

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
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Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 11-02-019

This is the proposed decision of Administrative Law Judge Bushey. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's February 26, 2015 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ MARYAM EBKE for
David M. Gamson,
Chief Administrative Law Judge

DMG:avs

Attachment

Decision **PROPOSED DECISION OF ALJ BUSHEY** (Mailed 1/23/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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)

DECISION ADOPTING REVISED GENERAL ORDER 112-F

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DECISION ADOPTING REVISED GENERAL ORDER 112-F**Summary**

Today's decision brings forward modern rules for California's natural gas transmission and distribution system operators. General Order 112-F contains new operational and reporting metrics, accelerates leak survey schedules, and, in certain circumstances, adopts California standards that are more stringent than federal requirements.

Since initiating this proceeding in 2011, we have made major changes in the regulation of California's natural gas system operators, including formalizing safety plans and setting aside decades-old pressure test exemptions. Although we see today's decision as another step on our continuing safety journey, we have accomplished the primary goals of this proceeding and set in place permanent oversight mechanisms. Consequently, it is now time for this proceeding to be closed.

1. Background

Pursuant to Pub. Util. Code § 451, each public utility in California must "furnish and maintain such adequate, efficient, just and reasonable service, instrumentalities, equipment, and facilities, . . . as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." Ensuring that the management of investor-owned gas utility systems fully performs its duty of safe operations is a core obligation of this Commission.

We initiated this Rulemaking to consolidate and coordinate our efforts, obtain public input, and propose rule and policy changes as necessary. We set forth the following primary objectives of this proceeding, as well as specific plans for achieving each objective:

- A. Provide the public with a means to make their views known to this Commission;
- B. Provide the public with the Independent Review Panel's expert recommendations regarding the technical explanation for the explosion, assessment of likelihood that similar events may occur, and recommendations for preventive measures and other improvements;
- C. Develop and adopt safety-related changes to the Commission's regulation of natural gas transmission and distribution pipelines, including requirements for construction, especially automated shut-off valves, maintenance, inspections, operation, record retention, ratemaking, and the application of penalties;
- D. Consider ways that this Commission can undertake a comprehensive risk assessment for all natural gas pipelines regulated by this Commission, and possibly for other industries that the Commission regulates;
- E. Consider available options for the Commission to better align ratemaking policies, practices, and incentives to elevate safety considerations, and maintain utility management focus on the "nuts and bolts" details of prudent utility operations;
- F. Consider the appropriate balance between the Commission's obligation to conduct its proceedings in a manner open to the public with the legitimate public safety concerns that arise from unlimited availability of certain utility information;

- G. Consider if we need further rules or other protection for whistleblowers to inform the Commission of safety hazards; and
- H. Expand our emergency and disaster planning coordination with local officials.

In this proceeding, our primary efforts have been focused on ensuring that California's natural gas transmission system operators are properly determining the Maximum Allowable Operating Pressure (MAOP) for each segment of the natural gas transmission system. Our review caused us, on June 9, 2011, to order all California natural gas transmission pipeline operators to prepare Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plans (Implementation Plans) to either pressure test or replace all segments of natural gas pipelines that were not pressure tested or lacked sufficient details related to performance of any such test.¹ We required that the Implementation Plans provide for testing or replacing all such pipeline as soon as practicable, and that at the completion of the implementation period, all California natural gas transmission pipeline segments would be (1) pressure tested, (2) have traceable, verifiable, and complete records readily available, and (3) where warranted, be capable of accommodating in-line inspection devices.

¹ The Commission's General Order (GO) 112, which became effective on July 1, 1961, mandated pressure test requirements for new transmission pipelines (operating at 20% or more of Specified Minimum Yield Strength (SMYS)) installed in California after the effective date. Similar federal regulations followed in 1970, but exempted pipeline installed prior to that time from the pressure test requirement. Such pipeline is often referred to as "grandfathered" pipeline, because pursuant to 49 CFR 192. 619(c), pressure testing was not mandated.

