

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



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Order Instituting Rulemaking on the
Commission's Own Motion to Adopt New
Safety and Reliability Regulations for Natural
Gas Transmission and Distribution Pipelines
and Related Ratemaking Mechanisms.

Rulemaking 11-02-019
(Filed February 24, 2011)

**COMMENTS OF THE UTILITY REFORM NETWORK
ON THE PROPOSED DECISION
CONCERNING IMPLEMENTATION PLANS**



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May 31, 2011

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Pursuant to Rule 14.3, the Utility Reform Network (“TURN”) submits these comments on the Proposed Decision of ALJ Bushey,¹ mailed on May 10, 2011.

TURN applauds Assigned Administrative Law Judge Bushey for crafting a proposed decision that cogently summarizes the issues confronting this Commission and all natural gas pipeline operators and crafting a practical approach to moving forward – requiring the pipeline operators to submit comprehensive Implementation Plans to replace or test all pipelines over a multi-year implementation schedule. The plans are to include a priority-ranked schedule for pressure testing, interim safety enhancement measures, plans for pipeline retrofitting to allow in-line inspection, and the use of automated or remote controlled valves. The plans are to include cost and rate impacts.

TURN supports the Proposed Decision, and urges the Commission to adopt it so that we can move on to the really difficult task – doing the safety work. However, TURN suggests that the PD be modified in three ways. First, the PD should provide more specific guidance concerning the pipeline retrofitting and valve replacement components of the plans. Second, the PD should provide

¹ The PD is entitled “Decision Determining Maximum Allowable Operating Pressure Methodology and Requiring Filing of Natural Gas Transmission Pipeline Replacement or Testing Implementation Plans.”

more than 60 days time for workshops and third-party testimonies to address technical issues related to the Implementation Plans. And third, the PD should leave open the question of ratemaking for SoCalGas and SDG&E until further information is available concerning the necessary investments on those systems.

1. Additional Guidance Concerning Retrofitting and Valve Replacement

The PD focuses almost entirely on the issue of pipeline “testing or replacement,” and appropriately orders the utilities in their plans to “set forth criteria on which pipeline segments were identified for replacement instead of pressure testing.”²

PG&E has already, in its filed “compliance plan,” apparently made a decision regarding the choice to test or replace portions of the 152 miles of pipeline prioritized for immediate action. TURN strongly supports the requirement that utilities provide criteria for making this choice. Indeed, the PD orders that technical workshops be held to “establish standards for determining whether pipeline segments should be replaced or tested”³

However, almost as an afterthought, the PD states that the Implementation Plans should “address retrofitting pipeline for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves.” No further guidance is provided. It is not clear whether the utilities are supposed to include specific costs for these activities in their cost and rate forecasts. TURN suggests that both in-line inspections and valve replacements may prove to be important,

² Ordering Paragraph No. 6, p. 30.

³ Finding of Fact No. 8, p. 26.

and sizeable, components of any plan for addressing the future safety of the pipeline systems. While hydrostatic testing of old pipelines seems necessary, in-line inspections may provide some unexplored possibilities. The PD should be revised to order the utilities to describe different methods of ILI, to provide information on current state of technology and potential technology advances, and to explain how the IOU evaluates the potential for ILI to supplement or replace hydro testing.

Similarly, TURN suggests that the use of remote-controlled or automatic valves be more explicitly a part of the Implementation Plans. To this end, the Commission should order the gas utilities to work cooperatively to come up with best practices or guidelines concerning the use of such valves.⁴ Each utility should then apply those practices and guidelines to the specifics of its own system.

There is understandably a focus on the need to test or repair older pipe. However, the Commission should ensure that the utilities both consider all potential alternatives for safety enhancement, and also coordinate work to reduce potential costs. While speed is important, the utilities should plan work to reduce potential excavation and labor costs by coordinating needed repairs or activities on particular pipeline segments.

⁴ As TURN noted recently in our filing concerning the proposals of Congresswoman Speier, we believe there may be significant and relevant differences between “automatic” versus “remote-controlled” valves from the stand point of safety; but we use these terms as they are used in the PD.

2. Provide More Time for Technical Workshops Pre- and Post-Implementation Plan Filing

The PD recommends that Commission-facilitated technical workshops be held prior to the filing of the Implementation Plans “to develop implementation details.” Implementation Plans are to be filed within 60 days of the adoption of the PD.

