

**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)

**COMMENTS OF
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)
ON PROPOSED DECISION TRANSFERRING CONSIDERATION
OF PIPELINE SAFETY ENHANCEMENT PLAN TO THE
TRIENNIAL COST ALLOCATION PROCEEDING**

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Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) submit the following comments on the Proposed Decision Transferring Consideration of Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plans of San Diego Gas & Electric Company and Southern California Gas Company to the Triennial Cost Allocation Proceeding, filed March 20, 2012 (Proposed Decision), pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the Commission). SoCalGas and SDG&E support the Proposed Decision, which transfers consideration of our proposed Pipeline Safety Enhancement Plan to our pending Triennial Cost Allocation Proceeding and grants our pending motion to establish a memorandum account for the purpose of tracking costs associated with the directives set forth in this rulemaking. SoCalGas and SDG&E submit these comments on the Proposed Decision to obtain Commission clarification of three statements contained therein. Specifically, SoCalGas and SDG&E seek clarification that (1) the costs of implementing the Pipeline Safety Enhancement Plan include overhead costs that

are incremental to the revenue requirement authorized in their most recent general rate cases, and SoCalGas and SDG&E are authorized to record the revenue requirement associated with those incremental direct and associated overhead costs in their memorandum accounts; (2) the factual issues surrounding the definition and applicability of the term “traceable, verifiable and complete” in the natural gas industry are currently under consideration in this proceeding, as well as by the Pipeline and Hazardous Materials Safety Administration (PHMSA), and are anticipated to be considered in connection with the review of SoCalGas and SDG&E’s proposed Pipeline Safety Enhancement Plan in the Triennial Cost Allocation Proceeding; and (3) SoCalGas and SDG&E are directed to file Tier 1 advice letters, rather than Tier 2 advice letters, to implement the directives of this Proposed Decision.

I. The Costs of Implementing the SoCalGas/SDG&E Pipeline Safety Enhancement Plan Include Incremental Overhead Costs, Which Should Be Recorded in the Memorandum Account.

The Proposed Decision authorizes SoCalGas and SDG&E to establish memorandum accounts to record the incremental direct costs of implementing the Pipeline Safety Enhancement Plan. In doing so, the Proposed Decision explains that “[b]ecause the Plan, as set forth in D.11-06-017, imposes new obligations on these operators which could not have been foreseen in the last general rate case, these direct costs appear to be incremental to adopted revenue requirement and may be properly recorded in the memorandum account for subsequent ratemaking review by the Commission.”¹ In a footnote, however, the Proposed Decision further indicates that “[i]ncremental direct costs do not, however, include overhead loadings because overhead for SDG&E and SoCalGas is already included in the revenue requirement adopted in the most recent general rate case.”² SoCalGas and SDG&E ask that the Commission strike this footnote from the Proposed Decision, as it is not accurate and would preclude SoCalGas and SDG&E from recording in their memorandum accounts the revenue requirement associated with

¹ Proposed Decision, p. 7.

² *Id.*, n. 5.

fully loaded costs that are incremental to the revenue requirement established in their most recent general rate cases.

In developing the costs presented in Attachment A (Loaded and Escalated) to their January 13 Supplement to Motion to Establish Memorandum Account, SoCalGas and SDG&E included solely those overhead costs that are incremental and are not included in the revenue requirement adopted in their most recent general rate cases.^{3/} These overhead costs are expenses that indirectly support the business operations of the utilities and are driven by certain direct costs (i.e., cost drivers). As the direct costs change, the associated overheads change accordingly. An example of such increasing overhead costs are those associated with incremental labor. As SoCalGas and SDG&E add internal company labor to implement the Proposed Pipeline Safety Enhancement Plan, associated costs, such as payroll taxes and benefits costs, will increase. As explained on page 22 of the Testimony of SoCalGas and SDG&E in Support of Proposed Natural Gas Pipeline Safety Enhancement Plan:

Overhead rates are applied to each direct cost input, according to its classification as company labor, contract labor, purchased services and materials. Overhead rates are estimated using Year 2010 actuals, but are only intended to be indicative for forecasting purposes; actual overhead rates each year will be used in the calculation of the actual revenue requirement. Only overheads that are considered incremental to each Pipeline Safety Enhancement Plan Case are included. For example, overheads associated with incremental labor and additional procurement activities are included. Table X-1 below shows the overhead rates that were applied in this analysis.

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^{3/} Nor are these costs reflected in the current General Rate Case applications now pending before the Commission.

Table X-1
SoCalGas and SDG&E Pipeline Enhancement Plan Overhead Loaders

Overhead Category	SoCalGas	SDG&E	LoadingBase
Payroll Taxes	7.73%	7.27%	Direct Labor
Vacation and Sick Time	17.44%	15.67%	Direct Labor
Benefits (non-balanced only)	19.74%	18.85%	Direct Labor
Workers' Compensation	5.74%	1.46%	Direct Labor
Public Liability/ Property Damage	2.80%	3.33%	Direct Labor
Incentive Compensation Plan	18.17%	17.79%	Management and Associate Direct Labor
Purchased Services and Materials	1.28%	0.40%	Contract Labor, Services and Purchased Materials
Administrative and General	4.27%	2.05%	Capital Direct Costs

Accordingly, SoCalGas and SDG&E seek clarification that the Proposed Decision authorizes the two utilities to record the revenue requirement associated with all incremental (loaded and escalated) costs of implementing the scope of work estimated in Attachment A (Loaded and Escalated) to their January 13 Supplement to Motion to Establish Memorandum Account. Those costs total approximately \$54 million in capital and \$24 million in operations and maintenance for SoCalGas, and \$10 million in capital and \$0.0 in operations and maintenance for SDG&E.

