to Decision (“D”) 12-04-021, the Applicants created their PSRMAs to record PSEP Operations and Maintenance (“O&M”) and capital costs.<sup>1</sup> In the subsequent D.14-06-007 approving implementation of their PSEP in the Applicants’ 2013 Triennial Cost Allocation Proceeding (“TCAP”), the Commission stated that costs accumulated in the Applicants’ PSRMAs would be reviewed for reasonableness.<sup>2</sup> Additionally, the Commission authorized the Applicants to establish their SEEBAs and SECCBAs to record Phase 1 PSEP costs with the new accounts becoming effective on the effective date of D.14-12-007, June 12, 2016.<sup>3</sup>

The Applicants sought review of the reasonableness of costs recorded in their PSRMAs during the locked-in period from February 24, 2011, the effective date of Rulemaking 11-02-019, to June 12, 2014, the effective date of D.14-06-007, in Application (“A.”) 14-12-016. The PSRMA reasonableness review application is currently pending before the Commission.

In their new application, the Applicants seek reasonableness review of \$134 million in direct capital costs and \$61 million in O&M.<sup>4</sup> More specifically the Applicants seek reasonableness review of the costs of 26 pipeline projects,<sup>5</sup> 15 bundled valve projects,<sup>6</sup> and two methane sensing equipment pilot projects, one for SoCalGas and another for SDG&E.<sup>7</sup> The Applicants’ direct costs of the pipeline projects that are presented in the Application for a determination of reasonableness include \$101.97 million in capital expenditures, \$54.49 million in O&M expenditures, a \$48,00 “capital credit,” and \$6.81 million in “miscellaneous other”

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<sup>1</sup> D.12-04-021, p. 12 (April 19, 2012).

<sup>2</sup> D.14-06-007, p. 61, Ordering Paragraph 6 (June 12, 2014).

<sup>3</sup> *Ibid*, p. 60, Ordering Paragraph 4.

<sup>4</sup> Application, p. 1.

<sup>5</sup> Direct Testimony of Rick Phillips, Chapter III, p.1 (Sept. 2, 2016) (“Phillips Direct”).

<sup>6</sup> Direct Testimony of Huge Mejia, Chapter V, pp.1, 5, Table 1 (Sept. 2, 2016) (“Mejia Direct”).

O&M costs.<sup>8</sup> The Applicants' direct capital cost of the 15 bundled valve projects is \$31.72 million.<sup>9</sup> The direct costs of the methane sensing pilot projects are \$358,000 for SoCalGas and \$117,000 for SDG&E.<sup>10</sup>

The revenue requirement that the Applicants seek to recover is \$68.4 million for SoCalGas and \$2.6 million for SDG&E.<sup>11</sup> The Applicants explain that in D.16-08-003 they were authorized 50 percent interim recovery of PSRMA, SEEBA, and SECCBA revenue requirements, subject to refund.<sup>12</sup> As a result of 50 percent interim recovery of PSRMA, SEEBA, and SECCBA revenue requirements already being incorporated into rates, the Applicants' illustrative transportation rate tables show the rate impact of incorporating the additional 50 percent of costs not yet incorporated into rates.<sup>13</sup>

SCGC members are electric generation ("EG") customers of SoCalGas. The Transmission Level Service ("TLS") and Backbone Transmission Service ("BTS") rates are particularly relevant to SCGC members. The TLS and BTS rates would increase by a greater percentage than the rates for any other rate class, 5.0 percent for TLS rates and 8.8 percent for BTS rates.<sup>14</sup>

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<sup>7</sup> Direct Testimony of Michael Bermel, Chapter VI, pp. 8-9, Tables 1 and 2 (Sept. 2, 2016) ("Bermel Direct).

<sup>8</sup> Phillips Direct, pp. 1, 14-15, Tables 5-8.

<sup>9</sup> Mejia Direct, pp.1, 5, Table 1 (Sept. 2, 2016).

<sup>10</sup> Bermel Direct, pp. 8-9.

<sup>11</sup> Application, p. 1; Direct Testimony of Reginald M. Austria, Chapter XI, p. 3, Table 1 (Sept. 2, 2016) ("Austria Direct)

<sup>12</sup> Direct Testimony of Sharim Chaudhury, Chapter XII, p. 6, footnote 7 (Sept. 2, 2016) ("Chaudhury Direct").

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.* p. 7, Table 8.

