PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #8 (Rev. 1)
Agenda ID 14775

ENERGY DIVISION **RESOLUTION G-3517**
May 12, 2016

R E S O L U T I O N

Resolution G-3517. Southern California Gas Company (SoCalGas) request for recovery of the Transmission Integrity Management Program (TIMP) Balancing Account balance for the year ending 2014.

PROPOSED OUTCOME:

- SoCalGas' request to recover its TIMP Balancing Account Balance for the year ending 2014 is approved with minor adjustments.

SAFETY CONSIDERATIONS:

- SoCalGas' TIMP Balancing Account records pipeline integrity-related costs associated with federal regulatory requirements set forth in 49 CFR 192 Subpart O adopted following the passage of the Pipeline Safety Improvement Act of 2002.

ESTIMATED COST:

- Approximately $19 million

By Advice Letter 4819 filed June 19, 2015.

SUMMARY

Decision (D.) 13-05-010 authorized SoCalGas to establish a two-way balancing account to recover actual Operations & Maintenance (O&M) expenses and Capital Expenditures for compliance with the Transmission Integrity Management Program (TIMP). SoCalGas filed Advice Letter (AL) 4819 requesting recovery of approximately $19 million for costs recorded during year 2014 in the TIMP Balancing Account.

This amount is in addition to the $31 million[1] that the Commission authorized SoCalGas to collect in D.13-05-010. The additional costs are primarily the result of additional requirements by Pipeline Hazard Materials Safety Administration (PHMSA) that were adopted after SoCalGas had prepared its cost estimates in 2010 for its Test Year 2012 General Rate Case (GRC). SoCalGas' request to recover its TIMP Balancing Account balance recorded for the year 2014 is approved with a minor adjustment.

Expenses for Employee Benefits/Recognition should be removed from the TIMP Balancing Account. These costs should be included as an Administrative and General expense in the GRC and are inappropriately applied to the TIMP Balancing Account.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SoCalGas' most recent Triennial Cost Allocation Proceeding and pursuant to Resolution G-3499.

BACKGROUND

The SoCalGas Transmission Integrity Management Program (TIMP) was established as a result of the Pipeline Safety Improvement Act of 2002 and the enactment of 49 CFR Part 192 Subpart O (Subpart O).

Pursuant to Subpart O, operators of gas transmission pipelines are required to identify the threats to their pipelines in High Consequence Areas, analyze the risk posed by these threats, collect information about the physical condition of their pipelines, and take actions to address applicable threats and integrity concerns before pipeline failures occur.

Since the Pacific Gas and Electric Company (PG&E) pipeline rupture in San Bruno in September 2010, regulations such as "The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011" have led the Pipeline and Hazardous Materials Safety Administration (PHMSA) to change its reporting

[1] Based on the authorized attrition rate of 2.65% in 2013 and 2.75% in 2014.

requirements and review existing transmission integrity requirements to identify areas for improvement.
In its 2012 GRC proceeding, Application (A.) 10-12-005, the Commission authorized $28.6 million[2] for TIMP-related O&M expenses, a reduction of $4.3 million or 13% to SoCalGas' requested forecast. However, in Ordering Paragraph 19 of D.13-05-010, the Commission authorized SoCalGas to establish a two-way balancing account to recover actual TIMP compliance O&M expenses and capital expenditures.

D.13-05-010 allowed TIMP year-end balances in the two-way balancing account to be carried forward into the following year to ensure that SoCalGas had sufficient funds to carry out all the necessary TIMP-related work to ensure that its gas transmission system remains safe and reliable. The TIMP balancing account is effective for the four-year GRC cycle ending December 31, 2015, or the effective date of SoCalGas' next GRC.

The TIMP Balancing Account was established in SoCalGas' tariff via Advice Letter (AL) 4507. For 2012 and 2013, the TIMP Balancing account was under collected by about $29 million (or 48% above the authorized revenue requirement of $59.9 million for the combined 2012-2013 period). On June 11, 2015, the Commission issued Resolution G-3499, approving Advice Letter 4632 and authorized SoCalGas to recover the accumulated balance recorded in the TIMP Balancing Account through December 31, 2013.

