

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

I.D. # 10251
RESOLUTION G-3454
May 5, 2011

R E S O L U T I O N

Resolution G-3454. The California Energy Commission (CEC) requests authorization by the California Public Utilities Commission (CPUC) to reallocate Public Interest Energy Research Natural Gas RD&D (PIER NG) funding for Fiscal Year (FY) 2009-2010 from Smart Grid Integration to natural gas infrastructure safety research.

Proposed Outcome: CEC proposes to reallocate \$950,000 of previously-approved FY2009-2010 PIER NG funding for Smart Grid Integration research. The reallocated \$950,000 would instead fund two research projects regarding the current and future state of natural gas infrastructure safety.

CEC's proposal is approved without modification.

Estimated Cost: None.

By Letter to Energy Division Director submitted on February 24, 2011.

SUMMARY

This Resolution approves the CEC's request, via letter to the CPUC Energy Division Director on February 24, 2011, in which the CEC seeks to reduce \$1 million of PIER NG Smart Grid Integration funding to \$50,000 and to use the remaining \$950,000 to fund natural gas infrastructure safety research projects instead.

BACKGROUND

Decision (D.) 04-08-010 (the “Decision”) implemented Assembly Bill (AB) 1002, establishing a natural gas surcharge to fund gas public purpose programs, including public interest research and development (R&D).

The CPUC instituted Rulemaking 02-10-001 to implement AB 1002. In this proceeding the Commission addressed various issues related to the design and implementation of a surcharge to fund gas public purpose programs, resulting in D.04-08-010.

D. 04-08-010 established certain criteria for gas R&D projects to be approved under this program.

The Decision defines public interest gas R&D activities as those which “are directed towards developing science or technology, 1) the benefits of which accrue to California citizens and 2) are not adequately addressed by competitive or regulated entities.” (p.25).

The CPUC established the following criteria for public interest gas R&D projects:

- 1) Focus on energy efficiency, renewable technologies, conservation and environmental issues,
- 2) Support State Energy policy,
- 3) Offer a reasonable probability of providing benefits to the general public, and
- 4) Consider opportunities for collaboration and co-funding opportunities with other entities.

D. 04-08-010 designated the CEC as administrator of the R&D program.

The CEC administers the Public Interest Energy Research (PIER) program and is publicly accountable, being subject to the Bagley-Keene Open Meeting Act and the Public Records Act (p.31). Projects are selected by the CEC and reviewed and approved by the CPUC.

D. 04-08-010 reserved ultimate oversight for the CPUC.

The CPUC is responsible for adopting the R&D budget and program plan, and for setting the surcharge to fund the R&D program. The Decision made it clear that the CPUC has final responsibility to “approve and resolve administration, funding, project approval, or other matters, and make a final decision” (p.32). The Decision further designated the CPUC’s Energy Division to serve as this Commission’s advisor.

The CEC’s R&D program plans and budgets have been approved by the CPUC from 2005 to FY 2010-2011.

D. 04-08-010 established a zero-based budget for the Gas R&D program, starting at \$12 million for 2005, with maximum annual increases of up to \$3 million per year, subject to CPUC approval (p.38). Historically, each year the CEC has requested a budget up to the maximum limit for the year, and each year has increased the budget over the past year by the maximum allowable limit of \$3 million. Thus the budget for FY2009-2010 reached \$24 million, and remained at that amount for FY2010-11.

The CPUC approved CEC’s Program Plan and Funding Request for Fiscal Year 2009-2010, in which CEC requested \$1 million of funding for Smart Grid Integration research.

CPUC Resolution G-3436 (June 18, 2009), among other things, approved \$1 million in PIER NG Smart Grid Integration funding, classified as Natural Gas System and Infrastructure Performance and Reliability research.

On February 24, 2011, the CEC submitted a letter to the CPUC Energy Division Director, in which the CEC requested funding for two R&D projects that weren’t included within the scope of the Fiscal Year 2009-2010 Program Plan that was originally approved in Resolution G-3486. The CEC is not requesting an increase in its budget to fund these projects. Instead, the CEC proposes to redirect \$950,000 in funding to these projects that was originally for Smart Grid Integration research.

DISCUSSION

CEC proposes specific natural gas safety research that would be funded by the reallocation of previously-authorized PIER NG funding and result in no net cost to ratepayers.

