

**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)

**NOTICE OF EX PARTE COMMUNICATION OF
SOUTHERN CALIFORNIA GAS COMPANY (U 904-G)
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M)**

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September 12, 2011

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In accordance with Rule 8.3 of the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby give notice of the following ex parte communication in the above proceeding. The communication was oral and a handout was provided, which is attached to this notice.

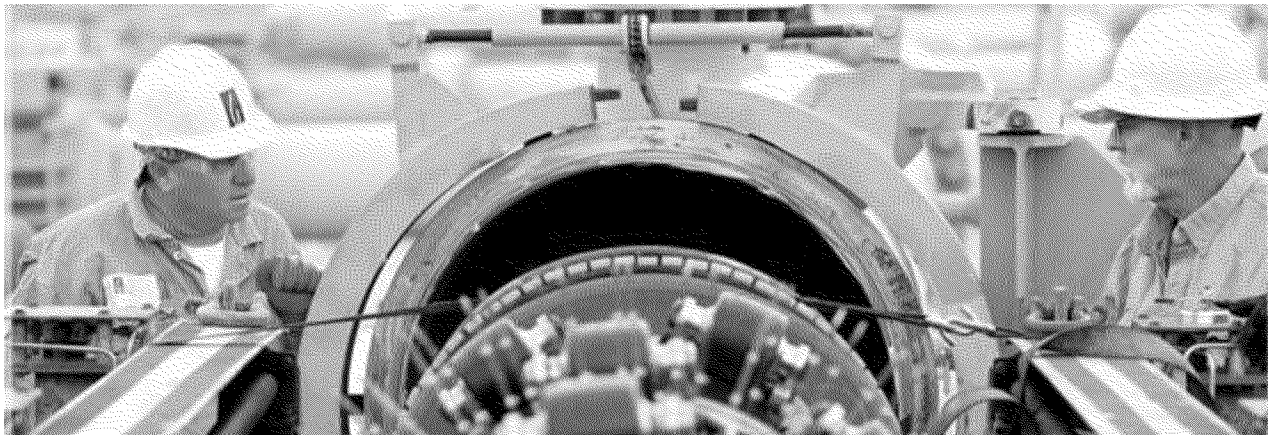
On Wednesday, September 7, 2011, at 2:30 p.m. in the Commission's offices in San Francisco, Michael Allman, President and CEO – SoCalGas, Michael Gallagher, Senior Vice President - Customer Services and Operations, Richard M. Morrow, Vice President - Engineering and Operations Staff, and Brian Prusnek, Director of Regulatory Affairs, met with President Michael Peevey and Scott Murtishaw, Energy Advisor. The communication was initiated by SoCalGas and SDG&E to discuss their Pipeline Safety Enhancement Plan (PSEP) that was filed on August 26, 2011. The meeting lasted 30 minutes. Mr. Allman began by discussing the companies' commitment to public safety and that the PSEP builds upon this commitment. Specifically, Mr. Allman detailed how the PSEP enhances public safety, minimizes customer impacts, maximizes the cost



