

**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.

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R.11-02-019  
(Filed February 24, 2011)

**REPLY OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)  
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)  
IN SUPPORT OF MOTION FOR AUTHORIZATION TO ESTABLISH PIPELINE  
SAFETY AND RELIABILITY MEMORANDUM ACCOUNT**

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May 27, 2011

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Pursuant to Rule 11.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (the Commission), and pursuant to the authorization provided by Administrative Law Judge Maribeth Bushey, via telephone, on May 23, 2011, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) offer the following reply to the responses of Disability Rights Advocates (DiRA), The Utility Reform Network (TURN) and Division of Ratepayer Advocates (DRA) in support of their Motion for Authorization to Establish Pipeline Safety and Reliability Memorandum Account (the Motion).

**I. SUMMARY**

SoCalGas and SDG&E propose to establish the Pipeline Safety and Reliability Memorandum Account (PSRMA) to track the incremental costs (including capital) associated with compliance with the Commission’s directives in this Rulemaking. These costs, as discussed in their Motion, will result from those actions that the Commission

directs SoCalGas and SDG&E to take in this proceeding. SoCalGas and SDG&E request that Commission approval of PSRMA be effective February 24, 2011, the date the order instituting this Rulemaking was filed.

Approval of their request to establish the memorandum account will not predetermine or address future recovery of these costs in customer rates. Rather, the memorandum account would simply allow SoCalGas and SDG&E to track the incremental costs associated with Commission directives in this proceeding. SoCalGas and SDG&E propose that the recovery of the costs tracked in the PSRMA be addressed by the Commission later in this Rulemaking or in another appropriate proceeding, as determined by the Commission.

In response to the Motion, DRA argues that the request to establish a memorandum account is premature and lacks sufficient detail to demonstrate which activities and associated costs will be tracked in the proposed memorandum account. DRA recommends that the Motion be denied at this time, without prejudice, until such time as the Commission adopts new rules in this Rulemaking and the incremental costs associated with those new requirements are known. In their joint response, DiRA and TURN state that they are not opposed to the concept of a memorandum account to record and track costs authorized in this proceeding. DiRA and TURN request, however, that the Commission adopt uniform accounts for SoCalGas, SDG&E and PG&E, and that the effective date of the authorization to establish the PSRMA should be the date the Motion was filed, May 4, 2011.

As discussed below, the Motion by SoCalGas and SDG&E to establish the PSRMA is timely and should be granted to facilitate the ability of SoCalGas and SDG&E to track costs above and beyond those anticipated in its current General Rate Case (GRC) that it may incur as the result of the Commission's directives in this Rulemaking. In the interest of fairness, this request for authorization to establish a memorandum account should be granted as of February 24, 2011, the date the order instituting this Rulemaking was filed.

It is not necessary that SoCalGas, SDG&E and PG&E employ uniform accounting practices across the utilities in order to track these expenses, and the request by DiRA and TURN to impose such uniformity should be denied.

## **II. Discussion**

### **A. The Motion is Timely and Should be Granted as Expeditiously as Possible.**

DRA's argument that the Motion is premature and should be delayed ignores the precise purpose of establishing a memorandum account. SoCalGas and SDG&E request authorization for the PSRMA in order to ensure that an orderly mechanism is set in place, before the fact, to track incremental costs that may be incurred in response to orders issued by the Commission in this proceeding. If SoCalGas and SDG&E were to wait until the Commission issues such an order, it may already be too late to seek authorization to establish a memorandum account to track those incremental costs before they are incurred. Moreover, because establishment of a memorandum account in no way predetermines eligibility for cost recovery, there is no reason to delay the establishment of the PSRMA. If the Commission ultimately orders SoCalGas and SDG&E to incur costs that SoCalGas and SDG&E believe are incremental to their current GRCs, they may track those expenses until such time as the recovery of those expenses is addressed by the Commission. At that time, interested parties, such as DRA, will have an opportunity to raise any cost recovery concerns, including whether those costs were reasonably incurred and are indeed incremental to the GRCs.