CEC proposes to reallocate \$950,000 of PIER NG FY2009-2010 funding previously authorized by the CPUC for Smart Grid Integration. The \$950,000 in funding would be redirected to two research areas:

The first research area would look at the current state of natural gas infrastructure monitoring. The assessment should include the following:

- Assess current technologies used in the United States to manage pipeline integrity and safety, including how pipeline operators currently prevent, detect, and react to incidents such as leaks and ruptures;
- Assess all available technologies that could be used in California but which are not being used because they are not widely used on a commercial basis, unknown, or unproven;
- Identify immediate opportunities to improve the assessment, monitoring, and integrity management program of California pipelines; and
- Rank opportunities based on impact, value, timeframe, and feasibility.

The second research area involves analysis of emerging technologies that may improve natural gas infrastructure and operations in California, such as micro-electro-mechanical system sensors that may operate inside natural gas pipelines during regular operations in order to monitor pipeline health. Research subtopics may include, among other things:

- over-pressure prevention;
- inspection and monitoring of weld quality;
- avoidance of long-term pipeline corrosion;

- methods for measuring the remaining useful life of natural gas pipelines to ensure safe operation; and
- large-scale 3D monitoring of natural gas pipeline systems.

There is no additional cost to PIER NG from reallocating these funds; therefore there is no additional impact to ratepayers from authorizing CEC's reallocation proposal.

CEC's reallocation request is consistent with D. 04-08-010.

The CPUC commends the CEC for its active engagement in helping to create a safer California natural gas pipeline infrastructure. The deadly explosion on PG&E's pipeline on September 9, 2010 highlights the pressing need for additional natural gas infrastructure safety research. Such research is in the public interest and could potentially save the lives of citizens and prevent serious pipeline malfunctions. For these reasons, natural gas infrastructure and safety research may take precedence over Smart Grid Integration and is consistent with the Decision.

The CEC's proposal to reallocate \$950,000 of FY2009-2010 funding from Smart Grid Integration to natural gas safety research is approved.

The CEC has adequately described two natural gas safety research projects' qualifications for PIER NG. The Energy Division has reviewed the CEC reallocation request and found it to be submitted properly in compliance with D. 04-08-010. CEC's proposed safety research areas meet the criteria for public interest gas R&D projects laid out in the Decision, and the CEC is reasonable in prioritizing safety research ahead of Smart Grid Integration research at this time. We authorize the CEC's proposal for reallocating \$950,000 of FY2009-2010 PIER NG funding from Smart Grid Integration to natural gas safety research.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day

period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. The CEC submitted a letter to the CPUC Energy Division Director on February 24, 2011, requesting authorization for reallocating \$950,000 of PIER NG Smart Grid Integration funding to natural gas infrastructure safety instead.
2. The CEC reasonably reallocated \$950,000 of Fiscal Year 2009-2010 Smart Grid Integration funding towards natural gas infrastructure safety projects instead.
3. The CEC's proposed R&D project areas meet the criteria set forth in D. 04-08-010.
4. The CEC's reallocation proposal should be adopted.

THEREFORE IT IS ORDERED THAT:

1. The CEC proposal to the CPUC Energy Division Director on February 24, 2011 to reallocate \$950,000 of PIER NG Smart Grid Integration funding to natural gas infrastructure safety instead is approved without modification.

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 May 5, 2011; the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director

A copy of the comments should be submitted **in electronic format** to:

Franz Cheng and Richard Myers
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, Ca 94102
email: fcc@cpuc.ca.gov and ram@cpuc.ca.gov

Any comments on the draft Resolution must be received by the Energy Division by April 11, 2011. Those submitting comments must serve copies of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, 3) the Director of the Energy Division, 4) the Chief Administrative Law Judge, and 5) the General Counsel on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to fifteen (15) pages in length plus a listing of the recommended changes to the draft Resolution, and an appendix setting forth the proposed findings and ordering paragraphs.

Late submitted comments will not be considered. Reply comments will not be accepted.

/s/ Richard A. Myers
Richard A. Myers
Program and Project Supervisor
Energy Division

Certificate of Service

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution G-3454 on all parties in R.02-10-001.

Dated March 22, 2011 at San Francisco, California.

/s/ Honesto Gatchalian
Honesto Gatchalian

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.