

**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)**

Brian C. Prusnek

Director of Regulatory Affairs for
SOUTHERN CALIFORNIA GAS COMPANY
and SAN DIEGO GAS & ELECTRIC COMPANY
601 Van Ness Avenue, Suite 2060
San Francisco, CA 94102
Telephone: (415) 346-3215
Facsimile: (415) 346-3630
E-Mail: BPrusnek@Semprautilities.com

September 2, 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.

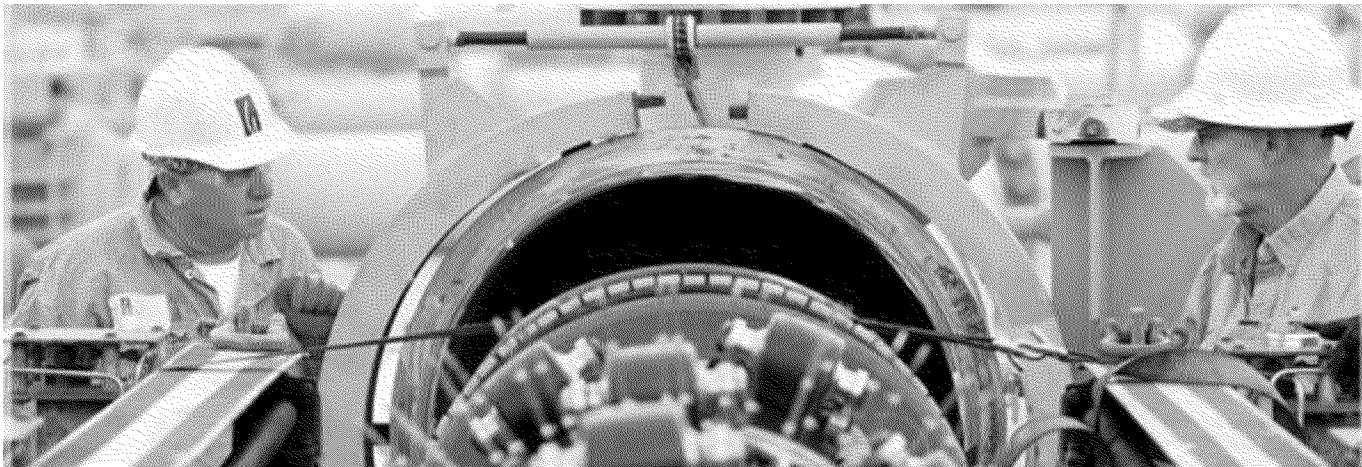
On Wednesday, August 31, 2011, at 2:30 p.m. in the Commission's offices in San Francisco, Michael Allman, President and CEO – SoCalGas, Michael Gallagher, Senior Vice President - Customer Services and Operations, Richard M. Morrow, Vice President - Engineering and Operations Staff, and Brian Prusnek, Director of Regulatory Affairs, met with Commissioner Mike Florio, Sepideh Khosrowjah, Chief of Staff, and Marcelo Poirier, Legal Advisor. The communication was initiated by SoCalGas and SDG&E to discuss their Pipeline Safety Implementation Plan (PSEP) that was filed on August 26, 2011. The meeting lasted 45 minutes. Mr. Allman began by discussing the companies' commitment to public safety and that the PSEP builds upon this commitment.



SoCalGas & SDG&E

Pipeline Safety Enhancement Plan

August 31, 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

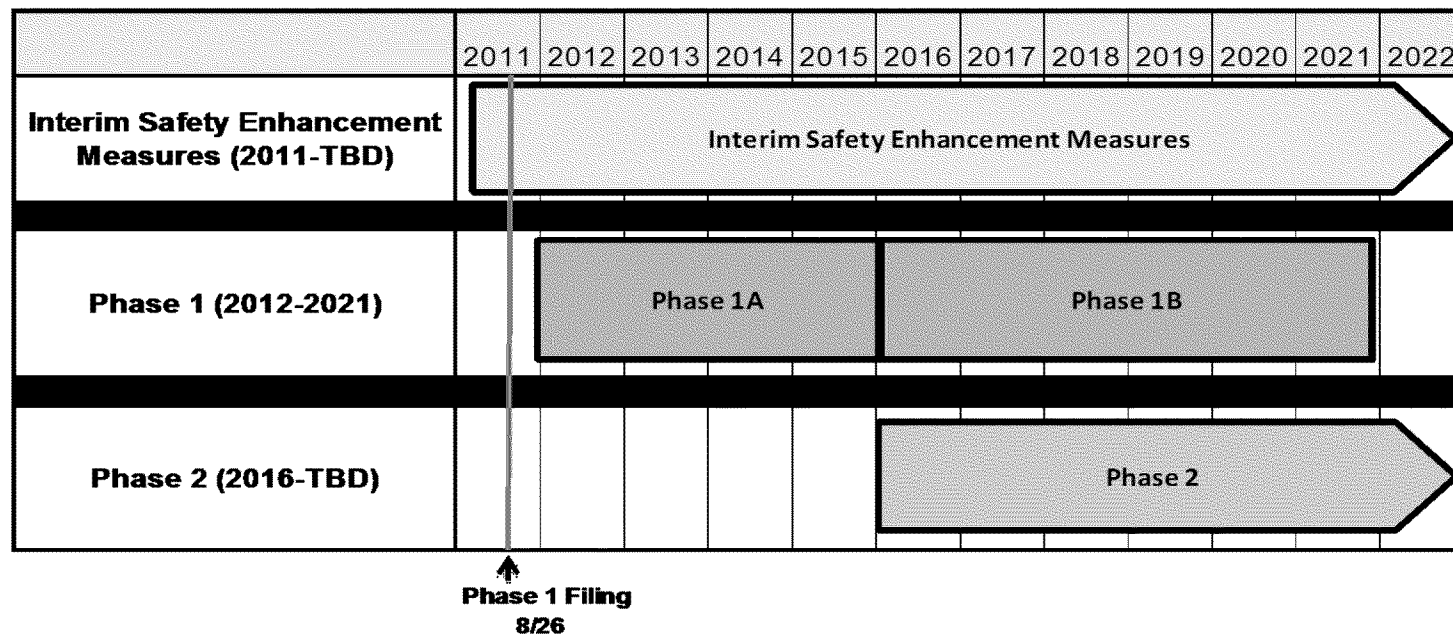
Proposed Pipeline Safety Enhancement Plan is Aggressive

✕ 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 (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

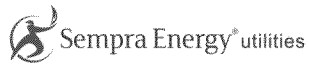
Proposed Valve Enhancement Plan Will Enhance Ability to More Quickly Isolate Pipeline Segments

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 is Aggressive

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

↗ ~~C~~ontinuity of gas service to customers

- Pressure testing takes pipelines out of service; construction of secondary feeds may be necessary in some cases
- Operational windows for pressure testing due to winter and summer capacity requirements

↗ ~~P~~otential community issues

↗ ~~P~~otential permitting delays

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

↗ ~~A~~vailability of material qualified personnel

Gas Safety Surcharge to Implement Plan

~~x~~ ~~7~~ Funding Proposal

- Requesting funding in Gas Safety OIR for Phase 1A (2011 - 2015)
- Phase 1B (2016 - 2121) would coincide with SoCalGas and SDG&E's next General Rate Case
- Phase 1B funding and Phase 2 scope, schedule, and funding would 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

~~x~~ ~~8~~ Cost Recovery Proposal

- 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 all 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)								
Average 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%