Decision 20-02-024 February 6, 2020

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In The Matter of the Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) for a Certificate of Public Convenience and Necessity for the Pipeline Safety & Reliability Project.	Application 15-09-013

DECISION APPROVING LIMITED MODIFICATIONS TO DECISION 18-06-028

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DECISION APPROVING LIMITED MODIFICATIONS TO DECISION 18-06-018

Summary

The Joint Petition for Modification of Decision (D.) 18-06-028 by Protect Our Communities Foundation, Sierra Club, Southern California Generation Coalition, and The Utility Reform Network (Petitioners) is approved in part and denied in part. In this decision, we grant the Petitioners' request that a second phase of this proceeding be opened to consider a cost forecast pertaining to Southern California Gas Company and San Diego Gas & Electric Company's (Applicants') Line 1600 Pipeline Safety Enhancement Plan (PSEP) Design Alternative 1 (Replace in High Consequence Areas and Hydrotest in Non-High Consequence Areas) (Design Alternative 1), which the Commission's Safety and Enforcement Division (SED) formally approved on January 15, 2019. Review of the Applicants' Line 1600 PSEP cost forecast through a public process will enable the Commission to provide appropriate guidance regarding the reasonableness of the Applicants' proposed cost estimates, cost containment strategies, ratemaking and accounting treatment, and overall assumptions. This decision does not grant cost recovery in this phase; reasonableness review of the cost forecast established in this phase will occur in later General Rate Case proceedings. In this decision, we deny the Petitioners' request for the Commission to reconsider PSEP Design Alternatives 2, 3, and 4.

We disagree with Petitioners that the Applicants' PSEP Plan is out of compliance with Ordering Paragraph (OP) 1 of D.18-06-028. OP 1 specifies that a potential replacement of specific segments of the 16-inch Line 1600 shall not exceed 16 inches in diameter or increase demand-forecast capacity above the current capacity of 595 million cubic feet per day (D.18-06-028 Finding of

Fact 10), without specific and detailed justification. The burden is on the Applicants to provide a specific and detailed justification to the Commission if these requirements are not met in the future.

During the second phase of this proceeding, the following issues are out of scope, as discussed in Section 8: 1) Reconsideration of PSEP Design Alternatives 2, 3, and 4; 2) Future deration of Line 1600 to 320 pounds per square inch gauge; 3) Applicants' compliance with OP 1 of D.18-06-028; and 4) Evaluation of "need" for Line 1600 and "Reliability Criterion" that were either delegated to SED for review and approval and/or previously litigated in the Decision and other prior Commission decisions.

This proceeding remains open. In this decision, we recommend an expedited second phase of the proceeding assuming that the Applicants timely comply with the directives in this decision.

1. Petition for Modification

On May 31, 2019, Protect Our Communities (POC), Sierra Club, Southern California Generation Coalition (SCGC) and The Utility Reform Network (TURN) (jointly, Petitioners) filed a joint petition for modification (PFM) of Decision (D.) 18-06-028 (*Decision Denying San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company's (SoCalGas) Proposed Certificate of Public Convenience and Necessity (CPCN) for the Proposed Gas Pipeline 3602, Reclassification of Gas Pipeline 1600 from Transmission Service to Distribution Service, and Redefinition of the Existing CPUC Reliability Criterion*) (Decision) dated June 21, 2018.

Petitioners request that D.18-06-028 be modified as follows:[1]

[1] PFM at 3-4. (*See* Appendix A "Petitioners' Proposed Modifications.")

> 1) To conform OP 7 to provisions in the text of D.18-06-028 about what the Applicants must include in the hydrostatic test or replacement plan that is required by OP 7, 2) to expand Conclusion of Law (COL) 19 and OP 7 to require the Applicants to submit the hydrostatic test or replacement plan in this proceeding with supporting documentation including direct testimony so that there can be a thorough review by the Commission and the public in a transparent process, 3) to revise Finding of Fact (FOF) 72 to accommodate the submission of the hydrostatic test and replacement plan that would be required by the modified OP 7, and 4) to revise OP 19 to keep Application (A.) 15-09-013 open for consideration of the hydrostatic test and replacement plan.

The Petitioners also state that an alternative to modifying OP 7 and the Related COL 19 would be to require Applicants to submit their Plan as a new application.

In essence, the Petitioners' state that "the primary purpose of the modification is to establish a process for transparent and effective public review through the hearing process of the hydrostatic test or replacement plan the Commission required in OP 7 of D.18-06-028 and to provide the public with an opportunity to review more effective alternatives."[2] Petitioners claim that "the Applicants have ignored the Commission's requirement in OP 1 of the Decision that the SDG&E transmission pipelines that extend south from the Rainbow Metering Station have a combined capacity that is no more than the current 595 million cubic feet per day (MMcfd)."[3] Further, Petitioners believe that the Applicants ignored the Commission's intent that in the long-term Line 1600 should be derated to a Maximum Allowable Operating Pressure (MAOP) of 320 pounds per square inch gauge (psig). Derating the line to 320 psig would

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[2] PFM at 30.

[3] *Ibid.* at 30.

decrease the possibility of rupture so that the pipeline could remain in service indefinitely.[4]

2. Procedural History

In their September 30, 2015 A.15-09-013, the Applicants requested a CPCN to construct approximately 47 miles of a 36-inch diameter transmission pipeline, Line 3602, in San Diego County at a loaded[5] and escalated cost of $528.5 million.[6] Among other things, the Applicants stated that construction of the new line would enable them to derate the existing line from transmission service at 512 psig to distribution service at 320 psig, which would remove Line 1600 from the scope of the Applicants' PSEP.[7]

On August 18, 2016, the Commission approved *Resolution No. SED-1* that lowered the MAOP of Line 1600 from 640 psig to 512 psig.

On June 21, 2018, the Commission denied: 1) the CPCN for the proposed "Pipeline Safety and Reliability Project" (also known as Line 3602 Pipeline) at a projected loaded and escalated cost of $528.5 million; 2) the reclassification of Gas Pipeline 1600 from transmission service to distribution service and associated reduction of pipeline operating pressure from 512 psig to 320 psig at a projected loaded and escalated cost of $29.5 million;[8] and 3) redefinition of the Commission's existing Reliability Criterion consistent with D.06-09-039. The second outcome was denied "without prejudice" because it was considered

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[4] *Ibid*. at 30.

[5] "Loaded costs" include direct and overhead costs.

[6] A.15-09-016 at 6; Exh.SDGE-9 at 5. According to the Proponent's Environmental Assessment (PEA) Supplement, March 2016, Table 2-5 at 2-22, construction cost was defined at $639 million. *See* D.18-06-028 at 3.

[7] A.15-09-013 at 4.

[8] A.15-09-013, Exh. SDGE-8-R at 24 (Table 8).

premature to endorse new definitions of transmission or distribution service, without the benefit of further review.

In this same decision, the Commission directed the Applicants to submit to the Safety and Enforcement Division (SED), a California Public Utilities (Pub. Util.) Code Section (§) 958[9] hydrostatic test or replace plan pertaining to the existing 49.7 mile Line 1600 corridor; a study of California pipeline operators' definitions of transmission and distribution pipelines to determine whether there is a need for the Commission to provide further definitions than those provided under 49 Code of Federal Regulations, Part 92, §192.3;[10] and a requirement for an independent audit of Line 1600 records to ensure that they are "complete and verifiable."

The Commission directed that hydrostatic test or replace plan discuss two options:

1. Hydrotest the entire 49.7 miles of line and replace those segments that fail the test; and
2. Replace all pipeline segments in High Consequence Areas (HCAs)[11] along Line 1600, thus ensuring a new pipeline without vintage pipeline characteristics that increase the risk of Line 1600. Hydrotesting in solely non-HCA segments would ensure less impact if there was a failure during testing.[12]

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[9] Unless otherwise noted, all code section references are to the Pub. Util. Code.

[10] Transportation of Natural and Other Gas By Pipeline: Minimum Federal Safety Standards.

[11] HCA's are defined in 49 CFR 192.903. Generally, an HCA is defined to include Class 3 and 4 locations, as well as any area in a Class 1 or 2 location where the potential impact radius is greater than 660 feet and the area within the potential impact radium include 20 or more buildings intended for human occupancy or a site identified as occupied by 20 or more persons on at least 50 days in any 12 month period.

[12] D.18-06-028 at 92.

The purpose of the mandates was to ensure that the Applicants submitted a Line 1600 hydrostatic test or replace plan as directed by D.11-06-017, and as required by other federal and state regulations; to explore whether different definitions of transmission and distribution pipelines could result in placing Line 1600 (currently classified as a transmission line) into distribution service at a reduced pressure, thereby avoiding the need to pressure test or replace;[13] and to determine the status of Line 1600 pipeline records, which in turn, informs a number of Line 1600 safety initiatives,[14] and impacts whether the utilities can recover through rates costs associated with future hydrotesting or, alternatively, whether these costs should be borne by shareholders.[15]

Applicants previously stated that if they pressure tested Line 1600 to meet "pressure test or replace requirements, of § 958, instead of constructing Line 3602 and derating Line 1600, the direct cost of pressure testing would be $112.9 million."[16] As the Petitioners point out in their PFM, although the pressure testing cost was not loaded and escalated, it appeared that pressure testing Line 1600 would cost much less, at approximately $112.9 million, than the combined cost of constructing Line 3602 and derating Line 1600 to distribution service at a total cost of $558 million.[17]

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[13] If Line 1600 becomes an official distribution line according to Pipeline and Hazardous Materials Safety Administration (PHMSA) standards, the line would not be subject to the scope of PSEP or § 958. (D.18-06-028 COL 8 at 124.)

[14] D.14-06-007 COLs 7, 13, 14, and 15 at 56-7 and D.15-02-020 OP 1 at 24. Also *see* D.18-06-023 at 97-102.

[15] D.14-06-007 COL 13 at 56-57.

[16] Exh. SDGE-8-R at 24 (Table 8).

[17] PFM at 4. These numbers are conservative because they assume that all pressure tests would be successful, and no segments of pipe would need to be replaced.

On September 26, 2018, pursuant to the Decision, Applicants timely submitted the proposed hydrostatic test or replacement plan (Plan) pertaining to the existing 49.7 miles of Line 1600 to SED. Applicants evaluated four potential design alternatives for the pressure test or replacement of 49.7 miles of Line 1600 in its present corridor: 1) replacing 37 miles of Line 1600 pipeline in HCAs and hydrotesting 13 miles of Line 1600 pipeline in non-HCAs (Replace in HCA/Test in Non-HCA alternative) at $677 million;[18] 2) hydrostatic strength testing (hydrotest or test) the entire length of Line 1600 (Full Hydrotest alternative) at $325 million; 3) full replacement of Line 1600, routing in nearby streets in the north (Full Replacement in Nearby Streets alternative) at $778 million; and 4) full replacement of Line 1600, routing along Highway 395 in the north (Full Replacement Along Highway 395 alternative) at $725 million.[19]

Applicants evaluated the design alternatives consistent with the requirements detailed in the Decision, Applicants' PSEP Decision Tree, and the overarching objectives of PSEP to: 1) comply with the Commission's directives (subsequently codified in § 958); enhance public safety; 3) minimize customer impacts; and 4) maximize the cost effectiveness of safety investments.[20] As required by the Decision, Applicants coordinated with SED in developing and evaluating this Plan and alternative designs.[21] Of the total estimated $677 million cost, Applicants anticipate recording approximately $630 million as capital expenditure and approximately $47 million as an operating expense.[22]

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[18] Costs are loaded and escalated.

