

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

_____)
Order Instituting Rulemaking on the Commission's)
Own Motion to Adopt New Safety and Reliability)
Regulations for Natural Gas Transmission and)
Distribution Pipelines and Related Ratemaking)
Mechanisms.)
_____)

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

**REPLY COMMENTS OF
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) IN SUPPORT
OF PROPOSED DECISION DETERMINING MAXIMUM
ALLOWABLE OPERATING PRESSURE METHODOLOGY AND
REQUIRING FILING OF NATURAL GAS TRANSMISSION PIPELINE
REPLACEMENT OR TESTING IMPLEMENTATION PLANS**

SHARON L. TOMKINS
DEANA MICHELLE NG

Attorneys for
SOUTHERN CALIFORNIA GAS COMPANY and
SAN DIEGO GAS & ELECTRIC COMPANY
555 West Fifth Street, Suite 1400
Los Angeles, California 90013
Telephone: (213) 244-2955
Facsimile: (213) 629-9620
E-mail: stomkins@semprautilities.com

June 6, 2011

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the Commission) and the May 10, 2011, letter from Chief Administrative Law Judge Karen V. Clopton, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) submit the following reply comments on the Proposed Decision Determining Maximum Allowable Operating Pressure Methodology and Requiring Filing of Natural Gas Transmission Pipeline Replacement or Testing Implementation Plans, served May 5, 2011 (Proposed Decision).

As noted in their opening comments, SoCalGas and SDG&E support the Proposed Decision and encourage the Commission to adopt it with a few clarifications with respect to the scope of the Implementation Plans, and a slight extension of the filing deadline of those plans to allow sufficient time to incorporate, as appropriate, input received during the technical workshop process. In these reply comments, SoCalGas and SDG&E respond to the opening comments of the City and County of San Francisco (CCSF), the Utility Workers Union of America (UWUA), The Utility Reform Network (TURN) and the Division of Ratepayer Advocates (DRA).

I. The Commission Should Not Cede Its Authority Over the Safety of Natural Gas Pipelines Operated in California.

CCSF proposes that all natural gas pipeline operators use independent third-party companies approved by the Fire Marshall to perform pressure testing on natural gas pipelines because the “State Fire Marshall is charged with overseeing the safety of liquid natural gas transmission pipelines in California.”¹ The problem with CCSF’s proposal is that the State Fire Marshall is charged with overseeing the transmission of hazardous liquids, not natural gas.² It is the Commission that oversees the safety of natural gas transmission pipelines in California. Therefore, it is not clear whether the Fire Marshall-certification process would apply to hydrostatic testing of natural gas pipelines. More importantly, the Commission should not cede its authority over the safety of California’s natural gas pipeline system to the State Fire Marshall. SoCalGas and SDG&E, however, do not oppose the concept of developing a Commission certification process for companies that perform or witness pressure testing of natural gas pipelines. This issue could be addressed in Track 2 of this proceeding.

II. The Comments of UWUA Include Mischaracterizations That Must Be Clarified.

The UWUA mischaracterizes the SoCalGas transmission pipeline system and the April 15 Report on Actions Taken in Response to National Transportation Safety Board (NTSB) Report. In light of the page limitations in Rule 14.3, SoCalGas and SDG&E address only three of the mischaracterizations. First, UWUA implies that SoCalGas or SDG&E operate transmission pipelines in Class 4 locations, stating “UWUA does not agree that transmission pipe in Class 4 locations that tests to 125% of MAOP is adequate to comply with the Commission’s objectives in the Gas Safety Rulemaking.”³ Currently, neither SoCalGas nor SDG&E operate natural gas transmission pipelines in Class 4 locations.

SoCalGas and SDG&E, in response to the NTSB’s safety recommendations, adopted a 1.25 times MAOP threshold for its review of the pipelines meeting the NTSB’s criteria. This 1.25 times MAOP threshold provides a significant margin of safety, is widely-recognized and technically-grounded, and is clearly supported as standard engineering practice by many sources, including the 2007 technical report prepared for the United States Department of Transportation

¹ CCSF Comments on Proposed Decision, p. 3.

² See Cal. Gov’t Code §§ 51010-51010.5.

³ UWUA Comments on Proposed Decision, p. 5.