In Decision (D.) 12-12-030, the Commission authorized Pacific Gas and Electric Company (PG&E) to increase its annual revenue requirement by just under \$300 million for 2012, 2013, and 2014 for Implementation Plan projects. That decision mandated pressure testing of 783 miles of pipeline, replacement of 186 miles of pipeline, installation of 228 automated valves, and upgrades to 199 miles of pipeline to allow for in-line inspection.² Interim safety measures were also required, pending completion of these needed safety improvements. PG&E shareholders were assigned the costs of pressure testing pipeline for which pressure test records were missing. We also directed PG&E to continue its record management improvement project; however, due to past deficiencies in document management, the costs of this project and its computer data base were not recovered from ratepayers. Although we approved PG&E's cost forecasts for pressure testing and replacement, PG&E's shareholders were required to bear the risk of cost overruns because PG&E's past management decisions led to the need to undertake this massive project on an expedited schedule.

In Application (A.) 13-10-017, PG&E submitted its update to its Implementation Plan, and in D.14-11-023, the Commission approved a settlement agreement which provided for a reduction in the authorized revenue requirement from \$299,214,000 to \$223,228,000.

² As set forth below, these amounts will be updated in accordance with today's decision.

In D.13-10-024, the Commission required Southwest Gas Corporation to enact its Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan, to replace 7.1 miles of natural gas pipeline in its Victor Valley natural gas transmission system, and add a remote controlled shut-off valve to its Harper Lake natural gas transmission system. The Commission determined that the cost of the pipeline replacements should be shared between ratepayers and shareholders, and the costs of the shut-off valve will be included in revenue requirement.

In D.12-04-021, the Commission transferred the reasonableness and ratemaking review of the Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCal Gas) from this proceeding to the Triennial Cost Allocation Proceeding, A.11-11-002, and authorized a memorandum account for both companies.

Apart from the comprehensive Implementation Plan, PG&E also brought forward specific requests necessary to prepare for the winter heating season. PG&E requested Commission authorization to lift operating pressure restrictions that had been imposed on certain lines following the San Bruno rupture. To consider such requests, the Commission adopted a public process for PG&E to make its demonstration that line operation could be safely restored to pre-restriction levels. The Commission required that PG&E provide documentation showing that it had gone beyond a rote pressure test of the line in question, and include a responsible engineer's review of the pipeline construction and assessment of the results in a Safety Certification. Specifically, the PG&E officer responsible for gas system engineering was required to provide a verified statement showing the following information:

- a) that PG&E has validated the pipeline engineering and construction;
- b) that PG&E has reviewed pressure tests results and can confirm that a pressure test was performed on the pipeline in accordance with federal regulations; and,
- c) that in the professional judgment of the engineering officer, the system would be safe to operate at the proposed restored pressure levels.³

In D.11-10-010, the Commission applied these standards and authorized PG&E restore the MAOP of the suction side of the Topock Compressor Station to 660 pounds per square inch gauge (psig). Similarly, the Commission authorized PG&E to increase the maximum allowable operating pressure on natural gas transmission Line 131-30 and associated shorts to 595 pounds psig (D.12-09-003).

On December 15, 2011, the Commission issued D.11-12-048 which authorized PG&E to operate Line 101, 132A, and 147 at pressure no higher than 365 psig. The Commission opened a review of its 2011 decision to lift the operating pressure restrictions on Line 147, and recertified Line 147 with a MAOP of 330 psig in D.13-12-0420.

2. Public Utilities Code Sections 961 and 963

California legislation also emphasized the need for increased and more effective safety procedures, with Pub. Util. Code §§ 961 and 963 requiring each gas corporation to develop a plan for the “safe and reliable operation of its commission-regulated gas pipeline facility that implements the policy of paragraph (3) of subdivision (b) of Section 963, subject to approval, modification, and adequate funding by the commission.” As provided in Pub. Util. Code

³ D.11-09-006 at 18.

