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CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, CA 94102

Re: Protest of TURN and Disability Rights Advocates of PG&E Advice Letter 3171-G (Request to Establish Gas Preliminary Statement CH, *Natural Gas Transmission Pipeline Safety Memorandum Account*)

Dear Energy Division:

On December 1, 2010, Pacific Gas and Electric Company (PG&E) submitted for filing Advice Letter (AL) 3171-G. PG&E seeks Commission authorization to establish a memorandum account, the *Natural Gas Transmission Pipeline Safety Memorandum Account*, to track costs associated with 1) "programs to implement new governmental and regulatory mandates and requirements" and 2) "new or enhanced PG&E transmission pipeline safety programs."[1] PG&E clarifies that it does not seek cost recovery at this time, but only authority to record and track expenses incurred in implementing new mandates and requirements or its own new or expanded programs.[2]

The Utility Reform Network (TURN) and Disability Rights Advocates (DisabRA) respectfully submit this protest to PG&E's AL 3171-G. While TURN/DisabRA absolutely agree with PG&E that the utility may be properly required to change its practices related to gas transmission pipeline safety to fulfill its obligation to provide safe and reliable natural gas service to its customers, we caution the Commission against blessing PG&E's request for a new memorandum account to track a range of poorly defined and speculative costs related in some way to pipeline safety. As discussed below, PG&E's proposal is too vague for the Commission to assess what activities will actually be tracked within the memorandum account. Plus, PG&E has not demonstrated that the types of spending proposed for tracking should not fall within existing programs. Finally, PG&E's proposal is in large part premature and should follow an application to pursue the Pipeline 2020 program.

[1] PG&E AL 3171-G, p. 1.
[2] Id.

In addition to the reasons given above, DisabRA is joining TURN's protest out of a concern that rushing to track these poorly defined expenses in a new memorandum account could be the first step in a cascade effect in which PG&E will then seek to recover the memorandum account balances in rates, disproportionately burdening low-income ratepayers and ratepayers with disabilities, all before the Commission and other agencies have a chance to complete their investigations and make considered recommendations for safety improvements.

1. **PG&E's Proposal**

As noted above, PG&E seeks authority to record costs arising from two different sources. The first is new governmental and regulatory mandates applicable to natural gas transmission pipeline safety. PG&E explains that it anticipates that "it may be ordered to implement new gas transmission pipeline safety procedures or programs," in connection with the investigations currently underway by the National Transportation Safety Board, the Commission and other offices regarding the San Bruno tragedy.[3]

Second, PG&E seeks to track costs associated with its own new or enhanced transmission pipeline safety programs. The only such effort PG&E mentions is its initiative called Pipeline 2020, described by PG&E as "a program designed to enhance the safety of the utility's natural gas transmission system."[4] Pipeline 2020 will focus on five areas: 1) modernizing critical pipeline infrastructure, 2) expanding the use of automatic or remotely operated shut-off valves, 3) spurring the development of next-generation inspection technologies, 4) developing industry-leading best practices, and 5) enhancing public safety partnerships.[5]

PG&E offers to distinguish between the costs of the various separate programs or efforts by establishing five sub-accounts in the new memorandum account, described by PG&E as follows:

> 1) *Pipeline Modernization:* This sub-account will track the costs associated with developing and implementing new criteria for pipeline replacements and modernization and will include the tracking of costs associated with enhanced record systems for verification of pipeline and valve data.
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> 2) *Automated Shut-Off Valves*: This sub-account will track the costs associated with the use of automatic or remotely operated shut-off valves on segments of its gas transmission pipelines and enhancements in the automation of PG&E's SCADA system, including the 2011 automated valve project described in Brian Cherry's October 25, 2010 letter to Executive Director Paul Clanon.
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> 3) *Pipeline Inspection and Retrofits*: This sub-account will track the costs associated with developing and implementing new standards and procedures for

[3] Id.
[4] Id.
[5] Id, pp. 1-2.

pipeline inspections, including pipeline retrofits necessary to facilitate "pigging" of transmission pipelines.

4) *Emergency Response and Public Safety*: This sub-account will track the costs associated with enhancing public safety programs and emergency response plans, including providing detailed information on pipeline locations to local communities, enhancing emergency response training and increasing education programs to reduce the risk of third-party dig-ins.

5) *New Governmental and Regulatory Requirements Not Covered Above*: This subaccount will track the costs associated with programs to implement new governmental and regulatory mandates and requirements applicable to natural gas transmission pipeline safety not captured in sub-accounts 1- 4.[6]

These five sub-accounts generally correspond with the types of activities proposed within Pipeline 2020, plus new governmental and regulatory requirements that fall outside of these categories.

