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)

REPLY BRIEF OF THE CITY AND COUNTY OF SAN FRANCISCO

DENNIS J. HERRERA
City Attorney
THERESA L. MUELLER
AUSTIN M. YANG
Deputy City Attorneys
Dr. Carlton B. Goodlett Place, Room 234
San Francisco, CA 94102-4682
Telephone: (415) 554-6761
Facsimile: (415) 554-4763
Email: austin.yang@sfgov.org

ATTORNEYS FOR:
CITY AND COUNTY OF SAN FRANCISCO

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I. INTRODUCTION

Pursuant to the Assigned Administrative Law Judge's ruling on March 29, 2012, the City and County of San Francisco (―San Francisco‖ or―City‖) submits its Reply Brief on PG&E's Pipeline Safety Enhancement Plan (―PSEP‖). The City has reviewed Opening Briefs filed by Pacific Gas & Electric Company (―PG&E‖), The Utility Reform Network (―TURN‖), the Division of Ratepayer Advocates (―DRA‖), and the City of San Bruno (―San Bruno‖).

The record makes clear that the urgency and need for the PSEP has been created by PG&E's years of imprudently operating its gas pipeline system. Because the public safety is placed at risk by imprudent operations and lax regulation, it is critical that the Commission ensure that the technical merits of the PSEP are correct. In Decision 11-06-017 (―D.‖ or―June Decision‖), the Commission ordered PG&E to develop a plan to pressure test or replace all pipeline segments for which PG&E lacked pressure test records. As the Commission stated at that time,―to perform our Constitutional and statutory duties, we must have forthright and timely explanations of the issues, as well as comprehensive analysis of the advantages and disadvantages of potential actions.‖ Unfortunately, as presented to the Commission, the PSEP does not contain a comprehensive analysis, nor does it provide―forthright‖ explanations of key issues. Throughout the record in this proceeding, in order to bolster its immediate request for more than $2 billion from ratepayers, PG&E resolutely maintains the fiction that the PSEP is designed to meet new requirements and has nothing to do with PG&E's historic operations, the San Bruno explosion or the three investigations currently underway before the Commission.

The PSEP does not incorporate the findings and analysis from the Commission's Independent Review Panel (―IRP‖), the National Transportation Safety Board (―NTSB‖), or Consumer Protection and Safety Division (―CPSD‖) reports. As a result, it is not clear that PG&E is taking the proper steps to remediate the deficiencies in its gas transmission system, if PG&E is prioritizing work appropriately, or if the proposed costs are reasonable in light of the known flaws with PG&E's unsafe system. The Commission should not approve the program until PG&E addresses and incorporates the findings in these reports.

It is the Commission's responsibility to ensure that just and reasonable rates are charged to ratepayers. PG&E has provided no affirmative demonstration that it has not already recovered rates for the work being proposed, or that the work proposed was not already required by pre-existing regulations. Given that the PSEP is the result of decades of mismanagement, PG&E had a heavy burden to demonstrate that the work proposed in the PSEP is incremental to its rates recovered historically. PG&E has not met this burden. Because of the PSEP's many infirmities and the investigations still being conducted into relevant historic practices any cost recovery that is approved now should be made subject to refund.

Given the questions that remain as to PG&E's proposal, San Francisco urges that Commission to approve high priority safety work now, and require PG&E to develop a plan that incorporates the findings from the IRP, NTSB and CSPD reports.

II. THE PSEP NEEDS TECHNICAL IMPROVEMENTS

The PSEP is the vehicle PG&E proposes to modernize its pipeline system to meet current standards of safety. The Commission and the public are acutely aware of the dangers that can arise if the utility does not perform the proper safety measures. PG&E's overreliance on External Corrosion Direct Assessment as a means of assessing the integrity of its pipeline systems is a clear example of how performing some work but not the most pressing work can create an illusion of safety.[1] The PSEP proposes a huge amount of work, but serious questions about whether that work is properly prioritized and performed remain unaddressed.

As the Commission reviews the PSEP, it must avoid the mistakes of the past and ensure that the technical merits are sufficient to address all threats to PG&E's gas transmission pipelines. To do so, the Commission must scrutinize PG&E's proposal using the best available information. Although PG&E acknowledges that it must perform the work—as soon as practicable,‖[2] the PSEP confuses the issues of performing the work quickly with the need to

[1] TURN Opening Brief at p. 136.

