

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



FILED

06-06-11
04:59 PM

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)

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



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June 6, 2011

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Pursuant to Rule 14.3 and with the permission of ALJ Bushey, the Utility Reform Network (“TURN”) submits these replies to the comments on the Proposed Decision of ALJ Bushey submitted by various parties on May 31, 2011.

TURN’s reply comments: 1) support the thrust of Sempra’s phasing approach and recommend a more narrow focus on non-tested HCA pipe for Track 1; 2) recommend clarifying the role of alternative testing technologies through workshops in Track 1; 3) recommend additional workshops and comments to clarify the issues to be addressed in a future Track 2 and 3; 4) support potential elimination of the records-based MAOP if it does not provide practical and useful information and delays records production; and 5) respond to CUE’s suggestion concerning cost sharing.

Response to the Sempra Utilities Regarding Phasing the Plans

The two Sempra Utilities recommend phasing this proceeding and ensuring “an appropriate public process for the development of such a plan.” Sempra proposes that Track 1 address only pipelines in populated areas (the NTSB Criteria Mile pipelines),¹ and consider various “potential threats” to pipeline systems and various options for mitigating those threats. Track 2 would address 1) potential threats to pipeline integrity not addressed through pressure testing, 2) public awareness and safety issues, 3) proposed modifications to GO 112-E, and other issues. Track 3 would address the non-criteria miles pipeline and consider other technologies for addressing pipeline integrity and safety.

TURN is quite supportive of the spirit behind Sempra’s proposal, and we vaguely recommended a phasing approach in our opening comments. We fully agree that the first phase should address the integrity of HCA pipeline that has not been historically tested.

¹ TURN generally refers to these as “HCA pipeline,” though we understand there are more precise definitions of the location of pipelines in populated areas.

However, we are extremely concerned that the scope for Phases 2 and 3 as proposed by Sempra addresses issues that will overlap with pipeline integrity and safety work the utility already does as part of its normal course of business. Therefore, at this stage we recommend that the Commission reduce the scope of the required Implementation Plans to address only Track 1 issues. Furthermore, the Commission should provide for additional time to evaluate how alternative technologies may or may not be used during the testing of the high priority pipeline (non-tested pipeline in HCA). The Commission should allow for additional workshops and comments to define the exact scope of a future Track 2 and to determine how such work would dovetail with utility rate cases. It is simply premature to order the filing of Track 2 and Track 3 Implementation Plans in January 2012 and June 2012 as proposed by Sempra.² That is a recipe for duplicating the rate case proceeding.

Response to Sempra and PGE Regarding Alternative Inspection Methods

Sempra requests that the PD be modified to specifically authorize utilities to use “technology alternatives [to hydrostatic testing] in defined and appropriate situations,” and Sempra notes that “considerable research is underway in the industry to develop technology alternatives for hydrostatic testing.” Likewise, PG&E requests the same authority be granted in situations where hydrotesting would cause service interruption to customers.

TURN suggests it is premature for the Commission to grant PG&E’s specific request. However, we are not absolutely opposed to the possibility of using in-line inspection methods in some situations. We believe this is exactly the type of issue that must be addressed through further workshops and should be left open until a final decision adopting the implementation plans.

TURN suggests the same consideration applies to a valve replacement program. While we would prefer such a program be separately addressed in the rate case, we appreciate that it might be cost-effective to conduct certain pipeline repair/replacement/valve work concurrently. However, any such savings are probably not

² Alternatively, the Commission could limit Track 2 to the GO 112-E issues already identified in the OIR.

large enough to warrant rushing through a valve replacement program without proper consideration of its costs and benefits.

In any case, the PD should be modified to include the following two findings of fact:

New FOF: “Technical workshops are needed to determine the potential uses of in-line inspection techniques to evaluate pipelines for various defects.”

New FOF: “Technical workshops are needed to evaluate the potential uses of both remote-controlled and automatic shutoff valves.”

