

**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.

Rulemaking 11-02-019

**SOUTHERN CALIFORNIA GENERATION COALITION
RESPONSE TO
SOUTHERN CALIFORNIA GAS COMPANY
AND SAN DIEGO GAS & ELECTRIC COMPANY
SUPPLEMENT TO REQUEST FOR MEMORANDUM ACCOUNT**

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In accordance with the Amended Scoping Memo and Ruling of the Assigned Commissioner issued on November 2, 2011, in the captioned proceeding, the Southern California Generation Coalition ("SCGC") respectfully submits this response to the Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") Supplement to SoCalGas and SDG&E's May 4, 2011 Motion to Establish a Pipeline Safety and Reliability Memorandum Account.

SCGC does not oppose the creation of memorandum accounts to record SoCalGas and SDG&E pipeline safety costs as proposed by SoCalGas and SDG&E in the Supplement provided that (1) the costs that are recorded in the memorandum accounts are limited to "Base Case" costs of activities required by Decision ("D") 11-06-017¹ and (2) the creation of the memorandum

¹ D.11-06-017 (June 9, 2011).

accounts does not create a presumption that all costs recorded in the memorandum accounts should be recovered by SoCalGas and SDG&E from ratepayers.

SoCalGas and SDG&E also propose a procedural schedule for considering their Pipeline Safety and Enhancement Plan (“PSEP”) as proposed in the captioned proceeding and for considering issues in the Triennial Cost Allocation Proceeding (“TCAP”) that is pending before the Commission in Application (“A”) 11-11-002. SCGC strongly objects to the proposed schedule for a potentially combined PSEP/TCAP proceeding and supports an alternative schedule that SCGC understands will be proposed by Southern California Edison Company (“SCE”) with the support of other parties.

I. SOCALGAS AND SDG&E SHOULD BE ALLOWED TO ESTABLISH THE PIPELINE SAFETY AND RELIABILITY MEMORANDUM ACCOUNTS WITH LIMITATIONS.

SoCalGas and SDG&E propose that they be permitted to establish Pipeline Safety and Reliability Memorandum Accounts (“PSRMAs”) in which they would record the revenue requirement associated with direct costs that the utilities may incur from the first quarter of 2012 until the Commission issues a final decision approving the SoCalGas and SDG&E PSEP.²

Assuming that a final decision regarding their proposed PSEP would be issued during the first quarter of 2013, SoCalGas anticipates recording the revenue requirement associated with fully loaded and escalated direct costs that are estimated to be \$54 million in capital expense and \$24 million in operation and maintenance (“O&M”) expense for a total of \$78 million in direct costs.³ SDG&E anticipates recording the revenue requirement associated with the fully loaded and escalated direct costs of \$10 million in capital and \$0 in O&M.

² SoCalGas/SDG&E Supplement at 6.

³ SoCalGas/SDG&E Supplement at 6.

SoCalGas and SDG&E also propose to record in their PSRMAs incremental amounts expended in connection with the review of records and interim safety measures including over-pressure protection equipment, leak survey/pipeline patrols, and other remediation. SoCalGas/SDG&E expect that these costs will reach approximately \$12 million for SoCalGas and \$1 million for SDG&E through the first quarter of 2013.⁴

SoCalGas and SDG&E state that their estimates of direct costs are based on a “very high level analysis” of the projects that SoCalGas and SDG&E would undertake during the twelve months from the first quarter of 2012 through the first quarter of 2013.⁵ SoCalGas and SDG&E caution: “Flexibility is therefore required when executing this work...”⁶ Accordingly, SoCalGas and SDG&E propose to review the scope of work, progress to-date, and actual costs incurred with the Consumer Protection and Safety Division (“CPSD”) and the Energy Division (“ED”) on a monthly basis “to keep the Commission staff apprised of potential changes as those changes are identified.”⁷ Additionally, SoCalGas and SDG&E commit “to notify the Commission, via Tier 1 Advice Letter filing, if our spending exceeds this preliminary cost estimate and we project the completion of the remaining scope of interim work would require us to exceed this estimate by greater than 10 percent.”⁸

SCGC recognizes the urgency in undertaking the work that the Commission required in D.11-06-017. Establishing PSRMAs for SoCalGas and SDG&E would encourage SoCalGas and SDG&E to commence the work with the alacrity sought by the Commission in D.11-06-017.

⁴ Supplement at 8-9 and Attachment B.

⁵ *Ibid* at 8.

⁶ *Ibid*.

⁷ *Ibid*.

⁸ *Ibid* at 10.

However, entries into the account should be limited to work that is undertaken in direct response to D.11-06-017. In their PSEP application, SoCalGas and SDG&E propose both a “Proposed Case” and a “Base Case.” The Base Case includes only elements that were required by D.11-06-017. The Proposed Case goes further to include (1) “replacement of pipeline segments to mitigate construction and manufacturing threats,” (2) various proposed “technology enhancements,” and (3) the “development of design of a comprehensive Enterprise Asset Management System.”⁹ The issue of whether SoCalGas and SDG&E should proceed with the Proposed Case has yet to be decided. Thus, entries into the PSRMA should be limited to Base Case costs associated with activities that SoCalGas and SDG&E were directed to undertake in D.11-06-017.