[19] SoCalGas and SDG&E Line 1600 Test or Replacement Plan (PSEP Plan) at 1.

[20] *Ibid*. at 3.

[21] *Ibid*. at 3.

[22] *Ibid*. at 3.

According to the Applicants, work will commence during the first quarter of 2020 with an initial focus on HCAs. Construction and testing is anticipated to span approximately four years. They also state that "[i]n addition, the PSEP Plan is comprised of 19 groupings of 19 independent project sections that can be completed independently to efficiently address safety, operational, community, environmental, constructability, and cost considerations associated with each distinct portion of Line 1600. The scope of work consists of 14 replacement sections and five hydrotests."[23]

In addition to providing detailed information as required by the Decision,[24] Applicants prepared preliminary cost estimates for each of the design alternatives considered in the preparation of the Plan, in accordance with the Commission's directive in the Decision to "include the best available expense and capital cost projections for each prioritized segment and test year."[25] Applicants state that because the scope of work is preliminary, and detailed engineering and project planning will not be completed until after the Plan is submitted, the available information only enables development of a Class 4 level estimate.[26]

On January 15, 2019, the Deputy Director of SED sent a letter to the Senior Vice President of SoCalGas Gas Operations and System Integrity approving

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[23] *Ibid*. at 22.

[24] *Ibid*. at 5 quoting D.18-06-028 at 90-92.

[25] *Ibid*. at 60 quoting D.18-06-028 at 91.

[26] *Ibid*. at 61, 63-64. The definition of "Class 4 level estimates" are generally prepared based on limited information and subsequently have fairly wide accuracy ranges. They are typically used for project screening, determination of feasibility, concept evaluation, and preliminary budget approval. Typical accuracy ranges for Class 4 estimates are -15% to -30% on the low side, and +20% to +50% on the high side..."

Design Alternative 1 as described above.[27] In the SED letter approving the Design Alternative 1, "SED requests that it be apprised of any changes to the proposed plan, along with the Management of Change record."[28] Also, among other things, "SED directs that SoCalGas and SDG&E submit to SED all the required PSEP construction notifications, scope of work, engineering design data, welding and fabrication information no less than 60 days prior to construction, for SED's safety assurance review and inspections."[29] The January 15, 2019 SED letter was served on the A.15-09-013 service list.

On January 15, 2019, upon receipt of SED's approval of the Plan, the Applicants immediately moved forward to begin detailed engineering design and specifications, development, construction planning and preliminary permitting work.

On March 4, 2019, POC submitted a Public Records Act request for the Applicants' September 26, 2018 hydrostatic test or replacement plan. POC received the Applicants' Line 1600 Test or Replacement plan on March 4, 2019 which confirmed the loaded and escalated costs for the four design alternatives referred to above.

On May 31, 2019 Petitioners filed a PFM of D.18-06-028.

On July 1, 2019, Applicants provided a response to the Petitioners' PFM.

3. Background

3.1. Mandate to Perform PSEP Work as Soon as Practicable

Following the San Bruno gas transmission pipeline gas explosion incident the Commission opened Rulemaking (R.) 11-02-019, which conducted a

[27] SED PSEP Plan Acceptance Letter at 2.

[28] *Ibid.* at 2.

[29] *Ibid.* at 2.

"forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."[30] In D.11-06-017, the Commission determined that "natural gas transmission pipelines in service in California must be brought into compliance with model standards for safety," and ordered all California natural gas transmission operators "to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available."[31] The Commission required the submitted plans to provide for testing and replacing all such pipelines "as soon as practicable."[32] It also required the utilities to "address retrofitting pipelines to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves."[33] In addition, the Commission directed utilities to address all natural gas transmission pipeline including low priority segments, while "obtaining the greatest amount of safety value, *i.e.*, reducing safety risk, for ratepayer expenditures."[34] Many of the requirements of D.11-06-017 have been codified in §§ 957 and 958 of California's Public Utilities Code.

In approving the Applicants' PSEP, and in D.14-06-007 and D.15-12-020, the Commission determined that certain costs associated with PSEP should not be recovered in rates including the cost of pressure testing pipelines installed after 1955 that do not have a record of a pressure test to then-applicable

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[30] R.11-02-019 at 1.

[31] R.11-02-019 at 18.

[32] D.11-06-017 at 19.

[33] D.11-06-017 at 21.

[34] D.11-06-017 at 22.

standards, executive incentive compensation, and costs associated with searching for pipeline testing records.[35] Also, as D.15-12-020 (OP 1 at 24) prescribed,

> ...where such [post 1955] pipeline segment is replaced rather than pressure tested, the utility must absorb an amount equal to the average cost of pressure testing a similar segment or where such pipeline segment is abandoned, the utility must absorb the undepreciated plan in service balance.

3.2. Applicants' Pipeline Safety Enhancement Plan (PSEP or "Implementation Plan") and Subsequent Decisions

On August 26, 2011, as amended on December 2, 2011, in compliance with the Commission's mandate, the Applicants filed their PSEP. Among other things, the PSEP included a prioritization schedule for the Commission-ordered work and a proposed Decision Tree to guide whether individual segments should be pressure tested, replaced, de-rated, or abandoned. To prioritize PSEP work, the Applicants divided projects into PSEP Phase 1 and Phase 2. The scope of Phase 1A "is to pressure test or replace transmission pipelines in Class 3 or 4 locations and Class 1 and 2 locations in high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 MAOP." Phase 1B focuses on the "replacement of non-piggable pipelines that were installed prior to 1946." PSEP Phase 2 is also sub-divided into Phase 2A and Phase 2B. According to the Applicants, Phase 2A consists of pressure testing or replacement of about 760 miles of pipeline in Class 1 and 2 locations in non-high consequence areas that do not have sufficient documentation of a pressure test to at least 1.25 times the MAOP.

In D.14-06-007, the Commission approved the Applicants' proposed PSEP, concepts embodied in the Decision Tree, and scope of work.[36] The Applicants

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[35] D.14-06-007 at 39, 56-57 (COL 13 through 16).

removed from Phase 1 their proposal to construct a new 36-inch line, Line 3602 and were instructed to address this either in a new application for the project or in the Phase 2 application. The new application became A.15-09-013.[37] On June 21, 2018, the Commission denied the Applicants' request for a new 36-inch line that would replace the existing 16-inch Line 1600, so Applicants were instructed to initiate PSEP for the existing Line 1600.

3.3. Current Processes to Support SoCalGas/SDG&E PSEPs

Currently, any costs associated with PSEP work are proposed and managed through PSEP and rate case proceedings according to already existing CPUC institutionalized processes. D.16-08-003 (*Interim Decision Authorizing Memorandum Accounts and Interim Rate Increase Subject to Refund)* states that Applicants are "authorized to include in their 2019 General Rate Case (GRC) application all Pipeline Safety Enhancement Plan costs not the subject of prior applications … Future GRC applications could include Pipeline Safety Enhancement Plan costs until implementation of the Plan is complete."[38] Further, "[w]ith the 2019 GRC, all Pipeline Safety Enhancement Plan projects will be incorporated into the General Rate Case schedule and will not be subject to special applications."[39] D.18-06-028 FOF 72 supports this process stating "the unknowns of test and/or replace plans such as actual costs and right of way (ROW) issues, should be addressed in the existing Commission PSEP and companion GRC processes."

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[36] D.14-06-007 at 59 (OP 1).

[37] D.14-06-007 at 17.

[38] D.16-08-003 OP 5 at 16.

[39] D. 16-08-003 at 11.

Since PSEP was implemented, the Applicants have filed three reasonableness review applications including A.14-12-016, A.16-09-005, and A.18-11-010.[40] According to Applicants, they consider A.18-11-010 "the last standalone application for after-the fact reasonableness review of costs incurred to execute PSEP"[41] consistent with the Commission's order to transition PSEP into Applicants' GRCs. As Applicants point out, in addition to after-the-fact reasonableness review applications, a "forecast" application is another type of application used to support PSEP processes. An example of a forecast application is A.17-03-021[42] which addressed Phase 2 project costs forecast to be incurred in 2017 and 2018.

Pursuant to D.16-08-003, Applicants are currently tracking the associated Line 1600 costs in the Safety Enhancement Capital Cost Balancing account (SECCBA) and the Safety Expense Balancing account (SEEBA). Project execution is expected to be staggered due to the large length/scope of work associated with 19 segments. Applicants are authorized 50% interim cost recovery of the costs booked to the balancing accounts, subject to refund, pending reasonableness review. According to the Applicants' Plan, "SDG&E and SoCalGas intend to present costs incurred for [PSEP] projects completed prior to 2022 for reasonableness review in a General Rate Case (GRC) application and to

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[40] *See* A.18-11-010 "Reply of Southern California Gas Company and San Diego Gas & Electric Company to Protests," dated December 27, 2018 at 5.

[41] *See* A.18-11-010 at 6.

[42] *See* D.19-03-025 "Decision Granting the Application of Southern California Gas Company and San Diego Gas & Electric Company for Approval of Forecasted Revenue Requirements Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery; and Authority to Modify and/or Create Certain Balancing Accounts" issued April 5, 2019.

include forecasts of testing and replacement cost for years 2022 and beyond in GRC applications, consistent with D.16-08-003."[43]

4. Jurisdiction and Standard of Review

Pursuant to § 451 "every public utility shall 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," and all rates and charges collected by a public utility must be "just and reasonable." Per § 454, a public utility may not change any rate "except upon a showing before the commission and a finding by the commission that the new rate is justified."

To enforce the above requirements, the Commission requires public utilities to demonstrate with admissible evidence that the costs they seek to include in their revenue requirements are reasonable and prudent. Accordingly, Applicants bear the burden of affirmatively establishing the reasonableness of all aspects of their requests herein.[44] That is, Applicants must demonstrate that the forecast costs and associated revenue requirements proposed for executing the 19 segment projects on Line 1600 are just and reasonable, in light of the Commission's requirements that Applicants furnish and maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities as "necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the California public."

As this is a ratesetting proceeding, the applicable standard of proof in this proceeding is that of a preponderance of evidence. Preponderance of the

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[43] *See* SoCalGas and SDG&E Line 1600 Test or Replacement Plan (Plan) at 5.

[44] *See* D.14-06-007 at 12, 55 (COL 3).

evidence is typically defined "in terms of probability of truth, *e.g.*, such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth."[45]

Applicants have the burden of affirmatively establishing the reasonableness of all aspects of their requests, and Applicants must meet the burden of proving that they are entitled to the relief sought. In order to meet their burden of proof, Applicants must present stronger evidence in support of the requested results than the evidence that would support an alternative outcome. In order to succeed in their requested relief, Applicants need to show that their proposal, and/or revenue requirements, are just and reasonable, and that the requested relief is supported by admissible evidence that outweighs other evidence in this record that would have supported an alternative outcome.

We observe that here, in order for Applicants to meet their burden of proof, Applicants do not have to show that the other parties' position is unreasonable, untenable or impossible to accept as persuasive, but simply that Applicants' evidence is more convincing.[46] That is, the Applicants' evidence must be more convincing than other evidence that would support an alternative outcome.

