

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 Regulation for Natural Gas Transmission and Distribution Pipelines and Related Ratemaking Mechanisms.

Rulemaking 11-02-019
(Filed February 24, 2011)

In the Matter of the Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) for Authority to Revise Their Rates Effective January 1, 2013 in Their Triennial Cost Allocation Proceeding.

Application 11-11-002
(Filed November 1, 2011)

(Not Consolidated)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES
PURSUANT TO JANUARY 5, 2012 ADMINISTRATIVE LAW JUDGE'S
RULING AND DECEMBER 21, 2011
ASSIGNED COMMISSIONER RULING**

I. INTRODUCTION

In accordance with the January 5, 2012 Administrative Law Judge's Ruling Modifying Schedule and Granting Motions for Party Status ("ALJ Ruling") and the December 21, 2011 Assigned Commissioner's Ruling Modifying Schedule to Allow Operators to Respond to Consumer Protection and Safety Division Reports and Providing Further Direction on the Reassignment of Certain Reasonableness, Cost Allocation, and Cost Recovery Issues from the Rulemaking to Another Proceeding ("ACR"), the Division of Ratepayer Advocates ("DRA") offers its comments regarding the technical reports of the Consumer Protection and Safety Division ("CPSD") on Pacific Gas and Electric Company's ("PG&E's") Pipeline Safety Enhancement Plan and Southwest Gas

Corporation's ("SWG's") Pipeline Safety Implementation Plan and the other issues described in the ACR as amended by the ALJ Ruling.

II. DISCUSSION

A. CPSD Technical Reports on PG&E and SWG Plans

DRA commends CPSD on its technical analysis of PG&E's and SWG's Plans. DRA is conducting its own analysis of the reasonableness of PG&E's Plan and the associated ratemaking issues, and DRA will serve its testimony regarding PG&E's Plan on January 31.

DRA's response to CPSD's report on SWG's Plan is provided in Appendix A, below.

B. Reasonableness and Ratemaking Review of SWG's Implementation Plan

The ACR also requests that parties "address whether to consider the reasonableness and ratemaking review of [SWG's] Implementation Plan concurrently with [PG&E's] in this rulemaking." ACR at 3. For the reasons identified in Appendix A, DRA proposes no cost recovery from ratepayers associated with SWG's Plan. DRA proposes no memorandum account treatment of any costs associated with SWG's Plan. CPSD believes that the costs for new testing or replacement of the Class 1 segments should be borne by SWG shareholders because of SWG's failure to comply with General Order 112. If the Commission wishes to defer the matter, the issue of cost recovery can be addressed on a prospective basis in SWG's next General Rate Case ("GRC"), which is scheduled to be filed later this year for a 2014 Test Year.

C. Reasonableness and Ratemaking Review of the Sempra Utilities' Implementation Plan

The December 21 ACR directs parties to "comment on the question of reassignment of reasonableness and ratemaking issues to the Cost Allocation Proceeding versus the pending or a future general rate case" of San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SCG"). ACR at 2. DRA agrees

that it would be appropriate to consider SDG&E and SCG's Implementation Plan in those utilities' pending TCAP proceeding, Application 11-11-002.

III. CONCLUSION

DRA respectfully offers its response to CPSD's technical report on SWG's Implementation Plan. DRA recommends that review of SDG&E and SCG's Implementation Plan take place in the TCAP proceeding.

Respectfully submitted,

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APPENDIX A

RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO THE TECHNICAL REPORT OF THE CONSUMER PROTECTION AND SAFETY DIVISION REGARDING SOUTHWEST GAS CORPORATION'S PIPELINE SAFETY IMPLEMENTATION PLAN

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I. INTRODUCTION

The Division of Ratepayer Advocates (DRA) presents its response to the Consumer Protection and Safety Division's (CPSD) technical report regarding Southwest Gas Corporation's (SWG) Pipeline Safety Implementation Plan.

In response to California Public Utilities Commission Decision D.11-06-017, requiring all natural gas transmission system operators to file and serve orderly and cost-conscious implementation plans to pressure test or replace all transmission pipelines that have not been tested, SWG requests approval of its Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan.

SWG maintains approximately 15.4 miles of pipeline classified as transmission in California. The overall transmission can be broken down into two systems: The Victor Valley Transmission System (VVTs) and the Harper Lake Transmission System (HLTS). The Victor Valley Transmission System contains approximately 7.1 miles of 6" and 8" steel pipe installed in 1957 and 1965, for which pressure records are not readily available. The Harper Lake Transmission System contains approximately 8.3 miles of 10", 12" and 16" steel pipe installed in 1989 that was pressure tested at the time of installation and has pressure test records.