SoCalGas & SDG&E

Pipeline Safety Enhancement Plan

September 7, 2011

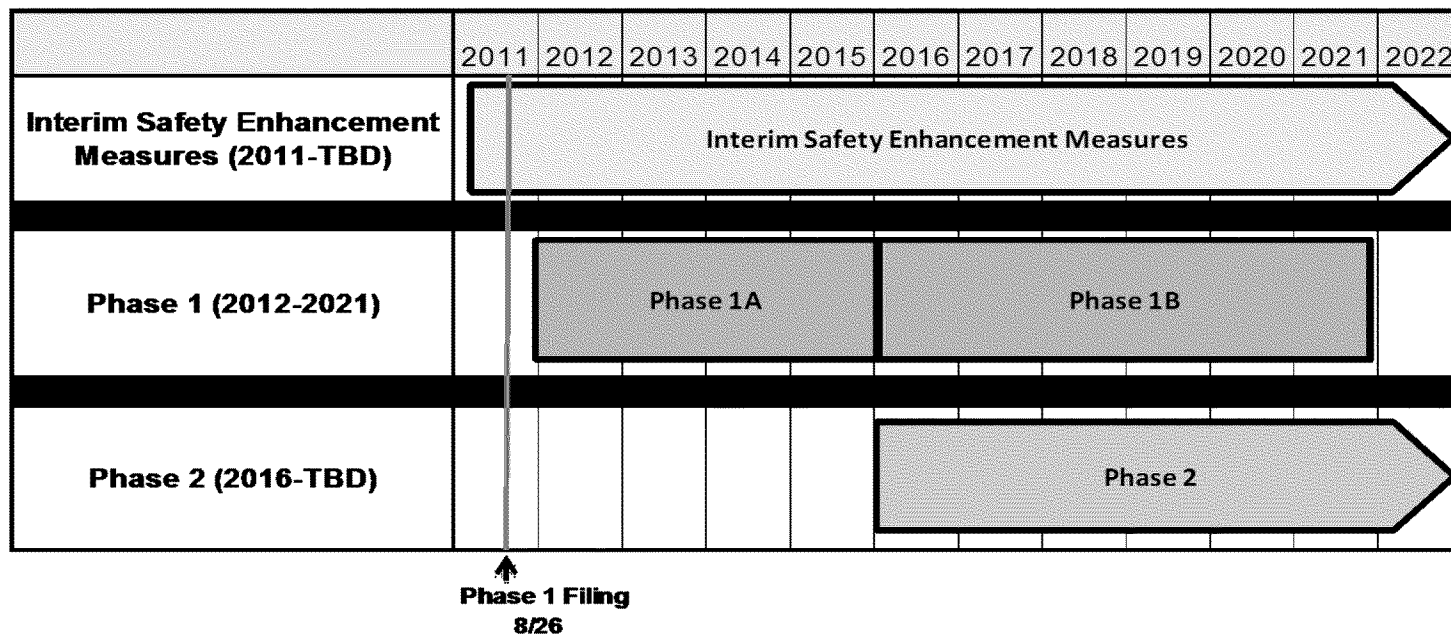


PSEP Accomplishes Four Overarching Objectives

- ✧ Enhances public safety
- ✧ Minimizes customer impacts
- ✧ Maximizes the cost effectiveness of infrastructure investments for the benefit of our customers
- ✧ Meets the requirements set forth in D.11-06-017 and sets forth a proposed process for meeting all of the Commission's directives

Proposed Pipeline Safety Enhancement Plan is Aggressive

- ✕ Includes all transmission pipelines (approximately 4,000 miles)
 - Phase 1 (2011-2021) addresses approximately 950 miles over 10 years
 - Phase 2 addresses remainder of system
- ✕ Phase 1 is divided into two parts (Phase 1A and Phase 1B)
 - Phase 1A (2011-2015) addresses higher priority pipeline segments
 - Phase 1B (2016-2021) addresses replacement of pre-1946 pipelines and longer term replacement projects in populated areas



Proposed Pipeline Safety Enhancement Plan

Phase 1 Scope (2011-2021)

- Pressure test (~ 406 miles) and replace (~ 544 miles) pipelines primarily in populated areas that do not have sufficient documentation of strength tested or were installed before 1946 and are not piggable.
- Upgrade 541 existing valves and install 20 new valves to expand remote control and automatic shut off capabilities
- Install approximately 280 miles of fiber optic cable and add methane detection devices at approximately 2,100 locations to allow for enhanced incident detection and damage avoidance
- Development of a fully integrated document management system

Decision to Test or Replace Assessed Involves Numerous Factors

Our proposed decision-making process takes into account:

- 1) Whether line has been pressure tested
- 2) The length of the pipeline segment
- 3) Whether the segment can be removed from service to pressure test
- 4) Whether the line is piggable
- 5) Whether the line was constructed using pre-1946 construction techniques

Proposed Valve Enhancement Plan Will Enhance Ability to More Quickly Isolate Pipeline Segments

Proposed Criteria

- All Pipelines ≥ 20 " diameter
- Pipelines 12" - 20" diameter with $\geq 30\%$ SMYS
- Spacing ~ 8 miles (average isolation spacing will be about 6 miles)
- Shorter spacing intervals where known geological threats are present

