

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

**ENERGY DIVISION**

**RESOLUTION G-3533  
November 9, 2017**

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

Resolution G-3533. San Diego Gas & Electric (SDG&E) request for recovery of the Transmission Integrity Management Program (TIMP) Balancing Account balance for the period January 1, 2012, to December 31, 2015.

**PROPOSED OUTCOME:**

- SDG&E's request to recover its TIMP Balancing Account Balance for the period January 1, 2012, to December 31, 2015 is approved.

**SAFETY CONSIDERATIONS:**

- SDG&E's 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 \$3.2 million undercollected.

By Advice Letter 2529-G, filed on November 4, 2016.

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**SUMMARY**

Decision (D.) 13-05-010 authorized SDG&E 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). SDG&E did not file for recovery in 2012-14, and has now filed Advice Letter (AL) 2529-G requesting recovery of approximately \$3.2 million for undercollection of costs recorded for the period January 1, 2012, to December 31, 2015 in the TIMP Balancing Account.

This amount is in addition to the \$30.8 million<sup>1</sup> that the Commission authorized as revenue requirement for 2012-15 for SDG&E to collect towards TIMP 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 SDG&E had prepared its cost estimates in 2010 for its Test Year 2012 General Rate Case (GRC). SDG&E's request to recover its TIMP Balancing Account balance recorded for the year 2012 to 2015 is approved.

The TIMP Balancing Account amount will be amortized in gas transportation rates based on a functionalized allocation of transmission-related costs as was authorized for SoCalGas Timpba recovery 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 SDG&E 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> This is based on the authorized attrition rates adopted for 2012-15 in 2012 GRC decision.

In Ordering Paragraph 16 of D.13-05-010, the Commission authorized SDG&E 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 SDG&E 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 SDG&E's tariff via Advice Letter (AL) 2204-G. This allowed SDG&E to collect any balance remaining to be amortized in gas transportation customers' rates at the end of the next GRC cycle. SDG&E did not file for recovery in 2012-14.

SDG&E states in the advice letter that "in early 2010, when SDG&E prepared its GRC application, SDG&E did not anticipate the resources that would later be required to address the heightened focus on transmission integrity." Further, SDG&E states "the primary cause of under collected balance is a result of how capital expenditures are recovered and balanced."

As of December 2015, the TIMPBA consists of O&M expenses of approximately \$22.7MM, capital-related costs of approximately \$11.2 MM, and offset by authorized revenue requirement of \$30.7MM. In 2012-15, the amount received for capital costs under TIMPBA was \$10.9 million less than the amount recorded for capital. This was offset by O&M expenses being within budget, leaving \$3.2MM to be recovered.

Also, consistent with Resolutions G-3499 and G-3517, SDG&E proposes to amortize the TIMP Balancing Account amount in gas transportation rates based on a functionalized allocation of transmission-related costs as developed in SDG&E's 2012-15 Triennial Cost Allocation Proceeding (TCAP). The revenue requirements and rate impacts are described in Attachment B of Advice Letter 2529-G.

## **NOTICE**

Notice of AL 2529-G was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with General Order 96-B.

## **PROTESTS**

SDG&E Advice Letter AL 2529-G 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, SDG&E 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.

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.

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 Capital and O&M cost elements to request invoices from the utility. SDG&E provided 63 invoices for Capital items in 7 unique Independent Orders (IOs), and 30 invoices for O&M items in 16 unique IOs.

Based on the information provided by SDG&E, 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 in AL 2529-G, Energy Division issued a data request. SDG&E 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 for SoCalGas TimpBA recovery. The functionalized allocation of the Timp balance is consistent with D.14-06-007 and D.12-12-030.<sup>2</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 SDG&E to file a Tier 3 Advice Letter to recover authorized Timp-related O&M and Capital Expenditures. SDG&E filed AL 2529-G to request recovery of the Timp Balancing Account balance of approximately \$3.2 million for the period January 1, 2012, to December 31, 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 16 of D.13-05-010 authorized SDG&E to establish a two-way balancing account to recover the Timp-related O&M costs and capital expenditures.

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<sup>2</sup> D. 14-06-007, Section 9: Allocating Safety Enhancement Costs.

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. SDG&E's 2012 GRC Application 10-12-005 was prepared prior to certain changes in reporting requirements by PHMSA.
7. Changes in pipeline safety regulation increased SDG&E's 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 2529-G.
9. Consistent with Resolutions G-3499 and G-3517, SDG&E should use a functionalized method to allocate the TIMP Balancing Account balance.

**THEREFORE IT IS ORDERED THAT:**

1. The request of SDG&E in AL 2529-G to recover its Transmission Integrity Management Program Balancing Account Balance for the period January 1, 2012, to December 31, 2015 is approved.
2. SDG&E is authorized to recover from ratepayers approximately \$ 3.2 million over the twelve month period beginning January 1, 2018, following this resolution.
3. At the conclusion of the twelve month recovery period, SDG&E 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  
Executive Director

MICHAEL PICKER  
President  
CARLA J. PETERMAN  
LIANE M. RANDOLPH  
MARTHA GUZMAN ACEVES  
CLIFFORD RECHTSCHAFFEN  
Commissioners