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[45] *See Witkin*, Calif. Evidence, 4th Edition, Vol. 1, 184; also, *see* also D.12-12-030, at 44 (*Decision Mandating Pipeline Safety Implementation Plan, Disallowing Costs, Allocating Risk of Inefficient Construction Management to Shareholders, and Requiring Ongoing Improvement in Safety Engineering)*; and D.14-07-007 at 13.

[46] "The claim must be proved not only by evidence but also by the greater weight of the evidence. This is known as the **preponderance of the evidence**. **Preponderance of the evidence** does not **mean** the greater number of witnesses but the greater weight and the convincing character of the evidence that is introduced. * * * .' [*Southern Pacific Co. v. Raish*, 205 F.2d 389, 394, 1953 U.S. App. LEXIS 2590, *10.]

This standard of review is consistent with that adopted in D.19-03-025, which is the most recent Commission decision approving a PSEP forecast application (A.17-03-021).

5. Authority and Roles

As stated in the Decision, SED is authorized to "oversee the Applicants' compliance with § 958 and PSEP consistent with directives in prior decisions and OP 15 of the Decision."[47] Specifically, the Decision requires:

The Director of the SED, or designee, is delegated the following authority to:

a) Review all activities of any kind related to the hydrotesting of Line 1600;
b) Inspect, inquire, review, examine and participate in all activities related to Line 1600; and
c) Order SoCalGas/SDG&E to take any actions necessary to protect public safety.[48]

Within this authority, when evaluating a PSEP project, SED typically applies engineering principles and asks the following questions including but not limited to: whether the pipeline is a transmission line; does the pipeline have traceable, verifiable, and complete records; is the pipeline in compliance with § 958; does the proposed PSEP project enhance pipeline structural integrity; does it yield the best possible safety margin; does the pipeline provide service and reliability; and is it in compliance with regulatory requirements and best practices standards (apply a Quality Assurance/Quality Control Plan).

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[47] *See* D.18-06-028 FOF 46 and 47 at 120. "SED is the designated agent that interprets and enforces PHMSA regulations as they apply to California Intrastate Gas Operators (49 USC Section 60105)."

[48] D.18-06-028 OP 15 at 130.

The Commission has discretion to determine whether existing processes established by prior PSEP decisions should be enhanced to promote due process, transparency, and ensure timely protection of ratepayer interests.

6. Positions of Parties

6.1. Petitioners

Petitioners provide a limited series of impactful modifications to one FOF, one COL, and one OP of the Decision and a brief rationale to support.[49]

6.1.1. Revise Ordering Paragraph 7 to Insert the Requirements for PSEP Compliance Documentation that the Commission Found to Be Necessary in Response to Comments

Petitioners refer to a directive in the Decision that was in the *dicta* of the Decision[50] but was omitted in OP 7:

> Applicants shall provide a detailed rationale that explains which segments of Line 1600 it proposes to hydrotest, and which segments it proposes to replace. Applicants shall also provide a detailed summary of existing commercial and residential structures that directly abut the edge of easement (and any possible encroachments that lie within the easement) on Line 1600, including GPS coordinates. Based on this analysis, Applicants shall also identify proposed rerouting of the line in specific segments and/or removal or moving of specific physical structures, known at the time, due to safety compliance reasons.

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[49] PFM at 31-36. For the sake of brevity, actual proposed language related to FOF 72, COL 19, and OP 7 is covered in Section 9.

[50] D.18-06-028 at 111, 129.

6.1.2. Modify Ordering Paragraph 7 and the Related Conclusion of Law to Require that Applicants File their Hydrostatic Test or Replacement Plan in this Proceeding for Public Review by Parties and the Commission

In short, Petitioners provide several reasons why the Plan that the Applicants submitted to SED, and which SED approved, should be exposed to public review:[51]

> First, the Applicants' proposal to increase the MAOP of Line 1600 to 800 psig under three of their alternatives and to 640 psig under the "Full Hydrotest" alternative would result in increasing the overall capacity of Line 1600 and Line 3010 operating together above the current capacity of 595 MMcfd in violation of Ordering Paragraph 1 of D.18-06-028. Second, the Applicants make it clear that none of their four alternatives for Line 1600 would lead to derating Line 1600 "as soon as practical while maintaining reliability" as intended by the Commission.[52]...Third, all of the four alternatives presented by the Applicants are vastly more expensive than envisioned by the Commission in D.18-06-028.

To support the proposed modifications to D.18-06-028, the Petitioners explain that "an opportunity for public review through the hearing process is also necessary in the interest of containing the cost of the short-term plan for Line 1600 to assure that costs that the Applicants will seek to recover from ratepayers are kept within reasonable limits."[53] "Requiring the Applicants to file their proposal in this proceeding with supporting documentation including testimony and forecasted costs will permit interested parties, the Public Advocates Office, and the Commission an opportunity to conduct discovery, to

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[51] PFM at 31-31.

[52] PFM at 32 quoting D.18-06-028 at 111.

[53] PFM at 30.

examine the workpapers underlining the projections in the Line 1600 Test or Replacement Plan, to submit testimony that provides recommendations for the Commission's consideration, and to test witnesses through the hearing process."[54]

6.1.3. An Alternative to Modifying Ordering Paragraph 7 and the Related Conclusion of Law 19 Would Be to Require the Applicants to Submit Their Plan as a New Application

Petitioners explain the pros and cons of initiating a second phase of the proceeding versus requiring the Applicants to submit their plan as a new application. According to the Applicants, the alternative approach would have the benefit of starting anew rather than relying on a four-year old A.15-09-013. They contend that "if the Applicants were to submit their Plan in a new application, the Commission could lose the potential benefits that could flow from reopening A.15-09-013."[55] For example, they assert that a copious record was developed in A.15-09-013 that could be more easily accessed in a second phase of the proceeding in order to support a decision. They also observe that having an assigned ALJ who is familiar with the existing proceeding and record may accelerate the ability to reach a proposed decision than if a new ALJ were assigned to a new proceeding.

6.1.4. Modify Finding of Fact 72 to Be Consistent with the Modification to Ordering Paragraph 7

Petitioners believe that FOF 72 should be modified to be consistent with the modification of OP 7 requiring the Applicants to submit their hydrostatic Test or Replacement Plan after review by SED. Currently, FOF 72 reads as follows:

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[54] PFM at 33.

[55] PFM at 35.

> 72. The unknowns of test and/or replace plans such as actual costs and ROW issues, should be addressed in the existing Commission PSEP and companion GRC processes.[56]

Petitioners assert that FOF 72 should be replaced with:

> SDG&E and SoCalGas should submit a Line 1600 hydrostatic test or replacement plan to the Safety and Enforcement Division within three months from the date of the issuance of this decision and, upon Safety and Enforcement Division review, should submit the hydrostatic test or replacement plan to the Commission with supporting documentation including direct testimony and forecasted costs for consideration by the Commission in this proceeding.[57]

6.1.5. Revise Ordering Paragraph 19 to Keep this Proceeding Open so that the Commission Can Receive the Hydrostatic Testing and Replacement Plan the Applicants Submit to the Commission in Accordance with Ordering Paragraph 7, as Modified

OP 19 of the Decision closed the proceeding. Petitioners believe that this language should be revised so that the proceeding remains open in accordance with a modified OP 7.

For a brief summary of Petitioners' comments on the Commissions intent to potentially derate Line 1600 to 312 psig in the future, *see* Section 8.2 "Future Deration of Line 1600."

6.2. SoCalGas/SDG&E (Applicants)

In response to the PFM, the Applicants state that it should be denied in its entirety primarily based on legal/procedural grounds. They claim, "[n]ot only does the PFM not meet the Commission's procedural requirements to modify a decision under Pub. Util. Code § 1708 and Rule 16.4, it is inconsistent with the

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[56] PFM at 35 quoting D.18-06-028 at 122.

[57] PFM at 35-36.

Commission's overarching safety objectives, against the public interest and wasteful of the Commission's and parties' resources."[58] They further point out that "the Petitioners did not submit any declaration supporting a claim of 'new or changed facts,' ...other than SED's approval of the Utilities' Plan to implement the Decision Option 2—an outcome expressly contemplated by the Commission's inclusion of Option 2 in the Decision."[59]

The Applicants also state that the Petitioners "never explain how the Commission's inclusion of Option 2 and closing the proceeding constituted an error of fact or law."[60] If Petitioners had such claims, they should have initiated an Application for Rehearing, which they did not do. They believe that "Petitioners are simply seeking to re-litigate the Commission's previous decision."[61] Applicants state that if the Petitioners believe that the Utilities' Plan violates the Decision, despite SED approval of the Utilities' Plan, then the Petitioners should have filed a complaint pursuant to Rule 4.1(a)(1), and not a PFM that would seek to stop planned work, challenge SED's recommendations, and recommend other alternatives.[62]

In response to the Petitioners' proposals that deal with the need for more public review, Applicants argue that it is not necessary to initiate a new application process or reopen the proceeding because the Decision directed that "[t]he unknowns of test and/or replace plans such as actual costs and ROW issues, should be addressed in the existing Commission PSEP and companion

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[58] Applicants' Response at 4.

[59] Applicants' Response at 4.

[60] Applicants' Response to PFM at 4.

[61] Applicants' Response to PFM at 5.

[62] Applicants' Response to PFM at 6

GRC processes."[63] They emphasize that "[a]s previously expressed, however, the Utilities' Plan implements an option expressly laid out in the Decision (Option 2), and SED, acting pursuant to its delegated authority, approved the Plan."[64]

In response to the Petitioners' proposal that OP 7 should be revised to insert the requirements for PSEP compliance documentation, Applicants claim that "Petitioners misread the Decision, however, because the requirement to provide such information was already included in D.18-06-028 at 92."[65] They point out that the Utilities' Plan has been publicly available on the Utilities website since January 2019 and attached to the Petitioner's PFM.

In response to the Petitioners' question about the Applicants' compliance with D.18-06-028 OP 1, Applicants opine that "Petitioners allege, without foundation or evidentiary support that the Utilities' Plan 'would raise the Maximum Allowable Operating Pressure of Line 1600 from 512 psig to 800 psig," and increase system capacity above 595 MMcfd."[66] Applicants challenge the Petitioners claim when they assert that "[t[he Utilities' Plan does not determine the MAOP for Line 1600, which currently is limited to 512 psig by Resolution No. SED-1.[67] Unless and until the Commission orders a different MAOP, Line 1600's MAOP will remain at 512 psig."[68] The Applicants point out that increased pressures above 512 psig are required to perform hydrostatic tests

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[63] PFM at 5 quoting D.18-06-024 at 122 (FOF 72).

[64] Applicants' Response to PFM at 6.

[65] PFM at 7.

[66] PFM at 6-7 quoting PFM at 6.

[67] *See* SED Resolution SED-1 issued August 18, 2016. Reducing the operating pressure on Line 1600 to 512 psig, represents a 20% reduction from design-based maximum allowable operating pressure (MAOP).

[68] Applicants' Response to PFM at 7.

of existing and new pipe and also to provide flexibility should the Commission choose to raise MAOP in the future to ensure reliability of service.

Finally, in response to the Petitioners' question about the Applicants' lack of regard for the long-term intention to derate Line 1600, the Applicants assert that "claims regarding the intent of the Decision" are not supported by a plain reading."[69] The Applicants further explain that "the Decision does not mandate further derating of Line 1600."[70] They opine that their plan responds to a hybrid replace/hydrotest Option 2 that the Commission expressly laid out in the D.18-06-028.

7. Discussion

In this section we address the legal, procedural, policy, and technical issues the Applicants and the Petitioners raise in their respective comments.

7.1. Ordering Paragraph 7 Revision to Insert Requirements for PSEP Compliance Documentation

In this decision, we acknowledge that the subject paragraph, to insert requirements for PSEP Compliance Documentation, as referred to in Petitioners' comments, was contained in the text of the decision but not OPs. Even though it was omitted from OPs, it is enforceable based on § 2107.[71] Because the Applicants already complied with this requirement, this issue is moot and is no longer an issue to address.

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[69] Applicants' Response to PFM at 6.

[70] Applicants' Response to PFM at 6.

[71] *See* § 2107 that states "any part or provision of any order, decision, decree, rule, direction or requirement of the commission, is enforceable."

7.2. Reopen Existing Proceeding or Initiate New Proceeding and Associated Timing

As stated in the Decision, there were several valid reasons why Phase Two did not occur in this proceeding. Most importantly, in the initial (which became the final) phase of the proceeding, the Commission determined that the all-new proposed 200 MMcfd 36-inch Line 3602 was not needed to meet any short-term supply deficit, so it was not necessary to reach conclusions on Phase Two issues.[72]

Since the Commission denied the CPCN for Line 3602, the Commission considered it appropriate to narrow the focus to ensure the safety of Line 1600, in compliance with § 958 and other mandates, while ensuring delivery of adequate gas supply to SDG&E customers. With the narrower focus on Line 1600 in mind, in the Commission's view, the proposed Line 3602 was a separate project from PSEP remediation of an existing pipeline, regardless of whether remediation is through pressure testing, replacing in whole or in part, derating, or abandoning.

Finally, the Decision authorized SED to oversee the Applicants' compliance with § 958 and PSEP consistent with directives in prior decisions including OP 3 in D.14-06-007 and OP 15 in D.18-06-028. Any costs associated with PSEP work would be proposed and managed through PSEP and rate case proceedings according to already existing CPUC institutionalized processes. Typically, future PSEP projects will be addressed in the GRC. (*See* Section 1.3 for a more thorough discussion of existing PSEP processes.)

The Decision did not preclude an application process in the future if the Applicants or the Commission wanted to initiate it.[73] However, the Decision

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[72] D.18-0-6-028 at 13.

[73] D.18-06-028 at 126.

made it clear that relitigating various options could take years of further evidentiary hearings and deliberations since the PSEP process was mandated eight years ago. The Decision stated, "it is imperative that planning for this critical safety work begin immediately. In weighing the tradeoffs between the purported benefits of different procedural venues and relative importance of issue areas, the commitment to the Commission's overarching 'safety' objectives should be prioritized."[74]

With the above context, we find it is appropriate to open a limited second phase of the proceeding for the reasons described below:

When SED approved the Plan, they considered safety, technical, and reliability factors but did not consider costs. This represents a gap that must be addressed through some existing and/or new procedural venue. While these costs can be managed through already existing institutionalized GRC processes as explained in Section 3.3, the high financial exposure warrants additional Commission scrutiny and review in a separate phase of this proceeding. Costs of the planned hydrotest and replacement of the 16-inch Line 1600 at a proposed fully loaded and escalated $677 million (30% higher than the cost of the all-new proposed 36-inch Line 3602) have not yet been litigated; therefore, it is appropriate to consider a separate process consistent with forecast applications for similar types of work (*e.g.*, A.17-03-021) and recent PSEP reasonableness review applications (*e.g.*, A.14-12-016, A.16-09-005, A.18-11-010).

Further, the SED Distribution Study and Audit of Pipeline Records that were directed by D.18-06-028 in June 2018 will provide needed information to

[74] *See* D.16-08-018, COL 36: "Prioritizing the reduction of safety risks should be geared toward safety risk, and should not include shareholder financial risks."

support the direction in the second phase of this proceeding. Even though the Distribution Study is ongoing, it is appropriate to retain Line 1600 in transmission service subject to PSEP and § 958 hydrotest and/or replace regulations. The Audit of Pipeline Records will both inform a safe Line 1600 MAOP and enable the Commission to better assess who will bear the costs of pipeline replacement/hydrotesting consistent with D.14-06-007 and D.15-02-020.

We do not consider it prudent to conduct our review through a new proceeding since it would likely take a longer period of time to resolve. Although the Line 3602 and Line 1600 PSEP Plans are discrete and separate projects, it makes sense to consider the latter in a second phase of this proceeding so that the extensive definitions of terms and copious record can be accessed as necessary in order to provide a big picture context and make appropriate judgments pertaining to the more limited cost aspects of the Line 1600 PSEP Plan.

7.3. Forecast Application and/or Reasonableness Review

We believe that forecast applications (or their equivalent as directed in the second phase of this proceeding) are the preferred means to review large projects, such as the cost aspects of the approved Line 1600 PSEP. Based on preliminary "Class 4" cost figures provided in the PSEP Plan, the Line 1600 PSEP Project is one of the largest single PSEP projects ever proposed; therefore it makes sense to further review its proposed costs. Solely relying on after the fact reasonableness reviews places accountability on the Applicants for controlling costs for a half-billion-dollar project too far into the future (*e.g.,* 2022 and 2025 GRCs). Litigation of the cost forecast for the SED-approved Design Alternative 1 in a second phase of the instant proceeding will make the related GRC review and evaluation processes more productive and efficient. In addition, consistent

with D.14-06-007, "it is only fair that ratepayers should have the benefit of detailed plans for the Commission to consider before authorizing or preapproving the expenditure of many hundreds of millions of dollars."[75]

We therefore modify the following FOF, COLs and OPs of D.18-06-028. (For the sake of reference, the Petitioners' proposed modifications to FOF, COLs, and OPs are introduced first. Please note operative words pertaining to "retain," "strike," "replace with," "add.")

FOF 72:

Proposed to strike (Petitioners):

The unknowns of test and/or replace plans such as actual costs and ROW issues, should be addressed in the existing Commission PSEP and companion GRC processes.

Proposed to replace with (Petitioners):

SDG&E and SoCalGas should submit a Line 1600 hydrostatic test or replacement plan to the Safety and Enforcement Division within three months from the date of the issuance of this decision and, upon Safety and Enforcement Division review, should submit the hydrostatic test or replacement plan to the Commission with supporting documentation including direct testimony and forecasted costs for consideration by the Commission in this proceeding.

In this decision, we retain a version of FOF 72 as follows:

Based on an assessment of existing Commission processes to support SoCalGas/SDG&E PSEPs, the unknowns of test and/or replace plans such as actual costs and ROW issues should typically be addressed in the existing Commission PSEP and companion GRC processes, unless the Commission directs otherwise.

In this decision, we believe that the Petitioners' proposed FOF is not necessary since it is already addressed in COL 19.

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[75] D.14-06-007 at 23.

COL 19:

Proposed to retain existing language (Petitioners):

It is reasonable that no later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and National Transportation Safety Board recommendations, Section 958 of the Public Utilities Code and D.11-06-017, Applicants should submit to SED a hydrostatic test or replacement plan pertaining to the existing 49.7 miles of Line 1600 corridor.

Proposed to add (Petitioners):

After review of the hydrostatic test or replacement plan by the Safety and Enforcement Division, SDG&E and SoCalGas should submit their hydrostatic test or replacement plan in this proceeding with supporting documentation including direct testimony and forecasted costs.

In this decision, we retain existing COL 19 language and add the following:

Within six months of the issuance of the Decision Approving Limited Modifications To Decision 18-06-028*, to supplement the above, it is reasonable for Applicants to file the cost forecast, cost estimating methodology, proposed accounting treatment, contingency factor assumptions, cost containment strategies, and proposed schedule for applications for reasonableness review and cost recovery, supported by direct testimony and work papers, of the work to implement the SED-approved hydrostatic test or replacement plan to the Commission for review, with service to the parties to this proceeding.*

OP 7:

Proposed to retain existing language (Petitioners):

No later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and the National Transportation Safety Board recommendations, Pub. Util. Code § 958 and Decision 11-06-017, San Diego Gas & Electric Company and Southern California Gas Company [Applicants] shall submit to Safety and Enforcement Division a hydrostatic test or replacement

> plan pertaining to the existing 49.7 miles of Line 1600 in its present corridor.
>
> Proposed to add: (Petitioners)
>
> *After review of the hydrostatic test or replacement plan by the Safety and Enforcement Division, SDG&E and SoCalGas shall submit their hydrostatic test or replacement plan in this proceeding with supporting documentation including direct testimony and forecasted costs.*

In this decision, we retain the existing OP 7 language with the following modification:

> *Within six months of the issuance of* the Decision Approving Limited Modifications To Decision 18-06-028*, to supplement the above, Applicants shall file cost information that includes, but is not limited to: the Class Three cost forecast for all Line 1600 segments, cost estimating methodology, proposed accounting treatment, contingency factor assumptions, cost containment strategies, and proposed schedule for applications for reasonableness review and cost recovery, supported by direct testimony and workpapers, of the work to implement the SED-approved hydrostatic test or replacement plan to the Commission for review, with service to the parties in the proceeding.*

7.4. Confidentiality

As directed in an October 13, 2017 ALJ ruling that preceded the Decision, Applicants "shall continue to provide confidential information to the Commission and staff according to D.16-08-04 and under the protection of General Order (GO) 66-D as recently updated by D.17-09-023 'Phase 2A Decision Adopting GO 66-D and Administrative Processes for Submission and Release of Potentially Confidential Information' issued October 2, 2017, and any successor decisions approved by the Commission."[76]

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[76] D.18-06-023. *See* October 13, 2017 "Administrative Law Judge Ruling Denying in Part, Modifying and Granting in Part, the Amended Motion of San Diego Gas & Electric Company and Southern California Gas Company for Leave to Submit Confidential Materials Under Seal; and Providing Guidance on Related Confidentiality Issues Raised during Evidentiary Hearings" at 18.

On September 26, 2018, the Applicants submitted their "Line 1600 Test or Replace Plan" with certain information designated as confidential. On July 1, 2019, in the Applicants' response to the PFM, at Attachment 1 of the Kohls Declaration, pages 33-34 of the Plan are presented in unredacted form. The unredacted pages disclose certain test pressures and pressure ranges, and certain percentages of SMYS (Specified Minimum Yield Strength). The unredacted pages also disclose the diameter, wall thickness and grade of the proposed pipe, as well as the wall thickness and grade of existing pipe.

"[A] matter that is already public or that has previously become part of the public domain is not private." [77] The disclosed information is no longer subject to Applicants' claims of confidentiality and is no longer relevant to the current phase of this proceeding.

Thus, in this proceeding, within seven days of the issuance of this decision, it is reasonable for the Applicants to post a public version of the September 26, 2018 "Line 1600 Test or Replacement Plan" on their websites that discloses throughout the document the data that has already been disclosed by Applicants. This would include, for example, diameter values. The Applicants may also increase the information they make public.

8. Issues out of Scope

In this proceeding, based on the rationales below, the following issues are out of scope:

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[77] *Moreno v. Hartford Sentinel, Inc.* (2009) 172 Cal.App.4th 1125, 1130; *see* also, *e.g.*, *Hurvitz v. Hoefflin* (2000) 84 Cal.App.4th 1232, 1245 ("[O]nce…information is released, unlike a physical object, it cannot be recaptured and sealed."); *Black Panther Party v. Kehoe* (1974) 42 Cal.App.3d 645, 656 ("[R]ecords are completely public or completely confidential").

8.1. Reconsideration of PSEP Design Alternatives 2, 3, and 4 and Associated Timing

In this decision, we require a cost forecast for the approved Design Alternative 1 (Replace in HCAs and Hydrotest in Non-HCAs) that SED approved on January 15, 2019. In this decision, we are not questioning the decision-making of SED by revisiting Design Alternatives 2 (Full Hydrotest Alternative), 3 (Full Replacement), 4 (Full Replacement but different street routing) or alternative recommendations. Nor are we revisiting the substance of the PSEP engineering and implementation that falls within the authority of SED.

In this decision, we emphasize that opening a Phase Two of this proceeding does not mean that we are considering a "Stop Work" of Line 1600 replacement and hydrotesting activities unless SED considers this a necessary outcome related to ensuring safety of impacted customers in the normal course of business.

8.2. Future Deration of Line 1600 to 320 Psig

Because current plans to test and replace Line 1600 have already been approved by SED and are underway, it is no longer necessary to consider derating the pipeline further from its current 512 psig. SED is also authorized to *reduce* the operating pressure of Line 1600 to another MAOP to address known safety anomalies over time.[78] In this decision, despite the benefits that could have been derived from derating Line 1600, we maintain the previous finding that it is reasonable to maintain Line 1600 in transmission service at 512 psig subject to the PSEP Decision Tree and § 958 until the Commission determines

[78] *See* D.18-06-028 FOF 12 and 13 at 124.

otherwise.[79] We provide a brief recap why derating Line 1600 was denied in D.18-06-028.

As stated in the Decision, the Commission recognized that the primary safety benefit of derating Line 1600 from 512 psig to 320 psig with a hoop stress of less than 20% of SMYS is that a pipeline failure would more likely result in a leak rather than a rupture.

However, as pointed out by Petitioners, there were three counter-considerations.[80] First, at an MAOP of 512 psig, Line 1600 can be pigged with in-line inspection technology which has safety benefits that can be attributed to compliance with more stringent TIMP (Transmission Integrity Management Planning) standards. Second, there was a reliability issue. If the pressure of Line 1600 was lowered to 320 psig and it remains a transmission line, then its capacity would drop from 65 MMcfd to 40 MMcfd. In the absence of market studies or a well-designed RFO to test the market, there was no clear-cut solution to make up the 25 MMcfd capacity deficit. Third, there was a question about the adequacy of the Applicants' Line 1600 records. As the Public Advocates Office (then the Office of Ratepayer Advocates or ORA) claimed, "SoCalGas/SDG&E do not have the requisite reliability safety records to continue to operate Line 1600 at or below 512 psig without performing required pressure testing" and that "SoCalGas did not retain proper records to allow them to establish the MAOP" for Line 1600. The Commission determined that the

[79] *See* D.18-06-028 COL 12 at 124.

[80] PFM at 15-16.

status of Line 1600 pipeline records as "traceable, verifiable, and complete," should be decided before reducing Line 1600 below 512 psig.[81]

Another consideration not mentioned by Petitioners in the PFM was that the appropriate status of Line 1600 as a transmission line (subject to PSEP or § 958 requiring replacing/hydrotesting at significant expense) or distribution line (not subject to the same) was in dispute during the proceeding and was not fully resolved. Although the Commission expressed a potential interest in extending the life of Line 1600 by derating Line 1600 to distribution service, it did not mandate this action and delegated responsibility to SED to interpret PHMSA definitions and take appropriate action pertaining to the status of the line consistent within their delegated authority.

In compliance with OP 5, SED conducted a study pertaining to operators' definitions of transmission and distribution lines to clarify how the definitions apply under various circumstances and at what costs, surveyed other states for similar data, and conducted a workshop with utilities and other interested parties. However, according to SED staff, the results of its ongoing study are so far inconclusive. In addition, PHMSA is also conducting a rulemaking that is studying and making recommendations regarding these same definitions.[82]

8.3. Compliance with D.18-06-028 Ordering Paragraph One

Design Alternative 1 involves an "in kind" replacement of the 16-inch diameter Line 1600, which is consistent with the Decision's OP 1. Further, as

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[81] As Petitioners point out in PFM Footnote 93 at 16, "[p]roper records of Line 1600 are required under 49 CFR Section 192.105 to calculate the design pressure of the weakest element in a pipeline segment, one of the four values that MAOP of Line 1600 cannot exceed pursuant to 49 CFF Section 192.619(a).

[82] *See* PHMSA Docket 2011-0023, "Definitions § 192.3."

directed by the Commission in Resolution SED-1, we agree with the Applicants that the current MAOP is 512 psig and will remain so in the foreseeable future, which is also consistent with the Decision's OP 1. Therefore, we disagree with Petitioners that the Applicants are out of compliance with OP 1 of the Decision that denies not only the CPCN to construct the proposed Line 3602 but "any proposal that is greater than 16 inches in diameter or involves installing a pipeline to replace Line 1600 that increases demand-forecast capacity above the current capacity of 595 million cubic feet per day (D.18-06-028) Finding of Fact 10), without specific and detailed justification."[83]

However, according to existing regulations, increased pressures above 512 psig are required to perform hydrostatic tests of existing and new pipe and also to provide flexibility should the Commission choose to raise MAOP in the future to ensure reliability of service. It is a regulatory and industry standard, at a minimum, to pressure test a new and existing pipeline that will operate in Class 3 and Class 4 locations at a level of 1.5 times its MAOP. Therefore, for limited testing and operational purposes, the MAOP may exceed 512 psig.

However, if installing this same 16-inch diameter pipeline increases the capacity above the current demand-forecast combined capacity of 595 MMcfd for both Line 3010 and Line 1600, the burden is on the Applicant to provide a detailed justification to the Commission, especially if additional facilities costs must be incurred. Currently, we find that existing lines 3010 (530 MMcfd) and 1600 (65 MMcfd at 512 psig) with a combined capacity of 595 MMcfd, have sufficient pipeline capacity to meet the Utilities' own peak forecasts. (*See* Section 7.5 regarding confidentiality assumptions for this proceeding.)

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[83] D.18-06-028 OP 1 at 127.

In the short-term, it is conceivable that the results of the Line 1600 pipeline records audit directed in the Decision[84] may inform a different MAOP than 512 psig (65 MMcfd). As stated in the Decision, "[t]hrough this process the independent auditor will verify whether Line 1600 records are "traceable, verifiable, and complete," as required to validate the MAOP of Line 1600, consistent with Directives of D.11-06-017 prescribed for PG&E, who experienced a similar audit process for older PG&E pipelines."[85] The Decision directed that "the results of the audit, including the methodology for conducting the audit, will be provided to SED and served on all parties on the service list of this proceeding to ensure transparency in the process of checking required MAOP safety data on Line 1600."[86]

The Decision required that the Line 1600 audit be completed within six months from the time a contract for the work is executed by the Applicants and the auditor selected by the process adopted in the Decision. We therefore direct that SED to post the audit on the Commission's website by January 3, 2020. As stated in the Decision, "[w]here pipeline segment values on Line 1600 are not traceable, verifiable, and complete, the source documents to demonstrate that the values are used in compliance with federal state requirements, should be readily available and auditable."[87]

For planning purposes, it is important to keep in mind historical context. Following the San Bruno incident, SED reduced the pipeline's MAOP from 812 psig to 640 psig. Later, after inspections revealed issues associated with hook

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[84] *See* D.18-06-028 OPs 9 through 13 at 128 through 130.

[85] D.18-06-028 at 101-102.

[86] D.18-06-028 at 101.

[87] D.18-06-028 FOF 24 at 126.

cracks in the pipeline, SED took additional steps to direct the operator to take an additional 20% pressure reduction from 640 psig to 512 psig.[88] If portions of Line 1600 are replaced, presumably the MAOP could be increased to a higher pressure since ongoing safety concerns about hook cracks, especially if hook cracks interact with other known risks such as corrosion or other integrity threats,[89] would theoretically no longer exist.

8.4. Evaluation of Need and Reliability Criterion

In the second phase of this proceeding, we will not address the concept of need to test and/or replace 19 Line 1600 segments. D.02-11-003 and D.06-09-039 establish reliability standards and require Applicants to plan their systems to provide service to core customers during a 1-in-35 year cold day (one curtailment in 35 years) and service to non-core customers during a 1-in-10 year cold day (one curtailment in 10 years). In the review of any pending cost forecasts in the second phase of this proceeding, the Commission upholds this reliability standard.

9. Cost-Related and Procedural Issues to Be Determined

Given the unique and exceptional history of Line 1600 PSEP-related applications and the magnitude of capital forecast costs (including contingency factors), it is reasonable to require the Applicants to file a formal cost forecast consistent with the Commission's best practices. Reviewing a Line 1600 PSEP cost forecast via a public process will enable the Commission to provide appropriate guidance regarding the reasonableness of the cost estimates, cost

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[88] *See* Commission Safety and Enforcement Division *Resolution No. SED-1* issued August 18, 2016. In response to a July 8, 2016 letter from the Commission's Executive Director, ratified by the Commission's approval of Resolution SED-1 on August 18, 2016, the MAOP of Line 1600 was lowered from 640 psig to 512 psig on July 9, 2019.

[89] *See* D.18-16-023 at 86.

containment strategies, ratemaking and accounting treatment, and overall assumptions. This should be accomplished before considering any final approval of capital and operations and maintenance costs in after-the-fact reasonableness reviews in GRCs and companion memorandum account proceedings.

9.1. Cost Forecasts

The cost forecast should include detailed workpapers supporting each of the 19 segments on Line 1600 to be executed as separate discrete projects. The workpapers should include a project description, discussion of alternatives considered, the forecast methodology and cost estimates, assumptions in deriving the estimates, and detailed diagrams and photographs (where available) to bring life to the projects.[90] The intent of the workpapers is to provide information necessary for Petitioners and other Intervenors to examine the reasonableness of the projects as it relates to associated forecast costs. We reiterate that this phase does not grant cost recovery but will instead address cost estimates, cost containment strategies, ratemaking and accounting treatment, and assumptions only. The CPUC will conduct reasonableness review of costs expended pursuant to the determinations made in this phase in later GRC proceedings.

Based on previous PSEP cost forecast applications (*e.g.,* A.17-03-021), the following issues should be addressed in the review and evaluation of the

[90] *See* A.17-03-021 "Reply of Southern California Gas Company and San Diego Gas & Electric Company to the Protests of the Indicated Shippers, Office of Ratepayer Advocates, The Utility Reform Network, Southern California Generation Coalition, and Shell Energy North America, L.P." at 2 dated May 22, 2017.

Applicants' proposed cost forecast and cost treatment for SED's approved Design Alternative 1 in the second phase of this proceeding:

I. Whether Applicants' forecast of capital and operations and maintenance costs associated with the completion of the 19 Line 1600 pipeline segments is reasonable;

II. Whether management decisions regarding the scope and pace of "segment" work, including amortization schedules, are reasonable;

III. Whether Applicants have made a reasonable proposed determination of ratepayer versus shareholder funding as defined by D.14-06-007 and D.15-12-020;

IV. Whether disallowances are properly identified and calculated;

V. Whether Applicants' proposed regulatory accounting treatment of forecasted and actual costs on an aggregate basis, associated with the 19 projects in the pending cost proposal is appropriate;

VI. If applicable, whether the information provided by Applicants adequately supports the inclusion of accelerated and incidental miles in the forecast;

VII. Whether specific cost information, inputs and outputs of estimated tools, assumptions including contingency factors, and other methods of forecasting costs, in support of requested funding and/or forecasted costs for its projects, are reasonable;

VIII. Whether risk models and risk-based decisions for the projects are reasonable;

IX. Whether cost comparisons of similar or previous work done by Applicants or other utilities, in order to determine the Applicants based cost estimates for the PSEP projects upon similar work in the industry are reasonable;

X. Whether cost containment (*e.g.*, one-way balancing account) or cost avoidance strategies are reasonable; and

XI. The proposed phasing for Applicants' submission of reasonableness reviews and recovery requests in future GRCs, based on the cost forecasts determined in this second phase.

9.2. Class Four versus Class Three Cost Estimates

Advancement of Cost Engineering (AACC) Class Three Project estimates (with a typical accuracy range of -10% to -20% on the low side and +10% to -20% on the high side), rather than Class Four estimates, shall be used to evaluate forecast costs and revenue requirements. In general, Class 4 estimates are used for "study or feasibility" of projects while Class 3 estimates are used for "budget authorization and control" of projects.

In response to Applicants' comments, we understand that six months may be necessary to finalize Class 3 estimates for all 19 Line 1600 segments. For this reason, we allow this added time to refine the original Class 4 estimates, with a typical accuracy range of -15% to -30% on the low side and +20% to +50% on the high side, that were submitted approximately a year ago.

9.3. Next Steps

Following the receipt of parties' comments on the Applicants' filed cost-related proposals based on the scope set out here, supported by direct testimony and workpapers, the assigned Commissioner and Administrative Law Judge (ALJ) will determine next steps, including the scheduling of a prehearing conference (PHC) and issuance of a scoping memo and expedited schedule to consider the best approach to bring Line 1600 into compliance with § 958. Given the issue with an incomplete application filed in the first phase of this

proceeding,[91] parties shall meet and confer after the cost forecast is filed and before the PHC is scheduled, in order to jointly submit several follow-up items:

1) A matrix regarding information Petitioners believe is missing from the Applicants' initial showing. Intervenors are to list the information they believe is missing; Applicants are to indicate whether that information is included in their cost forecast and, if so where.
2) If Petitioners are not satisfied the information is sufficient for the Applicants to make their *prima facie* case, they are to explain why.
3) If possible, stipulation of facts that will not be subject to testimony and evidentiary hearings.
4) Timetable to resolve hearing goals and objectives.

10. Comments on Proposed Decision

The proposed decision of ALJ Colette E. Kersten in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3. SoCalGas/SDG&E, Sierra Club/SCGC/TURN, and POC filed comments on October 2, 2019, and SoCalGas/SDG&E, Sierra Club/SCGC/TURN, and POC filed reply comments on October 7, 2019.

SoCalGas/SDG&E express support of the proposed decision's approach of granting Petitioners' request that the Commission open a second phase of this proceeding to consider the cost forecast, proposed accounting treatment and proposed schedule for cost recovery of SED's approved alternative D.18-06-028 Option 2 (replace in HCAs, pressure test in non-HCAs).[92]

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[91] *See* "Joint Assigned Commissioner and Administrative Law Judge Ruling Requiring an Amended Application and Seeking Protests, Responses, and Replies," dated January 22, 2016.

[92] Applicants' Opening Comments on Proposed Decision at 2-3.

In opening comments, Sierra Club/SCGC/TURN support a second phase to consider Applicants' cost forecast for Design Alternative 1; however, they urge the Commission to revise the proposed decision in order to permit examination of D.18-06-028 Design Alternative 2 (hydrotest).[93] POC, filing comments separately, urges examination of Design Alternative 2 as well.[94] We decline to expand the scope of the second phase for the safety reasons discussed throughout this decision and in D.18-06-028. First, the Commission delegated to SED the duty to examine the Applicants' options for Line 1600. Even as it delegated that duty, the Commission also established safety-driven parameters for future actions related to Line 1600. Applicants were ordered to continue operating the line at 512 psig in order to allow in-line inspection and ensure that the transmission pipeline safety requirements of § 958 would continue to apply.[95]

The Commission also took steps to ensure that any replacement plan for Line 1600 would not serve to expand natural gas capacity in the region: any replacement for Line 1600 was specifically barred from expanding capacity above 595 million cubic feet per day without specific and detailed justification.[96] In addition, the Commission ordered Applicants to submit a Line 1600 hydrostatic test or replacement plan for Line 1600 "within its present corridor," to prevent Applicants from presenting a proposal for a new pipeline with parameters similar to Line 3602, which the Commission denied. The Commission is satisfied that SED kept these constraints and orders in mind as it

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[93] Sierra Club/SCGC/TURN Reply Comments on Proposed Decision at 2.

[94] POC Reply Comments on Proposed Decision at 1.

[95] D.18-06-028, OP 3.

[96] D.18-06-028, OP 1.

executed its duty of reviewing the Applicants' alternatives and approving Design Alternative 1.

In opening comments, Protect Our Communities argues for including all alternatives in the scope of the proposed Phase 2, primarily justified by a claim that the record in this proceeding demonstrates that Line 1600 is in "excellent condition" and can be safely and reliably operated indefinitely at its present MAOP of 512 psig.[97]

The record of the Commission's decision shows that the Commission reached the opposite conclusion about Line 1600. The Commission intentionally categorized Line 1600 as a transmission line so that the safety-driven requirements of state and federal law applicable to natural gas transmission lines would be in force (FOF 57, 61, 62; COL 11, 12). The Commission recognized the trade-off of maintaining Line 1600 at 512 psig, with its acceptable short-term safety margin, in order to achieve the reasonable, short-term outcome of ensuring that in-line inspections could be conducted (FOF 59; OP 3). The Commission further found that hydrotest data would not serve as a predictor of the duration of future fitness for operation, nor would it cure the hook cracks known to be present along Line 1600 (FOF 65, 66).

In sum, the Commission did not find that Line 1600 is safe in its present condition and balanced multiple risks, operational considerations, and federal and state safety standards to set out a plan for improving the safety of the line. Notably, POC did not contest that plan via an Application for Rehearing when the Commission approved D.18-06-028; now, POC is relitigating the position it held during the proceeding and ignoring the Commission's determinations

[97] Protect Our Communities Opening Comments at 2, 9.

about the safety status of Line 1600. POC's arguments are unavailing and do not provide a justifiable basis for expanding the scope of Phase 2 as it requests.

In opening comments, Petitioners assert that Applicants should provide Class 3 rather than Class 4 estimates for both alternative options.[98] In response, SoCalGas/SDG&E agree with Petitioners' views but state that it would take approximately six months to refine the preliminary cost forecast for all 19 projects to a Class 3 level estimating accuracy.[99] We agree with Petitioners' request and have so ordered.

11. Comments on Alternate Proposed Decision

The alternate proposed decision of Commissioner Randolph in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3. Comments were filed on December 17, 2019 by Protect Our Communities, SDG&E/SCG, Sierra Club, Southern California Generation Coalition, and TURN and reply comments were filed on December 23, 2019 by Protect Our Communities, SDG&E/SCG, Public Advocates Office, and jointly by Sierra Club, Southern California Generation Coalition, and TURN.

In opening comments, Sierra Club reiterates its position regarding declining natural gas demand, which was litigated in the original proceeding and so we do not address them here except to point out that the Commission found that even with declining gas demand forecasts, a gap in supply would emerge if the operating pressure on Line 1600 were further reduced below 512 psig.

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[98] Petitioners' Opening Comments on Proposed Decision at 11-13.

[99] SoCalGas/SDG&E Reply Comments on Proposed Decision at 5.

In their opening comments, SCGC argues again to expand the scope to litigate the design alternatives presented by the Applicants to SED. SCGC also asserts that to select the Design Alternative 1, as the Commission has here, "ignores" the directives of the PSEP decision tree set out in D.14-06-007. We note that even as it approved the PSEP decision tree, the Commission noted that the decision tree itself was a "work in progress" (D.14-06-007 at 15). The Commission viewed the decision tree as a tool providing logic for decision-making about the natural gas pipeline system, but it is not an automatic determinant of each step: "The Decision Tree analysis used to evaluate the existing pipeline network for safety, documentation, and reliability, is a reasonable but not final process." (D.14-06-007, COL 5.)

SCGC also restates its arguments about some of the circumstances that have led to the present situation: the question of what operating pressure (512 psig versus 320 psig) is appropriate for Line 1600 for the long term, that the Applicants are the source of delay by proposing the now-rejected Line 3602, and that the intervenors did not have a chance to review and litigate the detailed plans underlying the Design Alternatives. We note that the full set of circumstances leading to our decision today includes additional considerations: i) the Commission delegated to SED the review of the Applicants' proposed Design Alternatives, and no party challenged that delegation at the time D.18-06-028 was decided; ii) the Commission found that at an operating pressure of 320 psig, a gap in supply would emerge; iii) the Commission determined that Line 1600 is a transmission line no matter whether it is operating at 320 psig or 512 psig, and is thus subject to federal and state transmission pipeline safety laws and rules, in particular Public Utilities Code section 958; iv) D.18-06-028 explicitly ordered that any replacement plan for Line 1600 not expand gas

capacity in the region above 595 million cubic feet per day. In addition, looking forward, all costs incurred related to the hydrotesting and replacement of Line 1600 will be subject to later reasonableness review, as set out in this decision.

It is within that larger set of circumstances that we reach our decision today. We agree that the Applicants caused significant and unfortunate delay in addressing Line 1600 by tying it to their application for the new Line 3602, and we agree that the potential cost of implementing Design Alternative 1 merits litigation by interested parties. In consideration of the entirety of the above circumstances, our decision here addresses the safe operation of the line from here forward.

In opening comments, TURN states that it will be a "waste" of resources to litigate cost forecasts for the Line 1600 project. We note that TURN joined the Petition for Modification leading to this decision, and there advocated for the opportunity to litigate a cost forecast for this project. The scope set out here includes reasonable and appropriate cost forecasts and accounting treatment, followed by later reasonableness review.

In opening comments, POC relitigates its position that Line 1600 is in good condition. As discussed above, the Commission did not find Line 1600 to be in good condition in D.18-06-028, and we do not repeat that discussion here. POC also questions the basis for the cost of the Full Hydrotest Alternative, or Design Alternative 2. Because this decision approves Design Alternative 1, the cost of a different alternative is not relevant. However, since hydrotesting in non-HCA areas is part of Design Alternative 1, the forecast cost of such hydrotesting will be in scope in the next phase.

In opening comments, SDG&E/SCG express support for the alternative proposed decision. The Applicants state that only hydrotesting Line 1600 does not address the threats presented by Line 1600's specific pipe characteristics when operated at transmission pressure. The Applicants offer proposed modifications to COL 6 and 7 and OP 3 and 4 to clarify the timing of when they would submit cost information for Design Alternative 1 with the Commission and modifications to OP 4 to address the manner of submission. Corresponding changes have been made here.

In their joint reply comments, SCGC, Sierra Club, and TURN argue that they had a different understanding about the "plan" that was to be reviewed by SED. We find that Ordering Paragraph 7 in D.18-06-028 was clear on that point: "No later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and the National Transportation Safety Board recommendations, Pub. Util. Code § 958 and Decision 11-06-017, San Diego Gas & Electric Company and Southern California Gas Company shall submit to Safety and Enforcement Division a hydrostatic test *or replacement* plan pertaining to the existing 49.7 miles of Line 1600 in its present corridor." (Emphasis added.)

Filing separately, in reply comments, POC argues that pressure testing is the "foundational" method of "verify[ing] pipeline safety." This is both an overly narrow view of the methods available to assess pipeline safety, and an overly broad view of the information that the results of hydrotesting can provide. This is a distinct perspective from that of other intervenors in this case, such as TURN, who agree that hydrotesting provides a snapshot of a pipeline's integrity at a moment in time.

In reply comments (without filing opening comments), Public Advocates Office supports SDG&E/SCG proceeding with construction during the first quarter of 2020 on four high-priority segments, located in the City of Escondido and the communities of Mira Mesa, Serra Mesa, and Kearny Mesa in the City of San Diego. Public Advocates Office also supports SCGC's request in Opening Comments to expand the scope of Phase 2 to litigate the design alternatives presented by the Applicants to SED. Public Advocates Office further notes that consideration of design alternatives should include environmental impacts of the design alternatives pursuant to review under the California Environmental Quality Act (CEQA). Because this decision approves Design Alternative 1, it is not necessary to undertake a CEQA review of the other Design Alternatives.

In reply comments, SDG&E/SCG detail the threats presented by Line 1600's specific pipe characteristics, noting (a) the potential for longer-term risk of failure created by resident flaws in the long seam arising from A.O. Smith's manufacturing methods, and (b) the lack of fracture control, which makes catastrophic rupture from an initiating event (*e.g.*, "dig-ins," wall loss, external forces, etc.) more likely.

12. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Colette E. Kersten is the assigned ALJ in this proceeding.

Findings of Fact

1. In their September 30, 2015 Application, A.15-09-013, the Applicants requested a CPCN to construct approximately 47 miles of a 36-inch diameter transmission pipeline, Line 3602, in San Diego County at a loaded and escalated cost of $528.5 million.

2. The Applicants stated that construction of the new line would enable them to derate the existing line from transmission service at 512 psig to distribution service at 320 psig, which would remove Line 1600 from the scope of the Applicants' PSEP.

3. On June 21, 2018, the Commission, in D.18-06-028, denied the 1) CPCN for the proposed Line 3602 Pipeline at a projected loaded and escalated cost of $528.5 million; 2) reclassification of Gas Pipeline 1600 from transmission service to distribution service and associated reduction of pipeline operating pressure from 512 pounds psig to 320 psig at a projected loaded and escalated cost of $29.5 million; and 3) redefinition of the CPUC's existing Reliability Criterion consistent with D.06-09-039.

4. The second outcome above was denied "without prejudice" because it was considered premature to endorse new definitions of transmission or distribution service, without the benefit of further review.

5. In D.18-06-028, the Commission directed the Applicants to submit to SED a § 958 hydrostatic test or replace plan pertaining to the existing 49.7 mile Line 1600 corridor and a study of California pipeline operators' definitions of transmission and distribution pipelines to determine whether there is a need for the Commission to provide further definitions than those provided under 49 Code of Federal Regulations, Part 92, § 192.3; the Commission also required an independent audit of Line 1600 records to ensure that they are "complete and verifiable."

6. The Commission directed that the Applicants' hydrostatic test or replace plan discuss two options:

   a. Hydrotest the entire 49.7 miles of line and replace those segments that fail the test; and

b. Replace all pipeline segments in HCAs along Line 1600, thus ensuring a new pipeline without vintage pipeline characteristics that increase the risk of Line 1600. Hydrotesting in solely non-HCA segments would ensure less impact if there was a failure during testing.

7. The purpose of the mandates in D.18-06-028 was to ensure that the Applicants submitted a Line 1600 hydrostatic test or replace plan as directed by D.11-06-017 and required by other federal and state regulations; to explore whether different definitions of transmission and distribution pipelines could result in placing Line 1600 (currently classified as a transmission line) into distribution service at a reduced pressure, thereby avoiding the need to pressure test or replace; and to determine the status of Line 1600 pipeline records, which in turn, impacts whether the utilities can recover through rates costs associated with future hydrotesting or, alternatively, whether these costs should be borne by shareholders.

8. At the time of the issuance of D.18-06-028, Applicants estimated the direct cost of pressure testing Line 1600 to meet pressure test or replace requirements of § 958, would be $112.9 million.

9. Although the pressure testing cost estimate was not loaded and escalated, it appeared that pressure testing Line 1600 would cost much less, at approximately $112.9 million, than the combined cost of constructing Line 3602 and derating Line 1600 to distribution service at a total cost of $558 million.

10. On September 26, 2018, pursuant to the Decision, Applicants timely submitted the proposed hydrostatic test or replacement plan (Plan) pertaining to the existing 49.7 miles of Line 1600 to SED. Applicants evaluated four potential design alternatives for the pressure test or replacement of 49.7 miles of Line 1600 in its present corridor: 1) replacing 37 miles of Line 1600 pipeline in HCAs and

hydrotesting 13 miles of Line 1600 pipeline in non-HCAs (Replace in HCA/Test in Non-HCA alternative) at $677 million; 2) hydrostatic strength testing (hydrotest or test) the entire length of Line 1600 (Full Hydrotest alternative) at $325 million; 3) full replacement of Line 1600, routing in nearby streets in the north (Full Replacement in Nearby Streets alternative) at $778 million; and 4) full replacement of Line 1600, routing along Highway 395 in the north (Full Replacement Along Highway 395 alternative) at $725 million.[100]

11. Applicants evaluated the design alternatives consistent with the requirements detailed in the Decision, Applicants' PSEP Decision Tree, and the overarching objectives of PSEP to: 1) comply with the Commission's directives (subsequently codified in § 958); 2) enhance public safety; 3) minimize customer impacts; and 4) maximize the cost effectiveness of safety investments.

12. As required by the Decision, Applicants coordinated with SED in developing and evaluating this Plan and alternative designs.

13. Applicants recommended the Design Alternative 1 at a fully loaded cost of approximately $677 million. Of the total estimated cost, Applicants anticipate recording approximately $630 million as capital expenditure and approximately $47 million as an operating expense.

14. According to the Applicants, work will commence during the first quarter of 2020 with an initial focus on HCAs. Construction and testing are anticipated to span approximately four years.

15. "Class 4 level estimates" used to provide cost estimates are generally prepared based on limited information and subsequently have fairly wide accuracy ranges. They are typically used for project screening, determination of

[100] *See* PSEP Plan at 1.

feasibility, concept evaluation, and preliminary budget approval; typical accuracy ranges for Class 4 estimates are -15% to -30% on the low side, and +20% to +50% on the high side.

16. "Class 3 level estimates" used to provide cost estimates are generally used for budget authorization and control; typical accuracy ranges for Class 3 estimates are -10% to -20% on the low side and +10% to -20% on the high side.

17. The Applicants' Plan is comprised of 19 groupings of 19 independent project sections that can be completed independently to address safety, operational, community, environmental, constructability, and cost considerations associated with each distinct portion of Line 1600. The scope of work consists of 14 replacement sections and five hydrotests.

18. On January 15, 2019, the Deputy Director of SED sent a letter to the Senior Vice President of SoCalGas Operations and System Integrity approving Design Alternative 1.

19. On May 31, 2019, POC, Sierra Club, SCGC, and TURN (jointly, Petitioners) filed a Joint PFM of D.18-06-028, proposing changes in FOF 72, COL 19, and OP 7 that would open up a phase two of this proceeding (or alternatively, a new proceeding) to establish a process for transparent and effective public review through the hearing process of the hydrostatic test or replacement plan the Commission required in OP 7 of D.18-06-028 and to provide the public with an opportunity to review more effective alternatives.

20. Currently, any costs associated with PSEP work are proposed and managed through PSEP and rate case proceedings according to already existing CPUC institutionalized processes.

21. According to the Applicants' Plan, they intend to present costs incurred for [PSEP] projects completed prior to 2022 for reasonableness review in a GRC

application and to include forecasts of testing and replacement costs for years 2022 and beyond in GRC applications, consistent with D.16-08-003.

22. SED is authorized to oversee the Applicants' compliance with § 958 and PSEP consistent with directives in prior decisions and OP 15 of the Decision.

23. The Commission has discretion to determine whether existing processes established by prior PSEP decisions should be enhanced to promote due process, transparency, and ensure timely protection of ratepayer interests.

24. Applicants have complied with PSEP Compliance Documentation requirements.

25. The proposed Line 3602 was a separate project from PSEP remediation of an existing pipeline, regardless of whether remediation is through pressure testing, replacing in whole or in part, derating, or abandoning.

26. The Decision did not preclude an application process in the future if the Applicants or the Commission considered it appropriate.

27. The Decision made it clear that relitigating various options could take years of further evidentiary hearings and deliberations since the PSEP process was mandated eight years ago.

28. When SED approved the Plan, they considered safety, technical, and reliability factors but did not consider costs; therefore, this represents a gap that must be addressed through an existing and/or new procedural venue.

29. Costs of the planned hydrotest and replacement of the 16-inch Line 1600 at a proposed fully loaded and escalated $677 million (30 percent higher than the cost of the all-new proposed 36-inch Line 3602) have not yet been litigated; therefore, it is appropriate to consider a separate process consistent with forecast applications for similar type of work (*e.g.,* A.17-03-021) and recent PSEP reasonableness review applications (*e.g.,* A.14-12-016, A.16-09-005, A.18-11-010).

30. Given the Commission's safety priorities, it is not prudent to initiate an application through a new proceeding since it would likely take a longer period of time to resolve than a process through the existing proceeding.

31. Forecast applications (or their equivalents in the second phase of this proceeding) are the preferred means to review large projects, such as the cost aspects of the SED-approved Line 1600 PSEP Test or Replacement Plan.

32. Solely relying on "existing processes" or "after the fact" reasonableness reviews places accountability on the Applicants for controlling costs for a half-billion dollar project too far into the future.

33. Litigation of the cost forecast for the SED-approved Alternative 1, in a second phase of the instant proceeding will make the related GRC review and evaluation processes more productive and efficient.

34. In compliance with D.18-06-028 OP 5, SED conducted a study pertaining to operators' definitions of transmission and distribution lines to clarify how the definitions apply under various circumstances and at what costs, surveyed other states for similar data, and conducted a workshop with utilities and other interested parties.

35. The results of SED's ongoing transmission/distribution study are so far non-conclusive.

36. Design Alternative 1 involves an "in kind" replacement of the 16-inch diameter Line 1600, which is consistent with the Decision's OP 1.

37. As directed by SED-1, the current MAOP of Line 1600 is 512 psig and will remain so until the Commission determines otherwise, which is also consistent with the Decision's OP 1.

38. According to existing regulations, increased pressures above 512 psig are required to perform hydrostatic tests of existing and new pipe and also to

provide flexibility should the Commission choose to raise MAOP in the future to ensure reliability of service.

39. The existing lines 3010 (530 MMcfd) and 1600 (65 MMcfd at 512 psig), with a combined capacity of 595 MMcfd, have sufficient pipeline capacity to meet the Applicants' own peak forecasts.