Additionally, SCGC is concerned that creation of the SoCalGas and SDG&E memorandum accounts would result in a presumption that all costs booked into the memorandum accounts should be recovered by SoCalGas and SDG&E shareholders from ratepayers automatically with no portion of the cost being borne by shareholders. The January 17, 2012 Technical Report of the CPSD regarding the SoCalGas and SDG&E PSEP recommended that SoCalGas and SDG&E be required to absorb some costs upon certain conditions.¹⁰ Accordingly, the establishment of the proposed PSRMAs should not create a presumption of recovery of all amounts in the memorandum accounts.

⁹ Application at 43-44 (August 26, 2011).

¹⁰ CPSD Technical Report at 24 (January 17, 2012).

II. SOCALGAS AND SDG&E'S PROPOSED PROCEDURAL SCHEDULE FOR THE COMBINED PSEP AND TCAP PROCEEDINGS SHOULD BE REJECTED.¹¹

SCGC strongly objects to SoCalGas and SDG&E's proposed procedural schedule for the combined PSEP and TCAP proceedings. First, the schedule contains overlapping PSEP and TCAP dates which would prejudice the ability of interveners to participate in the two proceedings effectively. For example, SoCalGas and SDG&E propose that the Division of Ratepayer Advocates ("DRA") and interveners serve their opening testimony in the TCAP on June 13, 2012. Parties would be required to serve their concurrent rebuttal testimony on the PSEP on June 19, 2012, and they would be required to serve rebuttal testimony in the TCAP on July 13, 2012. Hearings would be held on the PSEP on July 23 through August 3, 2012 with opening briefs being due on August 31, 2012. The hearings on the TCAP would be on September 5-14, 2012 with reply briefs on the PSEP being due on September 28, 2012.

Requiring DRA and interveners to flip-flop back and forth between the PSEP and the TCAP would diminish their ability to participate effectively in the proceedings. The same intervener personnel would be involved in both proceedings. SoCalGas/SDG&E, on the other hand would have two teams of personnel, one assigned to the TCAP and another to the PSEP, thereby minimizing the burden of overlapping schedules on the utilities. SoCalGas/SDG&E should not be allowed the benefit of a schedule that would advantage the utilities and disadvantage DRA and interveners.

Second, SoCalGas and SDG&E propose that all PSEP issues, including both revenue requirement and cost allocation issues, be considered in the PSEP portion of the proceeding. Thus, PSEP cost allocation issues would be considered in the PSEP portion of a combined

¹¹ Supplement at 5.

PSEP/TCAP proceeding, and TCAP cost allocation issues would be considered in the TCAP portion of the proceeding. Ratepayers should be permitted to address all cost allocation issues including both PSEP allocation issues and TCAP allocation issues in a single proceeding.

Furthermore, the cost allocation phase should come after the phase that determines the PSEP revenue requirement. Parties should be permitted to have some idea about the scale of costs that they are allocating before being required to allocate the costs.

In order to eliminate the overlap between the PSEP portion of the proceeding and the TCAP portion, and in order to permit revenue requirement issues to be considered before consideration of cost allocation issues regarding both the PSEP and the TCAP, SCGC recommends the adoption of the following schedule which SCGC understands will be presented by SCE with the support of other parties:

| PSEP Rev. Req. | | SCE Proposal |
|-----------------|--------------------------|--------------------|
| | DRA/Intervenor Testimony | 06/19/12 |
| | Reply Testimony | 07/18/12 |
| | Evidentiary Hearings | 8/20/12 to 8/31/12 |
| | Opening Briefs | 10/01/12 |
| | Reply Briefs | 10/19/12 |
| | | |
| Cost Allocation | | |
| | | |
| | DRA/Intervenor Testimony | 11/05/12 |
| | Reply Testimony | 11/27/12 |
| | Evidentiary Hearings | 1/17/13 to 1/18/13 |
| | Opening Briefs | 02/18/13 |
| | Reply Briefs | 03/08/13 |

The SCE schedule would eliminate the problems inherent in the schedule proposed by SoCalGas and SDG&E. It would permit parties to avoid having to deal with overlapping PSEP and TCAP procedural dates. Additionally, it would permit parties to address PSEP revenue requirement issues before addressing cost allocation issues, given the assumption underlying SCE schedule

that all cost allocation issues including PSEP cost allocation issues would be considered in the cost allocation phase. Any issues regarding SoCalGas/SDG&E shareholder liability for PSEP costs could be addressed in the PSEP revenue requirement phase so that by the time parties reach the cost allocation phase they would have at least a sense if not a final Commission decision about the extent of the PSEP revenue requirement that would have to be borne by ratepayers.

III. CONCLUSION.

For the reasons set forth above, SCGC supports establishment of PSRMAs for SoCalGas and SDG&E upon condition that (1) SoCalGas and SDG&E are required to have their proposed monthly meetings with the CPSD and ED, (2) SoCalGas and SDG&E are required to file an advice letter if costs exceed 10 percent of the estimate in the Supplement, (3) only the revenue requirement associated with the cost of activities that were mandated by D.11-06-017 is recorded in the PSRMAs, and (4) there is no presumption that all PSRMA costs will be recovered from ratepayers with no portion being borne by shareholders. Additionally, SCGC urges rejection of the procedural schedule proposed by SoCalGas/SDG&E and adoption of the SCE schedule.

Respectfully submitted,

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