SoCalGas states that there are three primary reasons why the TIMP Balancing Account had a substantial balance accumulated from 2014. First, the amount authorized by the Commission was below SoCalGas' forecast. This accounts for $4.5 million of the excess TIMP costs.[3] Second, SoCalGas "did not foresee conditions that ultimately led to increased TIMP-related costs." These unanticipated circumstances account for $8 million of the costs. And third, "as a result of how capital expenditures are recovered and balanced," SoCalGas has

[2] D.13-05-010, $20.76 million for non-shared O&M costs, $5.7 million for shared O&M costs.

[3] The $4.3 million reduction from the 2012 GRC decision carries over into 2014 as $4.5 million based on the authorized attrition rate of 2.65% in 2013 and 2.75% in 2014.

recovered $6.6 million less than the amount needed to fully recover the revenue requirement associated with capital expenditures.

On June 11, 2015, the Commission approved Resolution G-3499 which found that changes in pipeline safety regulation occurred after SoCalGas prepared its 2012 GRC Application 10-12-005 and as a result, led to higher actual TIMP costs than initially forecasted.[4] Resolution G-3499 determined that new PHMSA regulations and Senate Bill 879 required SoCalGas to undertake activities in addition to what SoCalGas had forecasted at the time it was preparing for its 2012 General Rate Case (A.10-12-005).

Also pursuant to Resolution G-3499, SoCalGas proposes to amortize the TIMP Balancing Account amount in gas transportation rates on a functionalized allocation of transmission-related costs as developed in SoCalGas' most recent Triennial Cost Allocation Proceeding (TCAP). The revenue requirements and rate impacts are described in Attachment B of Advice Letter 4819.

NOTICE

Notice of AL 4819 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

PROTESTS

SoCalGas Advice Letter (AL) 4819 was not protested**.**

DISCUSSION

The Energy Division reviewed 2014 costs recorded in the TIMP Balancing Account and also examined some invoices on a selective, sampling basis. Energy Division conducted an invoice level review of random costs for verification using selective sampling. Based on the information provided and aside from a minor cost item, the Energy Division found that the costs reviewed were appropriately recorded and incurred, and should be approved.

[4] Resolution G-3499, Findings 7 and 8.

In response to Energy Division staff data requests, SoCalGas provided Energy Division with supporting information extending to the invoice level to demonstrate that the reviewed costs and expenditures were appropriately incurred TIMP-related expenditures. SoCalGas also provided several examples where forecasted costs and expenditures associated with a specific project encountered additional assessments and remediation causing actual costs to be higher than initially forecasted.

Cost overruns were generally caused by additional work required during construction after the initial inspection and estimate was forecasted, such as additional permitting and environmental work required by other regulatory agencies, accidental equipment failures, additional pipeline anomalies and additional cleaning runs of pipelines.

For verification at the invoice level, Energy Division staff examined TIMP O&M expenses and capital expenditures selecting three sample months: April 2014, October 2014 and December 2014. In addition, staff examined O&M and capital expenditures for two specific projects where SoCalGas stated that the actual TIMP costs exceeded the initial forecast.

Of the several hundred entries in the utility ledger recorded during those months and for the two projects, staff selectively identified a number of line items based on anomalies in the description or the amount logged. Each ledger item in turn contained several cost elements. Of these cost elements, staff again selectively identified a number of cost elements to request invoices from the utility. SoCalGas provided over fifty invoices associated with the cost elements. Staff review included both O&M expenses and capital expenditures.

Based on the information provided by SoCalGas, Energy Division staff found that the majority of expenses and expenditures examined were appropriately recorded to the TIMP Balancing Account and reasonably incurred.