TURN supports the proposal for technical workshops; but we are extremely concerned about the proposed timeline. In our experience, the utilities require time to develop and prepare such a large proposal. Practically, we cannot envision the utilities’ amending their proposals based on workshops and input made within 30 days of the filing deadline.

We recommend that the Commission schedule and facilitate the planned technical workshops to discuss standards for determining whether to test or replace. However, we strongly recommend that the Commission not view the resulting Implementation Plans as some type of consensus document. Rather, the Commission should allow parties to review the Plans and then hold another round of technical workshops to address potential questions or alternative recommendations. It will be easier to address technical details after the utilities have made specific proposals for implementation.

Again, as most parties, we are anxious for the utilities to begin the safety work. And we understand that PG&E is already starting the testing on the 152 miles of identified high priority lines. However, this PD requires that *all pipeline*

without pressure test records (not just the pipeline in high consequence or populated areas) be evaluated for testing or replacement, with pipeline segments outside populated areas “given lower priority for pressure testing.”⁵ To this end, the Commission should allow for technical workshops, as well as additional expert testimony from staff and intervenors, on matters relating to the appropriate means for ensuring safety of the entire pipeline system. TURN hopes and anticipates that the utilities can begin the most pressing and obvious testing immediately, and allow for closer evaluation and discussion of Implementation Plan details concerning the testing, repair, retrofitting, and valve replacements that might be warranted for the remaining pipeline system.

3. Leave Open Potential Ratemaking Issues

TURN recommends one additional modification to the PD concerning cost recovery. The PD orders *only PG&E* to submit a cost-sharing proposal between ratepayers and shareholders. The PD notes that the OIR stated that such a cost-sharing may be justified because “the unique circumstances of PG&E’s pipeline records and pipeline strength testing program for its pre-1970 pipeline may require extraordinary safety investments”; and the PD goes on to identify the “unique circumstances of the costs of replacing the San Bruno line.”

TURN certainly agrees, and hopes, that the circumstances regarding the PG&E system - the nature of the welds on Line 132, the nature of PG&E’s record-keeping, and record inaccuracies in its computerized pipeline geographic

⁵ Ordering Paragraph No. 4, p. 29.

information system - turn out to be absolutely unique. However, it seems too early to tell whether the record-keeping by SoCalGas and SDG&E and the use of the 619(c) exemption to hydrotesting might be such as to likewise require extraordinary investments in pipeline safety on the Sempra systems. TURN suggests that while it is appropriate to maintain a focus on PG&E, the Commission should not rule out the possibility that *if* the other utilities likewise propose extraordinary investments due to potential safety concerns, a cost-sharing or cost reduction mechanism may be entirely appropriate for those utilities as well.

TURN does not view such a 'cost sharing' mechanism as necessarily a penalty for past malfeasance.⁶ Rather, we believe that the "extraordinary investments" are rooted in the potential safety concerns associated with the condition of older pipelines which have never been hydrostatically pressure tested, and for which detailed records are no longer available. The devastating and catastrophic impacts of pipeline failures are the catalyst that may necessitate "extraordinary investments." The Commission may appropriately decide that public safety requires an extraordinary level of investments in a relatively short time frame. Such a situation in and of itself warrants consideration of "cost sharing" mechanisms. Such cost sharing is not necessarily a penalty. For

⁶ Indeed, the Commission has authority to impose penalties and has opened an Investigation into PG&E's record keeping, I. 11-02-016. The Commission also issued an Order to Show Cause in this proceeding concerning PG&E's compliance with prior Commission directions. The Proposed Decision appears to moot the proposed Stipulation between CPSD and PG&E, though it does not technically close the Order to Show Cause.

example, setting a lower rate of return for specific investments than a return based on the risk profile of the entire company is not unreasonable, especially if the Commission pre-approves such investments. Also, if pipeline segments must be replaced prior to their expected service life, the Commission can treat them as abandoned plant for purposes of cost recovery in rate base. These are just two examples of ratemaking adjustments.

TURN recommends that while the Commission may appropriately order PG&E to propose cost-sharing mechanisms, it should add a Conclusion of Law that states: "The Commission may require the other natural gas operators to also propose a cost sharing mechanism if their systems likewise require extraordinary investments to promote public safety."

May 31, 2011

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Larry Wong, certify under penalty of perjury under the laws of the State of California that the following is true and correct:

On May 31, 2011, I served the attached:

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on all eligible parties on the attached list **R.11-02-019** by sending said document by electronic mail to each of the parties via electronic mail, as reflected on the attached Service List.

Executed this May 31, 2011, at San Francisco, California.

/S/
Larry Wong

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