

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
(Filed February 24, 2011)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rule 8.4 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) hereby gives notice of the following *ex parte* communication.

On February 15, 2012 at approximately 10:00 a.m., Marcel Hawiger, staff attorney with TURN, and Thomas Long, Legal Director of TURN, met with Sepideh Khosrawjeh, advisor to Commissioner Florio, in a conference room at the CPUC.

Mr. Long and Mr. Hawiger provided a hand out summarizing TURN's recommendations from testimonies submitted on January 30, 2012 and went over those recommendations (see Attachment A). Mr. Long discussed how a prudence reasonableness review entails different standards, findings and

remedies than an enforcement action for violations of laws and regulations. Mr. Long and Mr. Hawiger also discussed procedural and scheduling issues related to the coordination of the safety rulemaking and the related enforcement proceedings.

The meeting lasted approximately 60 minutes.

To obtain a copy of this notice, please contact Jeffrey Johnson at (415) 929-8876 ex. 300.

February 17, 2012

THE UTILITY REFORM NETWORK

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Attachment A



Ex Parte Meeting Concerning
TURN's Testimony in R.11-02-019

February 15, 2012

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Summary of TURN's Recommendations Concerning the PSEP:

- Pipeline Replacement: PG&E should hydrotest a significant portion of pipe scheduled for replacement
- Pipeline Hydrotesting: Other threat assessment methods may be better for certain construction threats, such as girth weld connections, and ILI is more appropriate for certain corrosion threats
- Hydrotesting: Must ensure PG&E is conducting *high pressure* hydrotests at 90% SMYS
- Valve Automation: Phase 1 should install ASVs, not RCVs, on all pipe \geq 24 inches in Class 3 and 4, and Class 1 and 2 HCAs. Reprioritize smaller pipe to Phase 2, reducing valves by about 45.
- Prudence: Strength testing has been industry practice for many decades. Standards for testing and record retention have been in place since at least 1955.
- Prudence: PG&E has overly relied on 'direct assessments' for its integrity management, a method poorly suited for many threat risks. PG&E reduced its pipeline replacement program after 1999.

Summary of TURN's Recommendations Concerning Cost Responsibility:

- Cost Recovery: It is premature for the Commission to authorize any rate recovery because: (1) MAOP validation will significantly change the scope of work; (2) PG&E's decision tree model should be changed; (3) PG&E has not provided cost estimates for Phase 2; and (4) a full record of PG&E's past errors and omissions is still being developed in other proceedings. In the event the Commission allows any

rate recovery in this phase of the proceeding, such rate recovery should be made subject to refund.

- Disallowance under PU Code § 463: The Commission “shall” disallow costs resulting from unreasonable errors or omissions in PG&E’s management of its gas transmission pipelines, including the failure to prepare or maintain records, deviations from industry standards and other imprudent behavior. Based on the current record of PG&E’s past conduct, there is a serious question whether any of PG&E’s proposed costs for pipeline replacement, pipeline testing, and record-keeping should be recovered from ratepayers.
- Pipeline replacement costs: should be disallowed if any PG&E errors or omissions contribute to the need for replacement, including failure to properly test or assess the pipeline for potential threats, failure to maintain records, and failure to properly oversee construction and installation of pipeline.
- Capital costs: ROR should be limited to no more than cost of debt, or 6.05%. Alternatively, the ROE should be reduced by a minimum of 115 basis points to the low end of the range of reasonableness previously determined by the CPUC.
- Testing expenses should be disallowed if any PG&E errors or omissions contribute to the need for testing, including but not limited to the following: failure to conduct a previously required strength test; failure to maintain reliable records of tests it did conduct; failure to maintain pipeline features records that should have been maintained; failure to meet Integrity Management Program requirements; and failure to properly oversee the manufacture, construction, and installation of the pipeline.
- Records Integration: The entire cost of the MAOP Validation (\$162 million) should be disallowed. No recovery of GTAM costs until the Records OII or other CPUC docket has made findings on the extent to which the GTAM is needed to remedy errors or omissions in PG&E processes and systems.
- PG&E should contribute: Tax savings from 2011-12 bonus depreciation; future excess earnings in GT&S (forecast at approximately \$35 million per year); executive and top manager incentive compensation approved in the GRC (approximately \$24 million).