

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

ENERGY DIVISION

**RESOLUTION G-3528**  
November 9, 2017

**R E S O L U T I O N**

Resolution G-3528. Southern California Gas Company (SoCalGas) request for recovery of the Transmission Integrity Management Program (TIMP) Balancing Account balance for the calendar year 2015.

PROPOSED OUTCOME:

- SoCalGas' request to recover its TIMP Balancing Account Balance for the calendar year 2015 is approved.

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 \$21.5 million.

By Advice Letter 5057, filed on November 4, 2016.

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**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) 5057 requesting recovery of approximately \$21.5 million for undercollection of costs recorded during calendar year 2015 in the TIMP Balancing Account. This includes a component of \$4.6 million attributable to pressure testing of Line 404, which was moved to the TIMPBA from Pipeline Safety Enhancement Plan (PSEP) regulatory accounts for 2016 as a prior period adjustment.

This amount is in addition to the \$31.9 million<sup>1</sup> that the Commission authorized as revenue requirement for 2015 for 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 calendar year 2015 is approved.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs pursuant to Resolutions G-3499 and G-3517. The functionalized allocation of the TIMP balance is consistent with D.14-06-007 and D.12-12-030.

## **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 requirements and review existing transmission integrity requirements to identify areas for improvement.

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<sup>1</sup> Based on the authorized attrition rate of 2.75% for 2015 adopted in 2012 GRC decision.

In its 2012 GRC proceeding, Application (A.) 10-12-006, the Commission authorized \$28.6 million<sup>2</sup> 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 GRC cycle ending December 31, 2015.

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.

For 2014, the TIMP Balancing account was under collected by about \$19.1 million (i.e., SoCalGas spent 61% above the authorized revenue requirement of \$31.1 million for 2014). On May 12, 2016, the Commission issued Resolution G-3517, approving Advice Letter 4819 and authorized SoCalGas to recover the accumulated balance recorded in the TIMP Balancing Account through December 31, 2014.

SoCalGas states in the advice letter that there are three primary reasons why the TIMP Balancing Account had a substantial balance accumulated from 2015. First, the amount authorized by the Commission was below SoCalGas' forecast. This accounts for \$4.7 million of the excess TIMP costs. Second, SoCalGas "did not foresee conditions that ultimately led to increased TIMP-related costs." An

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<sup>2</sup> D.13-05-010 allows \$20.76 million for non-shared O&M costs, 5.7 million for shared O&M costs.

example is the impact of revisions post-San Bruno by the Pipeline and Hazardous Materials Safety Administration (PHMSA) in transmission integrity requirements. These unanticipated circumstances account for about \$2.2 million of the undercollected balance. And, third, "as a result of how capital expenditures are recovered and balanced," SoCalGas has recovered \$10 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. 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). This conclusion was reiterated in Resolution G-3517, dated May 12, 2016, pertaining to TIMP costs for 2014.

Also pursuant to Resolutions G-3499 and G-3517, SoCalGas proposes to amortize the TIMP Balancing Account amount in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SoCalGas' 2012-15 Triennial Cost Allocation Proceeding (TCAP). The revenue requirements and rate impacts are described in Attachment B of Advice Letter 5057.

The total of \$21.5 million includes \$4.6 million for recovery of costs pertaining to Line 404. A seven-mile section of Line 404 was pressure tested as part of SoCalGas' Pipeline Safety Enhancement Plan (PSEP) because sufficient pressure test records were lacking. While the line had been pressure tested when originally installed in 1944, the records from those tests were insufficient to comply with safety standards required by D.11-06-017. Since Line 404 also falls within a High Consequence Area (HCA) in the TIMP program, the pressure testing was done as required for PSEP, but the costs were moved into those recoverable under TIMP as a prior period adjustment for costs that would otherwise have been assigned to PSEP for 2016.

## **NOTICE**

Notice of AL 5057 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 General Order 96-B.

## **PROTESTS**

SoCalGas Advice Letter (AL) 5057 was not protested.

## **DISCUSSION**

The Energy Division reviewed 2015 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, the Energy Division found that the costs reviewed were appropriately recorded and incurred, and should be approved.

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 2015, October 2015 and December 2015. 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 30 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 expenses and expenditures examined were appropriately recorded to the TIMP Balancing Account and reasonably incurred.

In order to clarify inconsistent references to the effective date sought by AL 5057, Energy Division issued a data request. SoCalGas responded with a request that the commission order an effective date of January 1, 2018.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs pursuant to Resolutions G-3499 and G-3517. The functionalized allocation of the TIMP balance is consistent with D.14-06-007 and D.12-12-030.<sup>3</sup>

## **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

## **FINDINGS**

1. The TIMP Balancing Account was authorized by Commission Decision 13-05-010.
2. D.13-05-010 directed SoCalGas to file a Tier 3 Advice Letter to recover authorized TIMP-related O&M and Capital Expenditures. SoCalGas filed

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<sup>3</sup> D. 14-06-007, Section 9: Allocating Safety Enhancement Costs.

AL 5057 to request recovery of the TIMP Balancing Account balance of approximately \$21.5 million from the calendar year 2015.

3. 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.
4. Ordering Paragraph 19 of D.13-05-010 authorized SoCalGas to establish a two-way balancing account to recover the TIMP-related O&M costs and capital expenditures.
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 10-12-006 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 5057.
9. A section of Line 404 was pressure-tested as part of SoCal gas' Pipeline Safety Enhancement Plan (PSEP). Since that section also falls within the SoCalGas TIMP program, the pressure test was removed from the scope of PSEP for 2016, and costs moved to TIMP as a prior period adjustment.
10. Consistent with Resolutions G-3499 and G-3517, SoCalGas should use a functionalized method to allocate the TIMP Balancing Account balance.

**THEREFORE IT IS ORDERED THAT:**

1. The request of Southern California Gas Company in AL-5057 to recover its Transmission Integrity Management Program Balancing Account Balance for calendar year 2015 is approved.
2. Southern California Gas Company is authorized to recover from ratepayers approximately \$ 21.5 million over the twelve month period beginning January 1, 2018, following this resolution.
3. At the conclusion of the twelve month recovery period, Southern California Gas Company shall 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 November 9, 2017; the following Commissioners voting favorably thereon:

/s/TIMOTHY J. SULLIVAN  
TIMOTHY J. SULLIVAN

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners