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 Proceed with Phase 2 of their Pipeline Safety Enhancement Plan and Establish Memorandum Accounts to Record Phase 2 Costs.	Application 15-06-013 (Filed June 17, 2015)

INTERIM DECISION AUTHORIZING MEMORANDUM ACCOUNTS AND INTERIM RATE INCREASE SUBJECT TO REFUND

Summary

Today's decision grants the applicants' unopposed request for memorandum accounts and adopts Staff's proposal for an interim rate increase subject to refund. A long-term schedule for subsequent filings is also adopted.

This proceeding will remain open to review the proposal to defer pipeline maintenance projects due to the unavailability of the Aliso Canyon storage facility.

1. Background

On June 17, 2015, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (applicants) filed this application seeking authorization to proceed with Phase 2 of their Pipeline Safety Enhancement Plan (PSEP) and to establish memorandum accounts to record approximately $22 million in planning and engineering design costs.

On July 16, 2015, the Office of Ratepayer Advocates protested the application but agreed that evidentiary hearings were not needed on the "initial cost recovery for the engineering and design work in the current application."[1] On July 20, 2015, The Utility Reform Network (TURN), Southern California Generation Coalition, and Indicated Shippers also filed protests.

Along with the application on June 17, 2015, SoCalGas and SDG&E also filed and served a motion seeking authorization to establish memorandum accounts immediately and to record the planning and engineering design costs in those accounts. The utilities explained that this accounting authorization was necessary so that "this preliminary planning and engineering design work can begin without delay."[2] SoCalGas and SDG&E also stated their intention to divide the Phase 2 work into "separate bundled project applications."

On July 2, 2015, TURN and the Southern California Generation Coalition responded in opposition to the motion contending that the accounting authorization sought was premature and amounted to granting the relief requested in the application.

On July 13, 2015, SoCalGas and SDG&E filed and served their reply to the responses to the motion. The utilities explained that proceeding with Phase 2 of the PSEP is "not discretionary" and that "[t]esting or replacing pipelines that do not have sufficient documentation of a pressure test is mandated by Commission decision and California statutory law."[3] The utilities also conceded that the authorization for the memorandum accounts "does not predetermine or address

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[1] Protest at 3.

[2] Motion at 2.

[3] Reply at 2.

recovery for Phase 2 costs" and that the "burden associated with cost recovery risk still rests upon the utility."[4]

On July 24, 2015, the assigned Administrative Law Judge issued a ruling noting that the application requests authorization to establish memorandum accounts for $22 million of estimated costs for planning and engineering design work and that, absent extraordinary circumstances, establishing a memorandum account for a new and significant project is routine and noncontroversial, with the important ratemaking consequences to be addressed in a subsequent proceeding. The ruling found that additional work was required to develop a procedural plan focused on bringing the PSEP work within the normal general rate case (GRC) cycle. The parties were directed to meet and confer to develop a comprehensive procedural plan to address PSEP costs expected to be incurred prior to the next GRC test year. Specific questions were provided to guide the meet and confer process.

On August 4, 2015, the Administrative Law Judge convened the prehearing conference, and the parties indicated that the meet and confer process had not yet resulted in a procedural plan that would lead to the PSEP costs being incorporated into the next GRC. The Administrative Law Judge directed the parties to continue their efforts.

Meanwhile, in Application (A.) 11-11-002, the original PSEP forecast application, the applicants' petition for modification of Decision (D.) 14-06-007 remained pending. That petition for modification sought interim rate recovery, subject to refund, for the PSEP costs.

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[4] *Id.*

On December 2, 2015, the Administrative Law Judge issued a ruling observing that the parties had been meeting with the objective of establishing a comprehensive procedural plan to address all ratemaking issues associated with the costs of the Pipeline Safety Enhancement Program that will be incurred prior to the applicants' next GRC but had not yet been successful. The ruling included a proposed filing schedule through the next GRC developed by the Commission's Energy Division and sought comment from the parties on that schedule. Included in the schedule was a proposal for an interim rate increase, which would authorize 50% recovery of revenue requirements associated with actual PSEP costs for PSEP Phase 1A and Phase 1B, subject to refund. Parties submitted comments, reply comments, and responsive comments on the proposal.

On December 17, 2015, the Commission issued D.15-12-020 in A.11-11-002, which resolved a remanded issue from that application and transferred all interim rate increase issues to this proceeding.

2. Assigned Commissioner's Scoping Memo and Ruling

On April 5, 2016, the assigned Commissioner issued his scoping memo ruling. The assigned Commissioner found that the record was complete on the PSEP ratemaking issues and submitted that issue for Commission resolution.

The assigned Commissioner also found that a new issue had emerged. SoCalGas proposed to defer a number of transmission pipeline maintenance projects in order to ensure reliable energy supplies in the Los Angeles basin while the Aliso Canyon Natural Gas Storage Field is prohibited from injecting and storing additional natural gas. These maintenance projects are part of the Pipeline Safety Enhancement Plan approved by the Commission in D.14-06-007 or the Transmission Integrity Management Program, required by

federal regulations. On this issue, the assigned Commissioner set a schedule for SoCalGas to file and serve comprehensive description of projects proposed to be deferred, the revised schedule for completion, and a complete safety analysis of the risk to the public and employees caused by this delay, with mitigation measures and including a verified statement from its highest ranking gas system professional engineer licensed in the State of California attesting that, on balance, maintaining system reliability justifies the proposed delay. Then, the Commission's Safety and Enforcement Division will evaluate the proposal and distribute a report. After that, the parties will file and serve comments and reply comments in June and July of 2016. The assigned Commissioner found that the record was not complete on this issue and that the proceeding should remain open to address any issues that emerge from that process.

2.1. Issues Ready for Commission Action

The scoping memo included the final Staff proposal with the schedule for reasonableness reviews and forecast filing as well as interim rate increases for 50% of incurred costs, subject to refund, and provided for complete assimilation of future PSEP costs into the applicants' next GRC. That final Staff proposal is Attachment A to today's decision.

Specifically, the final Staff proposal required that projects in Phase 1B — pipeline installed prior to 1946 that cannot accommodate in-line inspection — be subject to either an after-the-fact reasonableness review if completed in 2015, 2016, or 2017, or be included in a forecast application if completed in later years.

The Staff proposal also included authorization for the applicants to establish memorandum accounts to record approximately $22 million in PSEP 2 planning and engineering design costs. At the prehearing conference (PHC), no

party opposed the request for memorandum accounts and the final Staff Proposal included authorizing these accounts.

The Commission preliminarily categorized this Application as ratesetting as defined in Rule 1.3(a)(e) and anticipated that this proceeding would require evidentiary hearings in ALJ 176-3359 on June 25, 2015. The scoping memo and ruling affirmed the preliminary categorization of this proceeding as ratesetting but determined that no hearing is required on the Comprehensive Procedural Plan to Address PSEP Costs and Memorandum Accounts. The scoping memo and ruling found that record on Comprehensive Procedural Plan to Address PSEP Costs and Memorandum Accounts was complete.

The scoping memo and ruling stated that the application sought authorization for memorandum accounts for approximately $22 million in PSEP 2 design and engineering costs. No party opposed the request.[5] As set forth above, the Commission transferred interim rate issues to this proceeding. The Staff Proposal was issued and the parties filed and served comments, reply comments, and responsive comments. After reviewing all the filed comments, Staff prepared its final Proposal addressing the proposed memorandum accounts, a procedural plan, and interim rate recovery, which became Attachment A to the scoping memo and ruling.

The assigned Commissioner found that the application, Staff Proposal, all comments, and the final Staff Proposal comprised the record in this proceeding, and submitted it for consideration of the Commission.

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[5] August 4, 2015, PHC transcript at 17 – 18.

3. Discussion

The issue before the Commission is whether or not the applicants have met their burden of demonstrating that the requested memorandum accounts are justified and that a procedural plan is provided to ensure review of costs recorded in such accounts. The Commission must also determine in this proceeding, as directed by D.15-12-020, whether to grant an interim rate increase, subject to refund, for costs properly recorded in the applicants' Safety Enhancement Capital Cost Balancing Accounts and Safety Enhancement Expense Balancing Accounts. As set forth below, we find that the unopposed request to establish memorandum accounts should be granted and that the applicants have also justified interim rate increases, subject to refund. Parties will still have an opportunity to review the reasonableness of these PSEP-related costs through other Commission proceedings and processes. The final Proposed Schedule from our Staff sets forth a reasonable schedule for future PSEP filings and should be adopted.