In its Implementation Plan SWG presents proposals for: 1) replacing transmission pipeline facilities on its VVTs in order to assure that operating pressures are based on complete, accurate and verifiable records; and 2) installing a single remote controlled shut-off valve on its HLTS in order to help SWG better detect and

identify a significant pipeline breach on that system and provide a timely response to stop the flow of gas through the damaged pipeline section.¹

After analysis and comparison of the pipeline pressure testing and pipeline replacement alternatives, SWG proposes to abandon the Victor Valley Transmission System steel pipe and install new pipe over an 18-24 month period following Commission approval of the proposed Implementation Plan. SWG also proposes to install a remote shut-off valve on the HLTS. SWG states that installation of remote shut-off valves on the VVTS is not warranted at this time.

SWG anticipates that the proposed construction activities associated with its Implementation Plan will be completed prior to SWG's next General Rate Case (GRC) filing, expected to be filed in late 2012 with a 2014 Test Year. SWG asserts that the total cost associated with the proposed Implementation Plan is approximately \$7.4 million.

II. THE HARPER LAKE TRANSMISSION SYSTEM (HLTS)

The HLTS contains approximately 8.3 miles of 10", 12" and 16" steel pipe. The HLTS was installed in 1989 and was pressure tested at the time of installation under the requirements of 49 CFR 192 Subpart J. SWG has complete documentation related to the construction and pressure testing performed on HLTS to establish its current MAOP of 720 pounds per square inch gage (psig).²

Because the HLTS is constructed, pressure tested, and documented to current regulatory standards, SWG's Implementation Plan proposes not to pressure test or replace the HLTS. Meanwhile, SWG proposes to install a single remote controlled shut-off valve (RCV) on the HLTS. According to SWG, the installation of a RCV would allow the technician to react faster than the anticipated 60 minutes it could take to reach and fully shut off natural gas flow from the HLTS.³

CPSD finds that SWG's proposal to install a single RCV on its HLTS is reasonable in light of SWG's estimates for its technicians to reach manual valves in an

¹ See Technical Report of the Consumer Protection and Safety Division Regarding Southwest Gas Corporation's Pipeline Safety Implementation Plan ("CPSD Report"), Jan. 3, 2012, p.4.

² See CPSD Report, p.5.

³ See CPSD Report, p.5.

emergency. DRA concurs with CPSD that SWG's proposed installation of a RCV on its HLTS is reasonable.

III. THE VICTOR VALLEY TRANSMISSION SYSTEM (VVTS)

The Victor Valley Transmission System contains approximately 7.1 miles of 6" and 8" steel pipe installed in 1957 and 1965. The 7.1 miles of VVTS does not have any documentation to show that VVTS was pressure tested to a level of 1.5 times its current MAOP of 250 psig. SWG does not have complete, accurate, and verifiable records to show initial system construction specifications and all subsequent alterations on the VVTS. Because there are no readily available records of a 1.5 MAOP pressure test, the VVTS will be considered in SWG's Implementation Plan for pipeline pressure testing or replacement to comply with the Commission's Order.⁴

SWG has proposed to replace the VVTS instead of pressure testing. According to SWG, replacing pipe instead of testing provides the following advantages:

- 1) A new system, with known pipe specifications, would be constructed to modern standards using materials and procedures superior to those that existed, and were most likely used, when the original system was constructed.
- 2) Replacement provides more predictability and system reliability since SWG should be able to develop more accurate estimates (i.e., costs, schedule, etc.) for new construction as compared to replacement of multiple sections that fail under testing.
- 3) Replacement eliminates the need to assure material specifications, through the extraction and testing of approximately 200 coupons from existing pipe (as required by 49 CFR Part 192), and in order to have records considered traceable, verifiable and complete.
- 4) Pressure testing is incapable of finding certain deficiencies on the pipeline unless a high enough test pressure is used; however, if SWG were to perform a test to 1.5 times MAOP, there is the possibility that unknown facilities connected to the system could fail under pressure.
- 5) Pressure testing of existing lines would not lead to modifications to make the line capable of smart-pigging. However, replacement provides capability of in-line inspection tools.
- 6) Replacement would eliminate the need to introduce water into the existing lines which, if not properly removed, could cause internal

⁴ See CPSD Report, pp. 6-12.

corrosion and damage pressure regulating equipment. Water would also present permitting issues due to environmental concerns surrounding its disposal after its use in testing.⁵

CPSD finds that many of SWG's concerns expressed in its Implementation Plan are valid and that "it is difficult to argue that [SWG's] proposed new system, built using modern materials and techniques, would not be superior to, and would not quantitatively decrease the risk presented by, its existing system."⁶ CPSD finds that "some of SWG's concerns can be addressed through currently available measures which might argue in favor of pressure testing rather than replacement."⁷ CPSD rejection of some of the concerns is as follows:⁸