2. PG&E's Proposal is Vague, Overbroad and Premature.

PG&E's proposal lacks enough detail to enable the Commission to anticipate with sufficient clarity which activities would be covered by the memorandum account. For instance, while PG&E frequently refers to work related to transmission pipelines, it is unclear whether any work related to distribution pipelines might be included. PG&E's description of proposed efforts to enhance public safety partnerships and emergency response excludes any mention of such activities being limited to transmission lines, whereas several of the other program areas mention transmission pipelines in particular.[7] PG&E calls out transmission pipelines in its discussion of the other Pipeline 2020 efforts but does not indicate whether transmission pipelines would be the exclusive focus of such efforts.[8] PG&E should be required to remove this ambiguity.

Next, several of PG&E's specific efforts are of unclear scope and may duplicate work already included in rates. For example, PG&E's description of its Pipeline 2020 effort called "Modernize Critical Pipeline Infrastructure" could be narrowly construed to include consulting activities and study related to new criteria and standards for pipeline modernization. PG&E explains that it "will work with an independent third-party expert to review and assess PG&E's long-term roadmap, including criteria for prioritizing critical pipeline segments."[9] On the other hand, the sub-account for "Pipeline Modernization" proposed by PG&E would "track the costs associated with developing *and implementing* new criteria for pipeline replacements and modernization."[10] Equally as important, PG&E does not explain why these activities – whatever

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[6] Id, p. 3.
[7] *See* Id., pp. 2 ("Enhance Public Safety Partnerships") and 3 (Emergency Response and Public Safety).
[8] *See* Id., pp. 2-3.
[9] Id., p. 2.
[10] Id., p. 3 (emphasis added).

their scope -- are not part of the existing pipeline safety and reliability O&M work necessary to meet federal mandates for inspection. PG&E does not address why it did not include activities such as enhancing record systems for pipeline and valve data, included in this proposal, in its GT&S request to maintain "safe and reliable" service. And PG&E does not discuss why this work does not simply duplicate the research efforts already being undertaken by the Gas Technology Institute, an organization to which another California natural gas utility, Southern California Gas Company, belongs (with ratepayer funding going toward membership contributions).[11]

PG&E's descriptions of costs associated with "Automated Shut-Off Valves" that would be recorded in the new memorandum account create similar confusion. On the one hand, PG&E explains that it will "consult with regulators and industry experts about expanding the use of automatic or remotely operated shut-off valves," including working with "state and federal legislators to ensure industry-wide use of best available technologies and practices in this area."[12] As part of Pipeline 2020, PG&E proposes to "proceed with a pilot project to evaluate and install new automated valves" in the first half of 2011.[13] PG&E is silent as to the estimated costs of these activities. Yet PG&E's characterization of the costs that would be recorded in the "Automated Shut-Off Valves" sub-account could be interpreted as going well beyond consulting, study of best practices, and a limited pilot program. PG&E offers that "this sub-account will track the costs associated with the use of automatic or remotely operated shut-off valves on segments of its gas pipelines and enhancements in the automation of PG&E's SCADA system."[14] One is left wondering whether and how PG&E intends to start installing valves, and at what cost, and whether it would record just study costs or also capital costs. Given that PG&E has recently forecast valve costs as ranging from $30 million to $450 million,[15] PG&E should file an application if it actually intends to start installing new valves.

Next, PG&E discusses its proposed efforts regarding pipeline inspection, including developing and implementing "new standards and procedures for pipeline inspections."[16] However, PG&E does not present any showing that new standards or procedures are necessary at this time. While it may well turn out that there is more need for "pigging" as opposed to direct assessment, such a change in practices would be significant and carry large cost implications, thus warranting Commission review in a formal application proceeding prior to PG&E's proposed expenditures.

Last but not least, PG&E asks to record costs associated with "enhancing public safety programs and emergency response plans" but does not explain why such activities should not be funded from existing rates. In A.09-09-013, PG&E recently filed comments discussing at length its

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[11] *See* http://www.gastechnology.org/webroot/app/xn/xd.aspx?it=enweb&xd=1researchcap\1_1gasops\gasoperationshomepage.xml.
[12] PG&E AL 3171-G, p. 2.
[13] Id., p. 2.
[14] Id., p. 3.
[15] *See* PG&E Letter to Paul Clanon in response to Resolution L-403, October 25, 2010, Attachment 2, pages 2-2 to 2-3.
[16] PG&E AL 3171-G, p. 3.