3.1 Memorandum Accounts

The application sought authorization for memorandum accounts for approximately $22 million in PSEP 2 design and engineering costs. No party opposed the request.[6]

Specifically, the applicants requested Commission authorization for each applicant to establish a "Pipeline Safety Enhancement Plan Memorandum Account" in which to record planning and engineering costs associated with its respective PSEP Phase 2 projects. The applicants intend to pressure test or

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[6] *Id.*

replace 660 miles of Low-Consequence-Area pipeline that does not have sufficient documentation of a pressure test to at least 1.25 times Maximum Allowable Operating Pressure (MAOP) in Phase 2. The Applicants also intend that Phase 2 will include approximately 1,200 miles of pipelines that were pressure tested prior to the adoption of federal pressure testing regulations in 1971. 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.

We find that the applicants have justified their request for a "Pipeline Safety Enhancement Plan Memorandum Account" in which to record planning and engineering costs associated with their respective PSEP Phase 2 projects, and we grant that request. All properly recorded costs will be subject to later ratemaking review pursuant to the schedule adopted below.

3.2 Interim Rate Approval

As set forth above, the Commission transferred interim rate issues to this proceeding from A.11-11-002. In that proceeding, on October 10, 2014, the applicants requested Commission authorization to recover the costs of implementing their PSEP, subject to refund, prior to a Commission decision being issued on the reasonableness review. Applicants justified their request as a means to avoid the accumulation of large undercollections in the PSEP regulatory accounts, which would be both burdensome and unfair to customers. Specifically, the applicants seek to recover the balances in their PSEP balancing accounts through the annual regulatory account balance update process. Under that process, SoCalGas and SDG&E submit Tier 2 advice letter filings in October to allow for the recovery of the balances in those accounts in rates effective on

January 1 of the following year. SoCalGas and SDG&E proposed to only include actual PSEP costs recorded to the balancing accounts that are available at the time of the advice letter filing and exclude any forecast expenditures. Any amount recovered through rates would be on an interim basis, with the entire amount subject to refund. The applicants requested authorization for interim recovery of 100% of properly recorded amounts; but the applicants also stated that recovery of 90% of the recorded amounts would be "a workable, albeit less effective, means to minimize undercollections."[7]

As shown in Attachment A, the Staff Proposal recommends interim rate approval for only 50% of the properly recorded costs of PSEP projects undertaken pursuant to the decision process approved in D. 14-06-007. Staff reasoned that its proposal represented a compromise measure that reduced the number of reasonableness reviews from the annual filings requested by the applicants while providing some rate recovery. Staff noted that SoCalGas and SDG&E have been performing significant Pipeline Safety Enhancement Plan project work since 2012 and that eventually this effort will include over 200 projects and cost over $1 billion. Staff explained that to date, the applicants have not recovered any Pipeline Safety Enhancement Plan projects costs in rates, resulting in Staff concern that the delay in recovering hundreds of millions of dollars of these costs could lead to rate shock for customers when these costs were finally incorporated into rates. Staff concluded that authorizing the applicants to recover 50% of their recorded costs in rates, subject to reasonableness review and possible refund, would reduce the potential for rate

[7] October 10, 2014, Motion for Interim Rate Relief at 5.

shock while keeping in place the cost recovery structure authorized in D.14-06-007. As set forth above, the Staff Proposal was submitted to the parties for comment. The applicants did not oppose the interim rate recovery proposal but recommended 90% rather than the Staff's 50%. The other parties emphasized that interim recovery would not create any presumptions or inferences for the subsequent reasonableness review and that the applicants would be required to justify each project or refund to customers amounts collected.

We find that the Staff Proposal for interim recovery, subject to refund, of 50% of the revenue requirements associated with properly recorded Pipeline Safety Enhancement costs reasonably balances the objective of mitigating sharp rate increases with the need for Commission review of utility costs prior to collection from ratepayers. We also recognize that a number of specific PSEP projects are currently under review in other Commission proceedings. Any costs related to these projects shall be excluded from this recovery.[8] We, therefore, conclude that the applicants' request for interim rate recovery of properly recorded Pipeline Safety Enhancement Plan costs should be granted but only for 50% of such annual costs. We adopt Staff's Proposal as set forth in Attachment A.

Accordingly, the utilities are authorized to file a Tier 1 Advice Letter with revised tariff sheets to recover in rates 50% of the revenue requirements associated with actual PSEP costs subject to refund and excluding costs currently under review in other Commission proceedings. The utilities will include the rate impacts for each customer class in its Advice Letter filing.