## II. PROTEST.

As a threshold matter, the costs of projects which were not authorized in D.11-06-017 should be excluded from the scope of this proceeding.<sup>15</sup> Additionally, the Application should be reviewed through the evidentiary process to determine whether all costs that were disallowed for recovery in D.14-06-007 have been excluded from the Application. For projects which were authorized in D.14-06-007 subject to reasonableness review, the Application should be reviewed through the evidentiary process to determine whether the costs that are included in the Application are shown to be reasonable as required by D.14-06-007, and whether all costs that are included in the Application directly contribute to the implementation of Safety Enhancement as required by D.14-06-007. The Applicants should not be permitted to recover any costs from projects which were not authorized by D.11-06-017, any disallowed costs, any costs which are not sufficiently shown to be reasonable, and any costs that do not directly contribute to the implementation of Safety Enhancement.

### **A. The Costs of Projects Which Were Not Authorized in D.11-06-017 Should Be Excluded from the Scope of this Proceeding.**

As a threshold matter, the costs of projects which were not authorized to be part of the Applicants' PSEP in Decision ("D.") 11-06-017 (June 9, 2011) should be excluded from the scope of this proceeding. The Applicants propose that the scope of the PSEP Phase 2 work should expand beyond the scope permitted by D.11-06-017

The Applicants state, correctly, that in PSEP Phase 2, "PSEP Phase 2 includes pipelines without record of a pressure test or with record of a pressure test but not up to 1.25 MAOP in less populated areas...."<sup>16</sup> They call work on these pipelines "Phase 2A."<sup>17</sup> However, the

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<sup>15</sup> D.11-06-017 (June 9, 2011).

<sup>16</sup> Application, p. 11.

<sup>17</sup> *Ibid.*

Applicants go on to state, incorrectly, that PSEP Phase 2 would also encompass “pipelines with record of a pressure test, but without record of a pressure test to modern (Subpart J) standards.....”<sup>18</sup> The Applicants call this work “Phase 2B.”<sup>19</sup> The Applicants’ witness Phillips makes the same claim that PSEP Phase 2 has two sub-phases.<sup>20</sup> The Applicants argue in their Application and in their testimony:

Current pressure test standards were developed and issued as part of Part 192, 49 CFR Subpart J – recognized as the modern standard for pressure testing. D.11-06-017 requires in-service natural gas transmission pipeline in California to have been pressure tested in accordance with modern standards for safety (*see* D.11-06-017, mimeo., at 18). The Commission’s new requirements will require SoCalGas and SDG&E to locate records of pressure testing in accordance with Subpart J standards or conduct such pressure tests or replace the pipeline.<sup>21</sup>

Expanding PSEP Phase 2 beyond pipelines in less populated areas that lack sufficient documentation of pressure testing to pipelines that do have documentation of pressure testing, albeit not up to the standards of Subpart J, would expand PSEP Phase 2 enormously. While the Applicants have 660 miles of pipeline in less populated areas that lack sufficient documentation of pressure testing, they have approximately 1,200 miles of pipeline segments that have documentation of pressure testing, but the pressure testing was conducted prior to the adoption of Part 192 of Title 49 of the Code of Federal Regulations on November 12, 1970.<sup>22</sup>

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<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> Phillips Direct, p. 6

<sup>21</sup> Application, footnote 40; Direct Testimony of Jimmie Cho, p. 4, footnote 8 (Sept. 2, 2016) (“Cho Direct”); Phillips Direct, p. 6, footnote 24.

<sup>22</sup> A.15-06-013, Prepared Direct Testimony of Rick Phillips, p. RP-3 (June 17, 2015); D.16-08-003, p. 8 (Aug. 18, 2016).

The so-called Phase 2B costs appear in this Application in the form of “accelerated miles.” The Applicants includes both “accelerated miles” and “incidental miles” in their Application<sup>23</sup> The Applicants’ witness Phillips defines “accelerated miles” as follows:

Accelerated miles are miles that would otherwise be addressed in a later phase of PSEP under the approved prioritization process, but are being advanced to Phase 1A to realize operating and cost efficiencies. Accelerated miles may include Phase 1B or Phase 2. Phase 1B includes pipelines installed before 1946 that are unpiggable. Phase 2 includes pipelines without sufficient record of a pressure test in less populated areas (Phase 2A) or pipelines with record of a pressure test, but without record of a pressure test to modern – Subpart J – standards (Phase 2B).<sup>24</sup>