Likewise, Ordering Paragraph 8 should be modified as follows:

OP 8: “The Implementation Plans must consider retrofitting pipeline to allow for in-line inspection tools and, where appropriate, improved shut off valves. The utilities should provide for a common plan to evaluate the state of the art for ILI methods and valve replacements.”

Response to the Greenlining Institute Regarding MAOP Validation

The Greenlining Institute recommends against continuing any ‘records-based’ MAOP validation due to its cost, apparently based on the assumption that such validation is unnecessary for lines that are to be tested or replaced.

TURN strongly shares this concern. We previously recommended continuing the MAOP validation based on the assertion of PG&E’s witness Johnson that the MAOP validation provides information that can then be used to determine the proper parameters (e.g., level of pressure) for the hydrostatic pressure test. The PD reiterates the statement from Mr. Johnson concerning the need for *knowing the components of a pipeline before testing* so as to prevent “unintended consequences” due to “pressuring that pipe up.”

However, in the Conclusions of Law and Ordering Paragraphs the PD requires PG&E to continue the MAOP paper validation in order to “prioritize segments for interim pressure reductions and subsequent pressure testing.” TURN is unaware of theoretical or factual evidence on the record that supports the notion that the MAOP validation process will really assist in prioritizing pipeline segments for interim pressure reductions or pressure testing.

TURN fully agrees that PG&E should continue its search to locate and better manage its existing pipeline records. This issue is being addressed directly in I.11-02-016. However, it is not so clear to us that PG&E should be *required* to “complete its MAOP determination based on pipeline features.” PG&E noted in its May 31st Motion in I.11-02-016 that expediting records collection of weld defect/failure records “could force a reprioritization of the MAOP validation effort hindering PG&E’s ability to timely complete the MAOP validation.” TURN suggests that the Commission should closely evaluate whether the records-based “MAOP validation” process provide useful data or will impede necessary and more important ongoing records-collection.

It may well prove more appropriate and expeditious to conduct pressure tests on pipeline segments without any records-based MAOP determination.³ Therefore, to better balance concerns regarding cost versus the need to conduct the Pipeline Features List MAOP validation process, TURN recommends that Ordering Paragraph #1 should be modified as follows:

OP #1: PG&E must complete its MAOP determination based on pipeline features ~~and may use engineering based assumptions for pipeline components where complete records are not available~~for any pipeline segments where such information might prove useful for determining interim pressure reductions or for prioritizing or implementing subsequent pressure testing. PG&E may use engineering-based assumptions for pipeline components where complete records are not available. Such assumptions must be clearly identified, based on sound engineering principles, and, where ambiguities arise, the assumption allowing the greatest safety margin must be adopted. The calculated values must be used for interim pressure reductions and to prioritize segments for subsequent pressure testing.

Response to the Coalition of Utility Employees (CUE)

CUE recommends that the Commission not require any cost sharing of PG&E. CUE argues that a shareholder contribution provides a disincentive for PG&E to do the work and that the Commission should address any penalties on PG&E in one of the enforcement investigations.

TURN agrees that appropriate penalties should be assessed in enforcement actions. However, we believe that shareholders should not reap the customary 11+%

³ Indeed, it is relevant here to ask whether PG&E completed the MAOP validation for the segments it has already pressure tested to date?

profits on potentially hundreds of millions of dollars in capital investments that might be required in a relatively short time to make up for the fact that various factors (including exemptions for old pipelines from testing requirements) have contributed to potentially unsafe conditions. TURN thus recommends exactly the opposite – that cost sharing be adopted for all utilities needing to make these investments.⁴

However, to minimize any potential “penalties” on both shareholders and ratepayers, the Commission must ensure that any expedited investments address actual known problems. To this end, we are concerned with the potentially broad scope of the Implementation Plans envisioned in the PD. As discussed above, we recommend that the PD order more limited Safety Plans, with other safety work addressed and prioritized in the normal rate cases for the gas corporations.

June 6, 2011

Respectfully submitted,

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⁴ Indeed, a lower ROE for extraordinary investments hardly amounts to a shareholder “penalty” in these times.

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 June 6, 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 June 6, 2011, at San Francisco, California.

/S/
Larry Wong

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