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[8] A.14-12-016.

To avoid any potential rate shock, SoCalGas will amortize 50% of the current balances in the Safety Enhancement Capital Cost Balancing Account, the Safety Enhancement Expense Balancing Account, and the Pipeline Safety and Reliability Memorandum Accounts from the effective date of this decision through December 31, 2017, excluding those costs mentioned above. The remaining balance from 2016 from the authorized recovery will be included in the utilities' annual regulatory account balance update process.

3.3. Schedule for Future PSEP Filings

Staff's Proposal provides for two reasonableness review applications for projects completed as part of the Pipeline Safety Enhancement Plan up to and including 2017, a forecast application for projects planned for 2017 and 2018, and for the 2019 General Rate Case to include all Pipeline Safety Enhancement Plan costs and projects not yet reviewed as well as all forecasted projects. With the 2019 General Rate Case, all Pipeline Safety Enhancement Plan projects will be incorporated into the General Rate Case schedule and will not be subject to special applications.

No party objected to this schedule, and we adopt it as set forth in Attachment A.

4. Comments on Proposed Decision

Pursuant to Rule 14.6(c) of the Commission's Rules of Practice and Procedure, this decision grants the relief requested and waives the 30-day public review and comment period required by Section 311of the Public Utilities Code and the opportunity to file comments on the proposed decision. Accordingly, this matter was placed on the Commission's agenda directly for prompt action.

5. Assignment of Proceeding

Commissioner Michael Picker is the assigned Commissioner in this proceeding, and Maribeth A. Bushey is the assigned Administrative Law Judge to this proceeding.

Findings of Fact

1. No party opposed the applicants' request for memorandum accounts for approximately $22 million of design and engineering costs of projects in the second phase of the PSEP.

2. In D.14-06-007, the Commission transferred from A.11-11-002 to this proceeding the applicants' request for interim rate recovery of recorded PSEP costs; Applicants sought recovery of at least 90% of recorded costs.

3. The Final Staff Proposal recommended rate recovery of 50% of properly recorded PSEP costs as described in Attachment A.

4. The Final Staff Proposal of recovery of 50% of recorded costs, subject to refund, reasonably balances mitigation of the potential for customer rate shock from large rate increases with the Commission's Constitutional and statutory duty to review and approve rate increases.

5. The Final Staff Proposal of two reasonableness review applications and one forecast application prior to the applicants' next GRC provides a reasonable procedural schedule to bring the PSEP costs within the GRC cycle.

Conclusions of Law

1. The Final Staff Proposal authorizing the applicants to establish memorandum accounts for approximately $22 million of engineering and design work should be granted.

2. The Final Staff Proposal authorizing interim rate recovery, subject to refund, of 50% of the properly recorded PSEP costs as set forth in Attachment A should be approved.

3. The Final Staff proposed schedule for PSEP reasonableness review and forecast applications as set forth in Attachment A should be approved.

4. No hearings are necessary.

5. The proposed decision grants the relief requested and the period for public review and comment should be waived.

6. This proceeding remains open to address the deferred maintenance projects due to the unavailability of the Aliso Canyon Storage.

7. This decision should be effective immediately.

I N T E R I M O R D E R

IT IS ORDERED that:

1. Southern California Gas Company and San Diego Gas & Electric Company are authorized to file Tier 1 Advice Letters effective with five days' notice to create "Pipeline Safety Enhancement Plan Memorandum Accounts" and to record in such Memorandum Accounts the planning and engineering costs associated with their respective Pipeline Safety Enhancement Plan Phase 2 projects. The Pipeline Safety Enhancement Plan Memorandum Accounts will become effective as of the date of this decision. Southern California Gas Company and San Diego Gas & Electric Company are authorized to seek amortization of costs properly recorded in such Memorandum Account in the reasonableness reviews scheduled for Pipeline Safety Enhancement Plan projects or the next General Rate Case.