Other Considerations

- Response time
- Outage management
- Backflow control



Proposed Phase 1A Implementation Plan



| SoCalGas | 2012 | 2013 | 2014 | 2015 | Total |
|--------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Pipeline Replacement (miles) | 25 | 73 | 74 | 74 | 246 |
| Pressure Testing (miles) | 73 | 96 | 96 | 96 | 361 |
| In-Line Inspection (miles) | 133 | 178 | 178 | 178 | 667 |
| Valve Retrofit/Installation (valves) | 30 | 40 | 51 | 52 | 173 |
| | | | | | |
| SDG&E | 2012 | 2013 | 2014 | 2015 | Total |
| Pipeline Replacement (miles) | 5 | 14 | 15 | 15 | 49 |
| Pressure Testing (miles) | <1 | <1 | <1 | <1 | 1 |
| In-Line Inspection (miles) | - | - | 54 | - | 54 |
| Valve Retrofit/Installation (valves) | 7 | 7 | 8 | 8 | 30 |



Summary of Projected Direct Costs of Implementing Phase 1A of the PSEP

PSEP Phase 1A Direct Costs (\$ Millions)

| | 2011 | 2012-2015 | | Total |
|------------------|------|-----------|-----|-------|
| | O&M | Capital | O&M | |
| SoCalGas | 6 | 1,184 | 256 | 1,446 |
| SDG&E | 1 | 229 | 7 | 237 |
| Total | 7 | 1,413 | 263 | 1,683 |

Potential Execution Challenges and Risks May Increase Costs or Delay Implementation

~~Continuity of gas service to customers~~

- Pressure testing takes pipelines out of service for 4 - 6 weeks
- Risk of test failure requiring further testing or pipeline replacement
- Operational windows for pressure testing due to winter and summer capacity requirements

~~Potential community issues~~

~~Potential permitting delays~~

- Environmental: CEQA, land use, water quality
- Local government permitting and construction requirements

~~Availability of material and qualified personnel~~

Gas Safety Surcharge to Implement Plan

✕ ↗ Funding

- Requesting funding in Gas Safety OIR for Phase 1A (2011 - 2015)
- Phase 1B (2016 - 2021) would coincide with SoCalGas and SDG&E's next General Rate Case
- Phase 1B funding and Phase 2 scope, schedule, and funding will be addressed in conjunction with next General Rate Case
- Detailed planning of 2012 construction activities will begin following approval of Memorandum account that was applied for on May 4, 2011

✕ ↗ Cost Recovery

- Capital expenditures are rate based with the annual revenue requirement determined in the currently authorized manner
- Revenue requirement and O&M are collected in rates via a gas safety surcharge

Estimated Bill and Rate Impacts for Phase 1A

✂ Propose to allocate costs to customer classes based on an Equal Percentage of Authorized Margin.

✂ The following are exemplary rates impacts based on the proposed Phase 1A cost forecast. Standard CARE discount of 20% would apply.

| | Incremental Impact of PSEP in Year 2015 | | | | | | | |
|--|---|------------|--------------------|------------|---------------------|------------|-------------------|------------|
| | Current Rates | | Default Allocation | | Proposed Surcharges | | Proposed % Impact | |
| | SCG A | SDG&E B | SCG C | SDG&E D | SCG E | SDG&E F | SCG G | SDG&E H |
| Monthly PSEP Surcharge (\$/mo) Avg .Residential Bill | \$39.08 | \$38.76 | \$1.65 | \$2.31 | \$2.82 | \$2.83 | 7.2% | 7.3% |
| Volumetric PSEP Surcharge (\$/th) Core C&I | \$0.31532 | \$0.24933 | \$0.03542 | \$0.04762 | \$0.03484 | \$0.03484 | 11.0% | 14.0% |
| Noncore C&I-D | \$0.07408 | \$0.14050 | \$0.02761 | \$0.02682 | \$0.00973 | \$0.00978 | 13.1% | 7.0% |
| TLS | \$0.02517 | \$0.02517 | \$0.01471 | \$0.01471 | \$0.00284 | \$0.00286 | 11.3% | 11.4% |