Office of Pipeline Safety.⁴ While SoCalGas and SDG&E do not oppose Commission consideration of regulations that may require pressure testing to an even higher threshold, such consideration should take place at a later phase in the proceeding after the Commission has adopted the Implementation Plans.

Second, UWUA refers to the “arbitrariness in the definition of transmission pipe itself, based on operation of pipe at a specified percentage (20%) of the SMYS of the pipe,” and claims that “SoCal has identified 1416 ‘criteria miles’ that fit within the location/operation matrix, and has categorized them based on a history of prior pressure testing.”⁵ The definition of transmission pipelines is not arbitrary. A “transmission line” is defined in 49 CFR 192.3 and the NTSB focused its recommendations on those transmission pipelines in Class 3 and 4 locations and Class 1 and 2 high consequence areas, which are also defined under federal regulations. In preparing its April 15 Report, SoCalGas followed applicable federal regulations and guidance from the NTSB.

Third, UWUA asserts that “[i]f operational requirements or conditions fluctuate or change due to seasonal demand or commercial considerations, or due to longer-term factors such as population shifts, load growth from commercial activities such as increased natural gas fueling or new manufacturing or electric generation, these pipes may cross the definitional threshold.”⁶ While it is not completely clear what is meant by this statement, it must be noted that the MAOP is the maximum internal pressure that SoCalGas and SDG&E operate a pipeline under any demand scenario, and would not fluctuate in response to the changing circumstances described by UWUA. Existing federal regulations, specifically 49 CFR 192.611, establish rules for determining the MAOP should there be a change in the class location of a pipeline.

As explained by SoCalGas and SDG&E in their initial comments on the Order Instituting Rulemaking, it is important that the Commission carefully consider any proposed regulatory changes through a technical workshop process to ensure that any new rules or policies adopted by the Commission be based on an accurate record and sound engineering principles.

⁴ *Final Report on Evaluating the Stability of Manufacturing and Construction Defects in Natural Gas Pipelines*, April 16, 2007, prepared for the United States Department of Transportation Office of Pipeline Safety by John F. Kiefner of Kiefner and Associates, with the Assistance of the Natural Gas Association of America, pp. 17-18.

⁵ UWUA Comments on Proposed Decision, p. 7.

⁶ UWUA Comments on Proposed Decision, pp. 7-8.

III. The Commission Should Not Modify the Proposed Decision in a Manner Inconsistent With Established Ratemaking Principles.

TURN and DRA suggest in their opening comments that it may be appropriate to direct all natural gas utility shareholders to fund some portion of the costs of the Implementation Plans. For example, DRA argues that “allowing ratemaking proposals to be included in the implementation plans invites the utilities to request ratepayer funding for costs that more appropriately should be borne by shareholders or can be subsumed within existing program funding.”⁷ And TURN proposes to modify the Proposed Decision to include a statement that “[t]he Commission may require the other natural gas operators to also propose a cost sharing mechanism if their systems likewise require extraordinary investments to promote public safety.”⁸ Such comments ignore that the Commission in this proceeding is undertaking an unprecedented “forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines.”⁹ As part of this process, “the Commission [is] looking at the need for a more comprehensive infrastructure upgrade and replacement policy and program that is likely to take place over at least the next decade.”¹⁰ The Proposed Decision — which directs natural gas utilities to pressure test or replace pipelines that comply with current regulations — is one step in that process.

SoCalGas and SDG&E fully support the Commission’s goals in this Rulemaking and endorse the Commission’s effort to adopt regulations to transition California away from reliance on existing federal exemptions that allow the maximum allowable operating pressure of transmission pipelines installed prior to July 1, 1970, to be set based on historic operating pressures. But shareholders remain entitled to earn a reasonable return on their investment while upgrading the system to surpass existing regulations. This Commission has long recognized that the utilities it regulates are entitled to earn a reasonable return on their investment and “such returns should be sufficient to cover operating expenses and capital costs of the business.”¹¹ Indeed, rates that “are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and

⁷ DRA Comments on Proposed Decision, p. 2.

⁸ TURN Comments on Proposed Decision, p. 7.

⁹ OIR, p. 1.

¹⁰ *Id.*, p. 12.

¹¹ D.07-12-049.