existing safety procedures and protocols, including emergency response and coordination with local governments and first responders, as well as training to reduce third-party dig-ins, among other safety-related risks.[17] There, PG&E explains that it already follows best practices in emergency planning to drive "continuous improvement in its emergency response capabilities," including improvements that might result from the Pipeline 2020 program.[18] At the same time, PG&E maintains that the protocols and procedures discussed in its comments "are sufficient for the rate case period," pending further review and findings that might come out of the NTSB investigation and Commission investigations into the San Bruno tragedy.[19] PG&E insists that the Commission should not require it to change its public safety and emergency response protocols and procedures in the mean time.[20] Given PG&E's position in that case that the status quo is sufficient, the Commission should presume, until PG&E demonstrates otherwise, that PG&E's voluntary modifications to its emergency response and public safety procedures should be funded from existing rates. PG&E has not addressed, let alone demonstrated, that it should be allowed to treat these costs as new or incremental and track them in the new memorandum account it proposes.

Clearly, PG&E's AL 3171-G falls short of demonstrating that the costs vaguely and confusingly outlined therein should be tracked and recorded in a new memorandum account. While it may be reasonable for PG&E to track costs associated with new governmental or regulatory requirements related to natural gas transmission pipeline safety if and when such requirements come into existence, it would be premature to grant this aspect of PG&E's request. It would be even more premature for the Commission to grant PG&E's request to track and record costs associated with its own enhanced pipeline safety efforts proposed as part of the new Pipeline 2020 program. PG&E appears to be launching this program – which could have far-reaching cost implications, depending on its scope, and raise significant prudency questions -- on its own, without any regulatory oversight, public review, or approval from the Commission. Before PG&E receives authorization to track and record such costs and send ratepayers a bill at some future point in time, the Commission should review the merits of the Pipeline 2020 program.

3. <u>The Commission Should Deny PG&E's Request.</u>

PG&E has failed to demonstrate the necessity or appropriateness of establishing the new *Natural Gas Transmission Pipeline Safety Memorandum Account* at this time. The Commission should, accordingly, direct PG&E to request such authority if and when new governmental or regulatory requirements are adopted or become imminent. In the case of PG&E's own initiatives, the Commission should direct PG&E to file an application to pursue the Pipeline 2020 program, which should include more specificity regarding the activities PG&E intends to pursue and a showing as to why this type of pipeline safety enhancement work is not already covered by

[17] *PG&E's Comments Regarding Gas Transmission and Storage Safety Procedures and Protocols*, filed Nov. 22, 2010 in A.09-09-013, pp. 2-5.
[18] Id., p. 5.
[19] Id., p. 8.
[20] Id.

existing rates (including rates to go into effect with the Commission's disposition of the GT&S rate case, currently pending in A.09-09-013).

TURN/DisabRA appreciate that PG&E has already performed some pipeline surveys and preliminary analyses as explained in its October 25, 2010, letter to the Commission. PG&E apparently intends to contract with a third party to conduct an analysis of valve automation on PG&E's system. To the extent such an analysis has not been done before, it would be entirely appropriate and necessary. However, it is a cost PG&E should reasonably cover with its existing ratepayer revenues. If PG&E determines that significant additional work is warranted, it should submit an application that provides sufficient justification and detail for the Commission to review.

Until these events occur, PG&E's request for a new memorandum account is premature and should be denied.

In the alternative, the Commission could grant PG&E's request in part, while denying it in part. If the Commission were disinclined to reject outright PG&E's proposed new memorandum account, TURN/DisabRA recommend that the Commission limit its approval to the tracking of costs associated with "programs to implement new governmental and regulatory mandates and requirements." These costs should only be recorded in the new account to the extent such requirements and mandates are truly incremental to those existing or otherwise impacting the transmission pipeline activities proposed for inclusion in rates by PG&E in A.09-09-013 or A.09-12-020. However, consistent with the limited purpose of memorandum accounts which do not provide authorization for ratepayer recovery of costs recorded and tracked, the Commission should clarify that PG&E's shareholders will be at risk for any recorded expenditures not approved by the Commission in a subsequent proceeding or order.

4. Conclusion

It should go without saying that the issue of what investments are necessary and appropriate to increase the safety of PG&E's gas transmission system is of the highest importance. This matter must be carefully considered, balancing the costs and benefits to impacted communities, to PG&E's ratepayers, and to all Californians of various options. TURN/DisabRA urge the Commission not to endorse, even implicitly, a "throwing money at the problem" approach. By denying PG&E's request as premature, the Commission will demonstrate its commitment to proceeding thoughtfully and actively informing the course of PG&E's future natural gas transmission pipeline safety activities.

TURN and DisabRA appreciate your attention to this important matter. Please feel free to contact us if you have any questions. We would be glad to assist you in any way that we can.

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Sincerely,

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