§ 961(e), the Commission and each gas corporation must “provide opportunities for meaningful, substantial, and ongoing participation by the gas corporation workforce in the development and implementation of the plan, with the objective of developing an industry-wide culture of safety that will minimize accidents, explosions, fires, and dangerous conditions for the protection of the public and the gas corporation workforce.”

In D.12-12-009, we expanded the scope of this Rulemaking to explicitly include issues addressed in Pub. Util. Code §§ 961 and 963, and acknowledged that this Commission and our federal counterparts were and are hard at work on many of these issues. The overall safety plans of California’s natural gas system operators flow from numerous Commission processes in addition to federal regulations. To provide a comprehensive articulation of these components, e.g., policies, procedures, standards, guidelines, which together form their respective safety plans, we ordered all California natural gas system operators to file and serve no later than June 29, 2012, a natural gas system operator safety plan that shows how the operator addresses each element of Pub. Util. Code §§ 961 and 963 for its gas transmission and distribution facilities.

In D.12-12-009, we accepted for filing the Safety Plans submitted by SDG&E; SoCal Gas; PG&E, Southern California Edison Company (SoCal Edison), (Catalina Petroleum Gas Pipeline Distribution System); Southwest Gas Corporation; Gill Ranch Storage, LLC; Lodi Gas Storage, LLC; Central Valley Gas Storage, LLC; Alpine Natural Gas Operating Company, No. 1, LLC; and West Coast Gas Company. We also ordered each operator to continuously monitor and improve such plan, and file updates as directed.

In that decision, we also added a new section to GO 112-E providing for whistleblower protections.

2.1. Audits

In D.12-04-010, we noted that Section 961(e) sets creating a “culture of safety” as an objective of the Commission’s regulation of California natural gas systems operators, and that no rules can take the place of corporate leaders who are committed to safety as their first priority and who establish the priorities and values of a corporation, translate those priorities into a safety management system in its daily operations, and, in a routine and habitual basis, instill in the corporation’s workers a commitment to safety through personal example and reward systems.

We determined that to evaluate whether California’s natural gas system operators have established a “culture of safety,” we should audit the gas corporations’ implementation of revenue requirements authorized in their General Rate Cases (GRCs) because this Commission most directly exercises its oversight responsibilities through comprehensive review of investor-owned utilities budgets and operations in GRCs. We concluded that these audits should include, but not be limited to, the authorized and budgeted safety-related capital investments and operation and maintenance expenditures of PG&E, SDG&E, and SoCalGas for their last two authorized GRC cycles.

Since D.12-04-010 was issued, we opened Rulemaking (R.)13-06-011 to consider changes to the energy utilities’ Rate Case Plans to ensure the effective use of a risk-based decision-making framework to evaluate the safety and reliability improvements that are proposed in their GRC applications.

The new Rate Case Plan framework was adopted in D.14-12-025 and requires the energy utilities to file various reports with the Commission prior to

their GRCs describing how they plan to assess and mitigate their risks. Among these reports is the Risk Spending Accountability Report. As with a financial audit, this report would consist of a project-by-project comparison of authorized vs. actual spending accompanied by the utility's narrative explanation of any significant differences of the two.⁴ Commission staff is to review the Risk Spending Accountability Reports and to report on their findings.

2.2. Changes to the Commission's Regulations Applicable to Natural Gas Transmission Operators

In GO 112-E, the Commission adopted the federal rules for the design, construction, quality of materials, locations, testing, operations and maintenance of facilities used in the gathering, transmission and distribution of natural gas and in liquefied natural gas facilities in California. The Commission's rules follow the Federal Pipeline Safety Regulations, as the regulations are updated from time to time.

This GO is the linchpin of the Commission's regulation of natural gas pipelines.