- Regarding SWG's concern about the ability of pressure testing to sufficiently test girth welds, CPSD asserts that most pipeline failures that occur due to a weld failure occur on the longitudinal weld.
- There is no mandate for SWG to extract 200 coupons from existing pipe, which SWG states would be necessary, in order to learn of the pipeline specification prior to performing a pressure test.
- SWG argues that unlike replacement, pressure testing would not lead to modifications to make the line capable of smart-pigging., CPSD rejects this claim because, given the low operating pressure of VVTS, neither replacement nor pressure testing would support smart-pigging.
- SWG has not provided any specifics that would enable CPSD to determine the extent of outages that may occur during pressure testing.

CPSD rejects SWG's concern about pressure testing the VVTS. CPSD states in the executive summary of its report that the replacement of VVTS is reasonable. CPSD

⁵ See CPSD Report, pp. 8-9.

⁶ CPSD Report, p.9.

⁷ CPSD Report, p.9.

⁸ See CPSD Report, pp. 9-11.

further states in the executive summary that pressure testing of VVTS is also feasible to pursue and could present a lower cost to SWG.⁹

CPSD's conclusion did not specifically quantify why replacement of the existing VVTS is reasonable. CPSD's report presented its findings but did not take a position on whether to replace or pressure test the VVTS. CPSD believes that the costs for new testing or replacement of the Class 1 segments should be borne by SWG shareholders because of SWG's failure to comply with General Order 112.

SWG stated that the minimum cost of replacement and pressure testing 7.1 miles of VVTS pipe is \$7.1 million and \$3.75 million respectively. The itemized costs of the pressure testing provided in response to a DRA data request are presented below.¹⁰ The estimated cost of extracting 200 test coupons, which CPSD stated is not necessary, is \$2.1 million and this translates to 56 percent of the total cost of pressure testing. Without extracting test coupons, the total cost of pressure testing the 7.1 miles of VVTS is about \$1.65 million, which is substantially lower than the cost of replacement at \$7.1 million.¹¹ In response to a DRA data request, SWG provided unsupported estimates which did not show detailed derivation of the estimates.

**Southwest Gas Estimated Cost of Pressure Testing
7.1 Miles of Pipe in Victor Valley Transmission System¹²**

| ACTIVITY | ESTIMATED COST |
|--------------------------------|--------------------|
| Testing of Approx. 200 coupons | \$2,105,000 |
| Lateral Pipeline Removal | \$285,000 |
| Low Point Replacement | \$885,000 |
| Hydrostatic Testing | \$475,000 |
| TOTAL | \$3,750,000 |

⁹ See CPSD Report, p.9.

¹⁰ See SWG Response to DRA Data Request DRA-GIE-1, Oct. 14, 2011.

¹¹ See SWG Response to DRA Data Request DRA-GIE-1, Oct. 14, 2011.

¹² See SWG Response to DRA Data Request DRA-GIE-1, Oct. 14, 2011.

IV. DRA FINDINGS

Pressure testing of the existing VVTS is the lower cost option in comparison to SWG's proposal to abandon its VVTS and install new pipe over an 18-24 month period. According to SWG, the replacement of the transmission system with a distribution system is the best option after comparing it with the cost of hydrostatic pressure testing of the existing system in compliance with the Commission's Order.

DRA proposes to deny ratepayer funding of SWG's proposals based on the following:

- SWG did not provide any hydrostatic records of the VVTS which was installed in 1957 and 1965. SWG did not explain why it is unable to produce the records. The absence of the test records of the existing system is not consistent with sound engineering practice and historical regulatory rules.¹³ Therefore the Commission should not allow SWG to replace the existing system at ratepayers' expense because SWG could not find its test records.
- SWG failed to provide adequate cost support since it did not provide detailed derivation of the cost of hydrostatic testing; SWG's proposed cost of pressure testing is \$3.75 million. As shown in the table above, the cost of pressure testing excluding the cost of extracting test coupons is \$1.65 million and this is lower than the replacement cost of \$7.1 million.
- SWG failed to provide adequate cost support since it did not provide detailed derivation of the cost of replacing the existing VVTS with a new distribution pipeline; SWG's proposed cost of the pressure test is \$3.75 million.
- SWG should make the necessary system improvements at shareholder expense given that the proposed capital replacement

¹³ See General Order 112.

and/or hydrostatic test is driven by SWG's failure to produce adequate records.

- If the Commission requires additional evidence on ratemaking, rate recovery issues and related policy, then these issues can be addressed in SWG's upcoming GRC.