40. Consistent with OP 1 of the D.18-06-028, if installing this same 16-inch diameter pipeline increases the demand-forecast capacity above the current combined capacity of 595 MMcfd for both Line 3010 and Line 1600, the burden is on the Applicants to provide a detailed justification to the Commission, especially if additional facilities costs must be incurred.

41. Given the unique and exceptional history of Line 1600 PSEP-related applications and the magnitude of capital forecast costs, it is reasonable to require the Applicants to file a cost forecast consistent with the Commission's best practices for PSEP review.

42. Reviewing a Line 1600 PSEP cost forecast via a public process will enable the Commission to provide appropriate guidance regarding the reasonableness of the cost estimates, cost containment strategies, ratemaking and accounting treatment, and overall assumptions.

43. On July 1, 2019, in the Applicants' response to the PFM, at Attachment 1 of the Kohls Declaration, pages 33-34 of the Plan are presented in unredacted form. The unredacted pages disclose certain test pressures and pressure ranges, and certain percentages of SMYS. The unredacted pages also disclose the diameter, wall thickness and grade of the proposed pipe, as well as the wall thickness and grade of existing pipe.

Conclusions of Law

1. As provided by § 451 all rates and charges by a public utility must be "just and reasonable," and a public utility may not change a rate "except upon a showing before the commission and a finding by the commission that the new rate is justified," as provided in § 454.

2. The burden of proof is on the Applicants to demonstrate that it is entitled to the relief sought in this proceeding, including affirmatively establishing the reasonableness of all aspects of the cost forecast.

3. The standard of proof that the Applicants must meet is that of a preponderance of evidence, which means such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.

4. The PFM of D.18-06-028 should be granted in part in accordance with the paragraphs below.

5. It is reasonable to modify FOF 72 as follows:

   Based on an assessment of existing Commission processes to support SoCalGas/SDG&E PSEPs, the unknowns of test and/or replace plans such as actual costs and ROW issues should typically be addressed in the existing Commission PSEP and companion GRC processes, unless the Commission directs otherwise.

6. It is reasonable to modify COL 19 as follows:

   It is reasonable that no later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and National Transportation Safety Board recommendations, Section 958 of the Public Utilities Code and D.11-06-017, Applicants should submit to SED a hydrostatic test or replacement plan pertaining to the existing 49.7 miles of Line 1600 corridor. Within six months of the Decision Approving Limited Modifications To Decision 18-06-028 *it is reasonable for Applicants to file cost information that includes, but is not limited to: the Class Three cost forecast, cost estimating methodology, proposed accounting treatment, and proposed*

schedule for applications for reasonableness review and cost recovery, supported by direct testimony and work papers, of the work to implement the SED-approved hydrostatic test or replacement plan to the Commission for review, with service to the parties to this proceeding.

7. It is reasonable to modify OP 7 as follows:

   No later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and the National Transportation Safety Board recommendations, Pub. Util. Code § 958 and Decision 11-06-017, San Diego Gas & Electric Company and Southern California Gas Company (Applicants) shall submit to Safety and Enforcement Division a hydrostatic test or replacement plan pertaining to the existing 49.7 miles of Line 1600 in its present corridor.

   Within six months of the issuance of the Decision Approving Limited Modifications To Decision 18-06-028*, to supplement the above, Applicants shall file cost information that includes, but is not limited to: the Class Three cost forecast for all Line 1600 segments, cost estimating methodology, proposed accounting treatment, contingency factor assumptions, cost containment strategies, and proposed schedule for applications for reasonableness review and cost recovery, supported by direct testimony and workpapers, of the work to implement SED-approved the hydrostatic test or replacement plan to the Commission for review, with service to the parties in the proceeding.*

8. It is reasonable to modify COL 34 as follows:

   Application 15-09-013 should remain open to address costs as set out here related to the Line 1600 hydrostatic test or replacement plan.

9. It is reasonable to modify OP 19 as follows:

   Application 15-09-013 remains open to address costs as set out here related to the Line 1600 hydrostatic test or replacement plan.

10. By January 3, 2020, consistent with D.18-06-028 OPs 9-13, it is reasonable to direct SED to post the Line 1600 Recordkeeping Audit on the Commission's website for further review in this reopened proceeding.

11. The information that Applicants have already disclosed regarding the Plan is no longer subject to Applicants' claims of confidentiality and is no longer relevant to the current phase of this proceeding.

12. Consistent with guidance provided in Section 7.5 "Confidentiality" of this decision, within seven days of the issuance of this decision, it is reasonable for the Applicants to post a public version of the September 26, 2018 "Line 1600 Test or Replacement Plan" (Plan) on their websites that discloses throughout the document the data that has already been disclosed by Applicants. This would include, for example, diameter values. The Plan must include best available expense and capital cost projections for each prioritized segment and each test year. After posting the public Plan, the Applicants should inform the service list.

13. It is reasonable to require parties' comments on the Applicants' Line 1600 hydrostatic test or replacement plan cost forecast, proposed accounting treatment and proposed schedule for applications for cost recovery, supported by direct testimony and workpapers.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Decision 18-06-028, filed by Protect Our Communities, Sierra Club, Southern California Generation Coalition and The Utility Reform Network (jointly, Petitioners) is hereby granted in part and denied in part in accordance with the ordering paragraphs of this Decision.

2. Decision 18-06-028 is modified to replace Finding of Fact 72 with:

   Based on an assessment of existing Commission processes to support SoCalGas/SDG&E PSEPs, the unknowns of test and/or replace plans such as actual costs and ROW issues should typically be addressed in the existing Commission PSEP and companion GRC processes, unless the Commission directs otherwise.

3. Decision (D.) 18-06-028 is modified to replace Conclusion of Law 19 with:

   It is reasonable that no later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and National Transportation Safety Board recommendations, Section 958 of the Public Utilities Code and D.11-06-017, Applicants should submit to SED a hydrostatic test or replacement plan pertaining to the existing 49.7 miles of Line 1600 corridor.

   Within six months of the issuance of the Decision Approving Limited Modifications To Decision 18-06-028, to supplement the above, it is reasonable for Applicants to file cost information that includes, but is not limited to: the Class Three cost forecast for all Line 1600 segments, cost estimating methodology, proposed accounting treatment, contingency factor assumptions, cost containment strategies, and proposed schedule for applications for reasonableness review and cost recovery, supported by direct testimony and work papers, of the work to implement the SED-approved hydrostatic test or replacement plan to the Commission for review, with service to the parties to this proceeding.

4. Decision 18-06-028 is modified to replace Ordering Paragraph 7 with:

   No later than three months from the date of the issuance of this decision, consistent with General Order 112-F Reference, Title 49 Code of Federal Regulations, Part 192—Subpart J and the National Transportation Safety Board recommendations, Pub. Util. Code § 958 and Decision 11-06-017, San Diego Gas & Electric Company and Southern California Gas Company (Applicants) shall submit to Safety and Enforcement Division a hydrostatic test or replacement plan pertaining to the existing 49.7 miles of Line 1600 in its present corridor.

   Within six months of the issuance of the Decision Approving Limited Modifications To Decision 18-06-028, to supplement the above, Applicants shall file cost information that includes, but is not limited to: the Class Three cost forecast for all Line 1600 segments, cost estimating methodology, proposed accounting treatment, contingency factor assumptions, cost containment strategies, and proposed schedule for applications for reasonableness review and cost recovery, supported by direct testimony and workpapers, of the

work to implement the SED-approved hydrostatic test or replacement plan to the Commission for review, with service to the parties in the proceeding.

5. Decision 18-06-028 is modified to replace Conclusion of Law 34 with:

   Application 15-09-013 should remain open to address costs as set out here related to the Line 1600 hydrostatic test or replacement plan.

6. Decision 18-06-028 is modified to replace Ordering Paragraph 19 with:

   Application 15-09-013 remains open to address costs as set out here related to the Line 1600 hydrostatic test or replacement plan. Within 7 days of the issuance of this decision, the Applicants shall post a public version of the September 26, 2018 "Line 1600 Test or Replacement Plan" (Plan) on their websites that discloses throughout the document the data that has already been disclosed by Applicants. The Applicants may also remove additional redactions. This would include, for example, diameter values. The Plan must include best available expense and capital cost projections for each prioritized segment and each test year. After posting the public version of the Plan, the Applicants should inform the service list.

7. By January 3, 2020, the Commission's Safety and Enforcement Division shall post the Southern California Gas Company and San Diego Gas and Electric Company's Line 1600 Recordkeeping Audit Report on its website.

8. Within 30 days of the filing of Southern California Gas Company and San Diego Gas and Electric Company's Line 1600 hydrostatic test or replacement plan cost forecast as referred to Ordering Paragraph 4 above, parties in this reopened proceeding shall file comments.

9. This proceeding remains open.

This order is effective today.

Dated February 6, 2020, at Bakersfield, California.

LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners

President Marybel Batjer, being
necessarily absent, did not participate.

APPENDIX A

APPENDIX A

(Source: D.18-06-028 Attachment B)

(Definitions)

Hoop Stress (from Gas Pipeline Technology Committee)
Hoop stress is the stress in a pipe wall acting circumferentially in a plane perpendicular to the longitudinal axis of the pipe and produced by the pressure of the fluid or gas in the pipe. Hoop stress is a critical factor in determining a pipe's pressure holding capabilities. Hoop stress is calculated using Barlow's Equation.

Grandfather Clause
Merriam Webster's dictionary defines the "grandfather clause" as a clause creating an exemption based on circumstances previously existing. In the context of natural gas pipeline safety regulations, 49 CFR (Code of Federal Regulations), Part 192 §192.619(C) is commonly referred to the "grandfather clause" and allows the MAOP for pipelines that were in operation before July 1, 1970 to be set based on their highest recorded operating pressure over the period 1965-1970.

Longitudinal Joint Factor
LJF ("Longitudinal Joint Factor") refers to the term "E" (determined in accordance with 49 CFR, Part 192, § 192.113), in the Design Formula (See 49 CFR, Part 192 § 192.105). It is used in calculating the design pressure for steel pipe, and represents a level of confidence in the overall strength of a longitudinal seam weld.

PSIG
Pound per square inch gauge (psig) is a unit of pressure which is determined relative to atmospheric pressure. Gauge pressure is positive for pressures above atmospheric pressure, and negative for pressure below it. If we measure a pressure in an open container at sea level, the gauge pressure reads zero. However, there is a pressure of one atmosphere (14.7 psia) inside and outside of the container. Hence the absolute pressure inside and outside of the container is 14.7 psia (pounds per square inch absolute).
$P_{absolute} = P_{gauge} + P_{atmospheric}$

For example, a bicycle tire pumped up to 35 psig in a local atmospheric pressure at sea level (14.7 psia) will have an absolute pressure of 49.7 psia (14.7 psi + 35 psi).

MAOP
Maximum allowable operating pressure (MAOP) means the maximum pressure at which a pipeline or segment of a pipeline may be operated under 49 CFR, Part 192.

SMYS
SMYS means specified minimum yield strength:

(1) For steel pipe manufactured in accordance with a listed specification, the yield strength specified as a minimum in that specification; or

(2) For steel pipe manufactured in accordance with an unknown or unlisted specification, the yield strength determined in accordance with 49 CFR, Part 192 §192.107(b).

(END OF APPENDIX A)