However, SoCalGas included an entry for an Employee Benefits/Recognition event in the TIMP Balancing Account. Though the specific amount of the invoice was minimal, this expense is more appropriately allocated to SoCalGas' Administrative and General Accounts such as Compensation. In SoCalGas' 2012 GRC A.10-12-006, the Compensation testimony included an Employee Recognition program.

Therefore, SoCalGas should remove all costs for Employee Benefits/Recognition from the TIMP Balancing account. SoCalGas shall submit a supplement advice letter to AL 4819 to set forth the revised TIMP Balancing Account balance without these costs.
SoCalGas proposes to amortize the under-collection beginning August 1, 2016 upon completion of the amortization of the 2013 under collected balance on a functionalized allocation of transmission-related costs.[5]

The functionalized allocation of the TIMP balance is consistent with D.14-06-007 and D.12-12-030.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on March 30, 2016. No comments were filed.

FINDINGS

1. SoCalGas filed AL 4819 on June 19, 2015 to request recovery of the TIMP Balancing Account balance of approximately $19 million from the year 2014.
2. The costs included in the TIMP Balancing Account are incurred in response to the mandated federal pipeline safety regulations including, but not limited to requirements associated with Subpart O, Gas Transmission Pipeline Integrity Management.

---

[5] SoCalGas and San Diego Gas and Electric Company (SDG&E) have an integrated transmission system and rate recovery mechanism. SDG&E will also incorporate their share of costs in rates effective August 1, 2016.

3. The TIMP Balancing Account was authorized by Commission Decision 13-05-010.
4. Ordering Paragraph 19 of D.13-05-010 authorized SoCalGas to establish a two-way balancing account to recover the TIMP O&M costs and capital expenditures of complying with Subpart O.
5. D.13-05-010 states that any costs in excess of the authorized TIMP O&M costs and capital expenditures will be subject to recovery through a Tier 3 Advice Letter process.
6. SoCalGas' 2012 GRC Application 10-12-005 was prepared prior to certain changes in reporting requirements by PHMSA.
7. Changes in pipeline safety regulation increased SoCalGas' actual TIMP costs and expenditures, and were among the reasons why TIMP costs were higher than initially forecasted.
8. Energy Division conducted an invoice level review based on a sampling of the TIMP O&M costs and capital expenditures included in the TIMP Balancing Account requested in AL 4819.
9. Costs for Employee Benefits/Recognition should not be recorded or recovered in the TIMP Balancing Account.
10. Minus any entries for Employee Benefits/Recognition, SoCalGas should be allowed to recover the 2014 TIMP Balancing Account under-collection.
11. SoCalGas should use a functionalized method to allocate the TIMP Balancing Account 2014 balance.

THEREFORE IT IS ORDERED THAT:

1. Southern California Gas Company request to recover its Transmission Integrity Management Program Balancing Account Balance for Year 2014 is approved, subject to the removal of any Employee Benefits/Recognition costs.
2. Southern California Gas Company is authorized to recover from ratepayers approximately $19 million over the twelve month period beginning August 1, 2016 following the approval of the supplemental advice letter required by this resolution in Ordering Paragraph 3.
3. Within 20 days of the effective date of this resolution, Southern California Gas Company shall file a supplemental Tier 2 Advice Letter to set forth gas rates

to recover the revised Transmission Integrity Management Program Balancing Account 2014 balance, minus any costs relating to Employee Benefits/Recognition.

4. Within 20 days of the effective date of this resolution, San Diego Gas & Electric Company shall file a Tier 2 Advice Letter to set forth gas rates to recover its allocation of the authorized Transmission Integrity Management Program Balancing Account Balance over the twelve month period beginning August 1, 2016 following approval of the supplemental advice letter required by this resolution in Ordering Paragraph 3.
5. At the conclusion of the twelve month recovery period, Southern California Gas Company and San Diego Gas & Electric shall each file a Tier 1 Advice Letter to remove the authorized Transmission Integrity Management Program Balancing Account balance.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 12, 2016; the following Commissioners voting favorably thereon:

____

TIMOTHY J. SULLIVAN
Executive Director