Witness Phillips describes “incidental miles” as follows: “Incidental miles are miles not scheduled to be addressed in PSEP, but are included where their inclusion is determined to improve cost and program efficiency, address implementation constraints, or facilitate continuity of testing.”<sup>25</sup>

The accelerated and incidental miles the Applicants expect to undertake in PSEP Phase 1A, the PSEP Phase that was designed to address the most densely populated areas,<sup>26</sup> is substantial. The Applicants’ witness Phillips says that the Applicants currently anticipate pressure testing or replacing 175 miles of pipeline in Phase 1A, with 80 miles, 46 percent, being accelerated and incidental miles.<sup>27</sup>

Any Commission decision addressing the Application in this proceeding should be narrowly crafted to explicitly avoid being construed to constitute approval of expanding PSEP Phase 2 to encompass what the Applicants call “Phase 2B,” pressure testing or replacing pipeline

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<sup>23</sup> Phillips Direct, pp. 12-13.

<sup>24</sup> *Ibid*, p. 13.

<sup>25</sup> *Ibid*.

<sup>26</sup> Prepared Direct Testimony of Rick Phillips, Chapter II, p. 4 (Sept. 2, 2016).

<sup>27</sup> *Ibid*.

segments that have adequate documentation of pressure testing prior to implementation of Part 192 but not fully up to Part 192 standards. D.11-06-017 Ordering Paragraph 3 does not require retesting or replacement of pre-1971 pipelines that have adequate documentation of pressure testing as long as the pressure test records include “all elements required by the regulations in effect when the test was conducted” and the pressure test had a duration of at least one hour.<sup>28</sup>

Mandating retesting or replacement of all pre-1971 pipeline segments that have adequate documentation of a pressure test that meets the requirements of D.11-06-017 Ordering Paragraph 3 would constitute a major expansion of the Pipeline Safety Enhancement Plans of the California gas utilities without any demonstration of safety benefits that could plausibly justify the potentially enormous cost of the retesting or replacement. In any decision in this proceeding, the Commission should explicitly reject any aspect of the Application that could be construed to seek authorization of a plan for retesting or replacement of pre-1971 pipeline segments that have adequate documentation of pressure testing as “required by the regulations in effect when the test was conducted” where the pressure test was for at least one hour as described in D.11-06-017 Ordering Paragraph 3.

If Phase 2 accelerated miles are considered in this Application, the accelerated miles should be limited to what the Applicants call “Phase 2A” miles. This was the approach the Commission took in A.15-06-013, which the Commission addressed in D.16-08-003. The Applicants limited their request in A.15-06-013 to what they now call “Phase 2A” miles: “This Application solely addresses the planning and engineering design costs associated with developing detailed cost estimates for the approximately 660 mile of pipeline that do not have sufficient documentation of a pressure test to at least 1.25 time MAOP.”<sup>29</sup> The Commission

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<sup>28</sup> D.11-06-017, p. 31, Ordering Paragraph 3 (June 9, 2011).

<sup>29</sup> A.15-06-013, p. 4 (June 17, 2015) (emphasis added, footnotes deleted).

noted the limited scope of A.15-06-013 in D.16-08-003: “Only planning and engineering costs associated with the 660 miles of untested pipeline are included in the request for memorandum account treatment. The applicants stated that the cost of testing or replacing the other 1,200 miles of pipeline will be addressed in separate applications.”<sup>30</sup> The scope of this proceeding should be similarly limited.

**B. The Application Should Be Reviewed Through the Evidentiary Process to Determine Whether the Applicants Excluded All Costs that Were Disallowed for Recovery in D.14-06-007.**

The Application should be reviewed to determine whether the Applicants have properly excluded all costs which the Commission found to be ineligible for recovery from ratepayers in D.14-06-007 as subsequently modified by D.5-06-020. The Applicants recognize that the Commission disallowed costs that were relevant to projects presented for review in this proceeding.<sup>31</sup> The Applicants’ determination of the disallowances should be examined through the evidentiary process. For example, the Applicants determine a \$1.7 million system average cost to pressure test pipelines and multiply that average cost by the length of pipe that is subject to a disallowance.<sup>32</sup> The proposed \$1.7 million system average cost should be examined.

**C. The Application Should Be Reviewed Through the Evidentiary Process to Determine Whether the Costs that Are Included in the Application Are Shown to Be Reasonable as Required by D.14-06-007.**

After excluding costs of projects that were not authorized by the Commission and removing disallowed costs, the remaining costs presented for review in the Application should be reviewed for reasonableness. In D.14-06-007, the Commission stated that the Applicants would be permitted to recover the costs recorded in their PSRMA only to the extent to which the costs were reasonably incurred: “That is, the costs must have been prudently incurred by competent

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<sup>30</sup> D.16-08-003, p. 8 (Aug. 18, 2016).