The Motion should be granted effective February 24, 2011, the date the order instituting this Rulemaking was filed. As explained by the Commission in Decision 09-06-053, various policy reasons may support a decision to authorize a memorandum account as of the date a proceeding is initiated. "One very important policy consideration is fairness."<sup>1</sup> In D.09-06-053, the Commission upheld its decision to authorize a

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<sup>1</sup> D.09-06-053, p. 9.

memorandum account as of the date an Order Instituting Investigation (OII) was filed, because, among other reasons: “participation in the OII proceeding was a Commission ordered proceeding and was not anticipated” and “the costs arose due to our requiring the utilities’ participation in a special proceeding to develop conservation rate designs and address non-rate design issues.”<sup>2</sup>

The circumstances here are similar to those described by the Commission in D.09-06-053, and notions of fairness justify approval of the request by SoCalGas and SDG&E for establishment of a memorandum account as of the date this OIR was filed. SoCalGas and SDG&E have been ordered to participate in this large and complex rulemaking for the purpose of establishing “a new model of natural gas pipeline safety regulation applicable to all California pipelines.”<sup>3</sup> SoCalGas and SDG&E could not have anticipated the pipeline rupture that occurred in San Bruno on September 9, 2010, and therefore, could not have anticipated that the Commission would open a new rulemaking to adopt “new rules for the safe and reliable operation of natural gas pipelines in California.”<sup>4</sup> Nor could SoCalGas and SDG&E have anticipated that “[n]ot only for PG&E, but also for the rest of California’s gas pipeline infrastructure, the Commission will be looking at the need for a more comprehensive infrastructure and upgrade and replacement policy and program that is likely to take place over at least the next decade.”<sup>5</sup> In light of the request by the Commission that all natural gas pipeline operators participate in this proceeding in order to take proactive and swift action to enhance the safety of natural gas pipeline infrastructure in California, and the fact that SoCalGas and SDG&E could not have anticipated this request, fairness dictates that the Commission authorize SoCalGas and SDG&E to

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<sup>2</sup> *Id.*, pp. 9-10.

<sup>3</sup> *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*, February 24, 2011, p. 1.

<sup>4</sup> *Id.*, p. 2.

<sup>5</sup> *Id.*, p. 13.

establish memorandum accounts to track the costs associated with their participation and compliance with decisions issued in this proceeding as of the date the OIR was filed.

**B. Memorandum Accounts Need Not Be Uniform Across Utilities.**

Under the heading “Need for Uniformity Among Pipeline Memorandum Accounts,” DiRA and TURN point out that SoCalGas’ and SDG&E’s joint Motion differs from a motion by PG&E to establish a similar memorandum account, and list several ways that the Commission could establish greater uniformity across the utilities. However, DiRA and TURN do not offer any support for their assumption that there is a “need for uniformity” across the utilities with respect to expense tracking. Indeed, SoCalGas and SDG&E can discern no need for uniformity of expense tracking across unaffiliated natural gas utilities.

DiRA and TURN further argue that PG&E’s memorandum account should include sufficient detail to enable comparison to a Safety Report that PG&E is required to file, and point out that SoCalGas and SDG&E are not required to file such a Safety Report. DiRA and TURN then leap to the conclusion that “[t]he best course of action is for the Commission to adopt a comparable reporting requirement for SoCal Gas and SDG&E in this interim order. Alternatively, the Commission must order the Sempra utilities to provide sufficient details to allow for subsequent audit of costs for incrementality.”<sup>6</sup>

The issue of whether to change existing rules with respect to reporting requirements, and if so, how those rules should be modified, is currently pending before the Commission in this Rulemaking. SoCalGas and SDG&E fully support the adoption of appropriate reporting requirements in this proceeding. It is procedurally improper, however, for DiRA and TURN, in response to a motion by SoCalGas and SDG&E to establish a memorandum account, to ask the Commission to predetermine this important issue of future reporting requirements before a record is established in this proceeding.

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<sup>6</sup> Response of DiRA and TURN, p. 6.