II. Consideration of the Definition and Applicability of the Term “Traceable, Verifiable and Complete” in the Natural Gas Industry is Currently Underway at the Commission and at PHMSA and Should Not be Pre-Determined in this Proposed Decision Authorizing the Establishment of a Memorandum Account.

The Proposed Decision does not authorize SoCalGas and SDG&E to record the costs associated with their work in response to the directives of Resolution L-410. In denying SoCalGas and SDG&E’s request to track these expenses in the memorandum accounts, the Proposed Decision concludes:

Pursuant to 49 CFR 192.517, each natural gas transmission system operator must “make, and retain for the useful life of the pipeline, a record of each [pressure] test performed.” Traceable, verifiable, and complete records are essential for pipeline subject to the

pressure test exception found in 192.619(c) which bases MAOP calculations on recorded “actual operating pressure.” Therefore, SDG&E and SoCalGas were required by federal regulations, which have been adopted by this Commission in GO 112, to maintain their natural gas transmission system pipeline records in accord with the standard set forth in the NTSB directive. Accordingly, these operators should not have experienced any additional costs of complying with the NTSB directive adopted by this Commission in Resolution L-410. To the extent these operators needed to take remedial measures to bring their records into compliance with the federal and Commission regulations, the costs of such efforts are not incremental to existing revenue requirements.

The statement in the Proposed Decision that pipeline operators were required by federal regulations to maintain their records in accordance with the NTSB’s directives in the safety recommendations to PG&E is not accurate and should therefore be stricken from the Proposed Decision.⁴ Moreover, the definition and applicability of the term “traceable, verifiable and complete” to the natural gas industry is currently under consideration by the Commission in the context of its review of Pacific Gas and Electric Company’s (PG&E) proposed Implementation Plan in this proceeding. The verification of records is also under consideration by PHMSA in response to the Pipeline Safety, Regulatory Certainty and Jobs Creation Act of 2011, signed into law January 3, 2012, and are anticipated to be considered in connection with the review of SoCalGas and SDG&E’s proposed Pipeline Safety Enhancement Plan in the Triennial Cost Allocation Proceeding. Indeed, PG&E has submitted evidence in this proceeding to establish that the term “traceable, verifiable and complete” was not used in the natural gas industry prior to the use of the term by National Transportation Safety Board in its January 3, 2011 safety recommendations to PG&E. As a result of the use of this phrase in the safety recommendations issued to PG&E, there is much debate and discussion of the issue currently taking place

⁴ See November 23, 2011 letter from the NTSB to the American Gas Association, clarifying Safety Recommendations P-10-01 through P-10-04, available at: [http://www.aga.org/our-issues/safety/pipeline-safety/Agency-notices/2011/Pages/NTSB-response-to-AGA-request-for-clarification-on-recommendations-P-10-1-through-P-10-4\(Nov\).aspx](http://www.aga.org/our-issues/safety/pipeline-safety/Agency-notices/2011/Pages/NTSB-response-to-AGA-request-for-clarification-on-recommendations-P-10-1-through-P-10-4(Nov).aspx) (clarifying that the “NTSB does not intend for Federal or state agencies to codify the language from our safety recommendations directly into state and Federal rules or regulations”). The clarification letter from the NTSB was sent in response to a June 14, 2011 letter from the American Gas Association, which is available at the same link.

throughout the transmission pipeline industry as to how to define and apply this new standard. Accordingly, SoCalGas and SDG&E seek clarification that this Proposed Decision does not pre-determine this issue before SoCalGas and SDG&E have had an opportunity to present rebuttal testimony on this issue in the Triennial Cost Allocation Proceeding in support of their Proposed Pipeline Safety Enhancement Plan.

III. SoCalGas and SDG&E Should Be Authorized to File Tier 1 Advice Letters to Implement the Directives of the Proposed Decision.

Ordering Paragraph Three of the Proposed Decision provides:

San Diego Gas and Electric Company and Southern California Gas Company must file a Tier 2 Advice Letter creating a memorandum account to record for later Commission ratemaking consideration the escalated direct costs of its Pipeline Safety Enhancement Plan, as described in Attachment A to their January 13, 2012, filing.

Because this directive is to implement an order from the Commission to establish a memorandum account, it would be more appropriate for the Commission to direct SoCalGas and SDG&E to file Tier 1 Advice Letters (effective pending disposition), rather than Tier 2 Advice Letters (effective after Staff approval). This would be consistent with prior Commission precedent authorizing utilities to establish memorandum accounts for the purpose of tracking costs pending review by the Commission.^{5/}

IV. Conclusion

SoCalGas and SDG&E support the Proposed Decision, which transfers consideration of our proposed Pipeline Safety Enhancement Plan to our pending Triennial Cost Allocation Proceeding and grants our pending motion to establish a memorandum account for the purpose of tracking costs associated with the directives set forth in this rulemaking. For the foregoing

^{5/} See, e.g., D.10-12-026 (authorizing PG&E, Southern California Edison, SDG&E and SoCalGas to file Tier 1 advice letters to establish memorandum accounts to record expenditures to comply with the Assembly Bill 32 Cost of Implementation Fee).