On July 8, 2014, the assigned Administrative Law Judge (ALJ) by ruling distributed the set of Proposed Rule Changes to GO 112-E developed by the Commission's Safety and Enforcement Division (SED). The ruling set dates for parties to file and serve comments and reply comments on the Proposed Rule Changes, with accompanying rationale. Subsequently, the Commission staff also held a workshop on the proposed changes.

⁴ D.14-12-025, at 44.

The purpose of today's decision is to consider and adopt a revised GO, which will be known as GO 112-F.

3. Discussion

Pursuant to Pub. Util. Code § 451 each public utility in California must:

Furnish and maintain such adequate, efficient, just and reasonable service, instrumentalities, equipment and facilities, ... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

The duty to furnish and maintain safe equipment and facilities falls squarely on California public utilities, including our natural gas system operators. The burden of continuously keeping all natural gas system facilities safe also rests with these operators.

SED has brought forward proposed revisions to GO 112, and the parties have reviewed and provided comment on the substantive revisions. Several minor text clarifications were also proposed. Generally, the parties supported the revisions and sought several clarifications. One common theme was establishing a mechanism to recover the costs associated with compliance. SoCal Edison, on behalf of its small island Catalina Gas System, expressed particular concern about the costs of compliance and the duration for needed staff training for small gas systems.

The specific proposals are set forth in the table below. Generally, these proposals clarify existing regulations, extend existing regulations into closely related facilities, or cover gaps in federal regulations. Consequently, the parties to this proceeding did not oppose the majority of these proposals:

Proposed Change to General Order 112	Rationale	Section Number
Remove reference to 49 CFR Part 190, text edits for clarity	Part 190 applies only to federal processes, the correctly listed Parts 191, 192, 193, and 199 apply to states	101, 102 and 104
Adds definitions of Operator, Vicinity, Covered Task, Near-Miss Events, and Number of Excavation Tickets	Adds definitions of new terms used in revised General Order	105
Expands the scope of events that must be shown in a Gas Incident Report	Requires reporting of all incidents where pressure exceeds MAOP, or where pipeline loses service or requires shut down due to low pressure	122
Specifies information to be reported on leaks and failures, response times, over/under pressure events, employee evaluation results, Lost and Unaccounted For Gas, public liaison activities, and Gas Safety Plan	Incorporates new metric reporting information to be included in Annual Reports	123
Minor text clarifications		124, 141, 161, 181, 182, 183, 201
Reorder and clarify the contents of Installation Reports, and update cost threshold amounts for inflation	Provide easier to follow regulations and adjust amounts for inflation.	125
Adopt duration limits for unprotected outdoor storage of plastic pipe, 4 years medium density,	Lower of three time limits – manufacturer, operator’s plan, or 4/10 years.	142

10 years high density		
Increases frequency of leak surveys of transmission system to twice a year, Adds detailed specification of leak classification and action criteria, operator qualifications, requires removal of encroachments, and use of Compatible Emergency Response Standard	Doubles frequency of transmission system leak surveys because many miles of transmission pipeline has not been pressure tested. Provides guidance on prioritizing leak repair, training facilities, protects pipeline from encroachments, and facilitates emergency communications	143
Test requirements for pipelines below 100 psig; clearance between gas pipelines and other substructures of 12 inches when paralleling and 6 inches when crossing	Provides testing pressures for all pipeline, and adopts clearance requirements not specified in federal regulations and conforms to General Rule 128 clearance requirements.	144
Record retention requirements for gas transmission lines	All installation and repair records must be retained so long as the pipeline is in service, all repair records for a minimum of 75 years or until next repair or test is performed, whichever is longer.	New section 145
Expands Liquefied Natural Gas Rules to include mobile equipment	Mobile equipment should also be subject to additional safety requirements	162
Whistleblower Protections	As specified in D.12-12-009	New subpart G

Parties did, however, raise objections to two proposals – expanding the definition of High Consequences Areas in Section 105 and increased transmission line leak survey schedule, found in section 143.