<sup>31</sup> Phillips Direct, pp. 2-8.

management exercising the best practices of the era, and using well-trained, well-informed and conscientious employees and contractors who are performing their jobs properly.”<sup>33</sup> The Commission explained, further, that “where imprudent actions by the gas system operator have led to unreasonable costs, we will assign those costs to shareholders.”<sup>34</sup> The Commission identified the minimum filing requirements for the Applicants’ Safety Enhancement reasonableness applications:

When SDG&E and SoCalGas file applications to demonstrate the reasonableness of Safety Enhancement they will bear the burden of proof that the companies used industry best practices and that their actions were prudent. This is not a “perfection” standard: it is a standard of care that demonstrates all actions were well planned, properly supervised and all necessary records are retained. At a minimum we would expect that SDG&E and SoCalGas could document and demonstrate an overview of the management of Safety Enhancement which might include: ongoing management approved updates to the Decision Tree and ongoing updates similar to the Reconciliation. The companies should be able to show work plans, organization charts, position descriptions, Mission Statements, etc., used to effectively and efficiently manage Safety Enhancement. There would likely be records of contractor selection controls, project cost control systems and reports, engineering design and review controls, and of course proper retention of constructions records, retention of pressure testing records, and retention of all other construction test and inspection records, and records of all other activities mandated to be performed and documented by state or federal regulations.<sup>35</sup>

In many instances, the Applicants describe what they did and identify the associated costs, but they either do not present a showing of reasonableness at all or they summarily state that what they did was reasonable without going into the depth required by D.14-06-007. For example,

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<sup>32</sup> *Ibid*, p. 7.

<sup>33</sup> D.14-06-007, *ibid*, p. 31

<sup>34</sup> *Ibid*.

<sup>35</sup> *Ibid*, pp. 36-37.

regarding descoped projects, the Applicants' witness Phillips says: "The descoped projects directly contributed towards the implementation of projects prior to cancellation and were prudently and reasonably incurred."<sup>36</sup> The Application should be set for hearing to determine whether the Applicants make a showing beyond conclusory statements which meets the standards set in D.14-07-007. As discussed below regarding schedule, it would be expeditious to require the Applicants to make a specific showing of reasonableness for all of the costs presented in the Application, including the cost of each of the 26 pipeline projects, 15 bundled valve projects, and two methane sensing equipment pilot projects for which the Applicants seek a reasonableness determination. The Application should also be examined to determine whether the Applicants were prudent in deciding to replace rather than pressure test segments.

### **III. SCHEDULE AND CATEGORIZATION.**

The Applicants propose that their Application be categorized as "Ratesetting" because of the potential impact on the Applicants' rates,<sup>37</sup> and SCGC concurs. However, SCGC does not concur with the Applicants' proposed schedule.

Applicants propose that intervenor testimony be submitted by March 3, 2017.<sup>38</sup> Given the Applicants' sparse showing, multiple rounds of discovery will be necessary on various issues for intervenors to obtain sufficient information to enable submission of an informed reasonableness recommendation. Additional time may be needed for the submission of intervenor testimony.

A preferable course would be for the Commission to require the Applicants to submit supplemental testimony to demonstrate the reasonableness of their claimed costs. Supplemental

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<sup>36</sup> Phillips Direct, p. 18.

<sup>37</sup> Application, p. 19.

<sup>38</sup> *Ibid.*

testimony was required in A.14-12-016,<sup>39</sup> and supplemental testimony should similarly be required in this proceeding.

Furthermore, the supplemental testimony should contain the level of detail that the Applicants finally presented in their rebuttal testimony in the PSRMA reasonableness review proceeding, A.14-12-016. If, instead, the Applicants wait until rebuttal testimony to submit a sufficient detail as they finally did in A.14-12-016, intervenors should be allowed to submit sur-rebuttal testimony.

#### **IV. CONCLUSION.**

For the reasons set forth above, SCGC respectfully protests the Application and requests that the Application be set for evidentiary hearing.

Respectfully submitted,

*/s/ Norman A. Pedersen*

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Dated: October 10, 2016

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<sup>39</sup> Scoping Memo and Ruling, A.14-12-016 p. 5 (April 1, 2015).