2. Southern California Gas Company and San Diego Gas & Electric Company are authorized to recover in rates, subject to refund, 50% of the revenue

requirements associated with actual Pipeline Safety Enhancement Plan costs (operations and maintenance expenses and completed capital projects, excluding shareholder-funded costs) properly recorded in the Safety Enhancement Capital Cost Balancing Account, the Safety Enhancement Expense Balancing Account, and the Pipeline Safety and Reliability Memorandum Accounts.[9] All amounts collected shall be accounted for and allocated consistent with the existing cost allocation and rate design for the Southern California Gas Company and San Diego Gas & Electric Company as set forth in Decision 14-06-007, Ordering Paragraph 9. Costs from the Pipeline Safety Enhancement Plan currently under review through other Commission proceedings will be excluded from this recovery.[10]

3. Southern California Gas Company and San Diego Gas & Electric Company are authorized to file and serve Tier 1 Advice Letters with revised tariff sheets to reflect the 50% preliminary allowance of the costs associated with actual Pipeline Safety Enhancement Plan costs as authorized by Ordering Paragraph 2 of this Order, continuing until the issue is resolved in the utilities' 2019 General Rate Case as set forth in Ordering Paragraph 6 of this Order.

   a. 50% of the balances recorded in Southern California Gas Company and San Diego Gas & Electric Company Safety Enhancement Capital Cost Balancing Account, the Safety Enhancement Expense Balancing Account, and the Pipeline Safety and Reliability Memorandum Account until the effective date of new tariffs required by this Order, shall be amortized in rates through December 31, 2017.

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[9] D.14-06-007, D.12-04-021.

[10] A.14-12-016.

b. Thereafter, 50% of the balances recorded in Southern California Gas Company and San Diego Gas & Electric Company Safety Enhancement Capital Cost Balancing Account, the Safety Enhancement Expense Balancing Account, and the Pipeline Safety and Reliability Memorandum Account shall be amortized in rates through the utilities' annual regulatory account balance update Advice Letter process.

4. Southern California Gas Company and San Diego Gas & Electric Company are authorized to file as soon as possible a forecast application for the Pipeline Safety Enhancement Plan Phase 2 costs to be incurred in 2017 and 2018, and such application may also include an examination of the reasonableness of the costs recorded in the Pipeline Safety Enhancement Plan Memorandum Accounts authorized in Ordering Paragraph 1 and amortization of any such amounts found reasonable.

5. Southern California Gas Company and San Diego Gas & Electric Company are authorized to include in their 2019 General Rate Case (GRC) application all Pipeline Safety Enhancement Plan costs not the subject of prior applications, including possible review of any remaining 2018 Phase 1A and 1B capital costs. Future GRC applications could include Pipeline Safety Enhancement Plan costs until implementation of the Plan is complete.

6. This proceeding remains open to address the deferred maintenance projects due to the unavailability of the Aliso Canyon Storage.

This order is effective today.

Dated _____, 2016, at San Francisco, California.

Attachment A

Final Energy Division Staff Proposal

1. Interim Rate Increase. Authorize 50% recovery of revenue requirements associated with actual Pipeline Safety Enhancement Plan (PSEP) costs (operations and maintenance expenses and completed capital projects, excluding shareholder-funded costs) for PSEP Phase 1A and Phase 1B (pre-1946 non-piggable pipelines), subject to refund. Cost recovery could begin immediately, and the balance would be re-set annually thereafter on January 1. That is, half of the balances in the Safety Enhancement Capital Cost Balancing Account and the Safety Enhancement Expense Balancing Account would be annually amortized in rates, subject to refund. In addition, half of the balances recorded in the Pipeline Safety and Reliability Memorandum Accounts for projects that have not been presented for cost recovery in Application (A.)14-12-016 would be annually amortized in rates, subject to refund. Cost allocation would be under the method adopted in Decision 14-06-007, Ordering Paragraph 9.
2. Two Reasonableness Review Applications. Reasonableness review applications for Pipeline Safety Enhancement Plan Phase 1A and Phase 1B to be submitted in 2016 (for projects completed by December 31, 2015) and 2018 (for projects completed in 2016 and 2017).
3. One Phase 2 Forecast Application. The Pipeline Safety Enhancement Plan Memorandum Accounts (PSEPMAs) requested by the utilities would become effective as of the date of this decision. A forecast application for the Pipeline Safety Enhancement Plan (PSEP) Phase 2 for 2017 and 2018 costs would be submitted as soon as possible. The forecast application

would also examine the reasonableness of the costs incurred in the PSEPMAs.

4. GRC (GRC). The 2019 General Rate Case (GRC) submitted in September 2017 to include Pipeline Safety Enhancement Plan costs not the subject of prior applications, including possible review of any remaining 2018 Phase 1A and 1B capital costs. Future GRC applications could include PSEP costs until implementation of the PSEP is complete.

(END OF ATTACHMENT A)