The essence of most objections, *see e.g.*, SoCalGas and SDG&E comments at 2, is that implementing these rule change will require significant modifications to a natural gas system operator’s automated scheduling, data collection, and work process systems. Written procedures will need to be developed, and personnel trained. All of this will take time and financial resources.

To allow the operators sufficient time to implement these regulations in an orderly and efficient manner, we will set the mandatory effective date of these regulations as no later than January 1, 2016. Operators must, where feasible, implement these regulations before that date. If an operator encounters identifiable and significant obstacles to implementing a specific section, that operator may seek an extension of time to comply with that section via the process set out in Rule 16.6 of the Commission’s Rules of Practice and Procedure or its successor. With this timeline for implementation, the objections raised to the proposals are largely addressed.

Therefore, we find public safety will be enhanced with the revisions and additions to GO proposed by SED to GO 112 as summarized above and as set forth in Attachment A. We conclude that the revised GO 112 should be designated GO 112-F. California natural gas operators shall comply with GO 112-F as soon as feasible but no later than January 1, 2016, unless good cause can be shown requiring an extension of time to comply with a particular section.

The remaining issue we need to consider is whether the financial audits we ordered in D.12-04-010 for two prior natural gas system operator GRCs should continue to be required for their GRCs. These financial audits were part of our

effort to ensure that natural gas system operators imbed safety in their decision-making processes.

To decide this issue we look to the outcome of R.13-11-006. The purpose of that rulemaking was to adopt changes to the energy utilities' Rate Case Plans to ensure that the utilities demonstrate in their GRCs that their proposals reflect a sound risk-based decision-making approach to minimize safety risks. As part of the new Rate Case Plan framework, the energy utilities will file with the Commission Risk Spending Accountability Reports according to the schedule adopted in D.14-12-025. These reports will include an accounting of past utility expenditures on a project-by-project basis and are subject to Commission staff review. Accordingly, the Risk Spending Accountability Reports essentially serve the same function of a financial audit and the financial auditing requirement we ordered in D.12-04-10 for natural gas system operators GRCs is unnecessary.

With the adoption of General Order 112-F and the Risk Spending Accountability Reports ordered in D.14-12-025, we find that this proceeding has achieved the objectives set four years ago. Accordingly, this proceeding should be closed.

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

5. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Maribeth A. Bushey is the assigned ALJ in this proceeding.

Findings of Fact

1. The Commission opened this proceeding to consider revisions to rules applicable to California natural gas system operators.
2. The Commission's SED brought forward numerous proposed changes to GO 112-E, issued a staff report delineating the proposed changes, received comments, and held a workshop.
3. The proposed changes are summarized in a table in the body of today's decision and are reflected in Attachment A.
4. A mandatory effective date of January 1, 2016 will allow for the orderly and efficient implementation of the new rules set forth in Attachment A.
5. The Risk Spending Accountability Reports required in D.14-12-025 serve the purpose of the financial audits that were ordered in D.12-04-010 and no financial audits need to be ordered in this proceeding.

Conclusions of Law

1. GO 112-F as set forth in Attachment A today's decision should be adopted effective today; except that as to sections 122, 123, 125, 142, 143, 144, 145, and 162, the gas operators shall comply as soon as feasible but no later than January 1, 2016, unless compliance is extended for a particular provision pursuant to Rule 16.6 of the Commission's Rules of Practice and Procedure or its successor.
2. R.11-02-019 should be closed.

O R D E R**IT IS ORDERED** that:

1. General Order 112-F as set forth in Attachment A to today's decision is adopted effective today; except that as to the revised sections 122, 123, 125, 142,

143, 144, 145, and 162, the gas operators shall comply as soon as feasible but no later than January 1, 2016, unless compliance is extended for a particular provision pursuant to Rule 16.6 of the Commission's Rules of Practice and Procedure or its successor.

2. Rulemaking 11-02-019 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A
General Order No. 112-F