[2] PG&E Opening Brief at p. 15.

properly prioritize the work. In the PSEP, PG&E modified the scope of work ordered by the June Decision because the initial scope constituted—far too large of a work scope for PG&E to accomplish in a 4 year period.‖[3] Yet, as San Francisco has demonstrated,[4] under PG&E's proposed scope, the PSEP will actually test or replace 300 more miles than ordered by the June Decision. Because of this and other similar technical deficiencies, it is not clear that PG&E is taking the proper steps to remediate the deficiencies in its gas transmission system, if PG&E is prioritizing work appropriately, or if the proposed costs are reasonable in light of the known flaws with PG&E's unsafe system.

A. The Commission Should Give Limited Weight to the Jacobs Consultancy Report

PG&E states that the Commission should approve its proposal because the Jacobs Consultancy approved many aspects of the PSEP.[5] While the Jacob's Consultancy report offers a fine summary of the PSEP, the Commission should not rely upon that report for insight into PG&E's proposal. The Jacobs Consultancy report lacks any true independent analysis, and the level of scrutiny applied appears to be very deferential. [6]

One glaring example of the cursory analysis is that the Jacobs Consultancy report did not address the threshold issue of scope.[7] Despite the obvious fact that PG&E did not follow the

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[3] *Id.* at p. 2.

[4] See San Francisco Opening Brief at p. 9; City and County of San Francisco Comments on CPSD and Jacobs Consultancy Reports Regarding PG&E's Pipeline Safety Enhancement Plan, at pp. 2-4.

[5] PG&E Opening Brief at p. 5.

[6] TURN Comments on CPSD and Jacobs Consultancy Reports Regarding PG&E's Pipeline Safety Enhancement Plan, at pp. 2 and 8, (—the findings and conclusions in the portion of the Jacobs Report that purport to assess PG&E's pipeline modernization plan indicate considerable deference to PG&E's use of outside experts, rather than an independent analysis by the Jacobs Consultancy.‖ and—there appears to be no independent analysis of the underlying assumptions and choices embedded in PG&E's decision tree to determine whether PG&E's approach is optimal, both for safety and cost effectiveness.‖).

[7] City and County of San Francisco Comments on CPSD and Jacobs Consultancy Reports Regarding PG&E's Pipeline Safety Enhancement Plan, at pp. 2-4.

scope set forth by the Commission, the Jacobs Consultancy report failed to even mention this fact or note that it results in delaying work in more populous areas.

In addition, the Jacobs Consultancy report barely mentions the NTSB recommendations issued in January 2011: P-10-02, and P-10-03 (addressing PG&E's record keeping deficiencies). It does not mention or incorporate the analysis and findings from the NTSB's final report, which was issued in August 2011, that are specific to pipeline integrity, or valve automation. Clearly these findings are relevant to the PSEP. The fact that the Jacobs Consultancy report was issued four months after the NTSB report was published, but still failed to incorporate or recommend that PG&E incorporate the findings of the federal body charged with investigating the accident should make the Commission question the level of analysis provided. There is insufficient analysis in the Jacobs Consultancy report to justify the Commission assigning more than limited weight to its findings. The Commission can no longer rely on cursory reviews that rubber-stamp PG&E's proposals.

B. It Is Unclear Whether the Most Pressing Work Will Be Performed First

PG&E states that the purpose of its decision trees is to appropriately schedule work based on the probability of failure.[8] However, based on the concerns over the scope of work proposed in Phase I, the Commission should have little assurance that this is in fact true. As discussed earlier, while asserting that the June Decision required PG&E to perform too much work to be completed by 2014, PG&E then modified the scope of work for Phase I to test and replace more miles of pipeline.

The Commission should reject PG&E's modified scope to delay work in some Class 3 and 4 locations because (1) PG&E has not adequately justified its proposed deviation from the Ordering Paragraph 4; (2) PG&E has not properly prioritized the work based on the use of inaccurate data; (3) PG&E has failed to incorporate the most relevant analysis; (4) PG&E has

[8] PG&E Opening Brief at p. 5.

included for—efficiency‖ pipe segments that are not necessarily contiguous to pipe segments that should be tested, while delaying testing and replacement in more densely populated areas; and (5) PG&E's proposal will delay projects in the most populous locations.

1. PG&E Uses Inaccurate Data In the Decision Trees

The PSEP's scope and prioritization of work is based on inaccurate and missing data because PG&E used the GIS system to run its decision trees.[9] In DRA's view—**DRA's most important finding regarding data PG&E used to develop the PSEP is that it is not verified, accurate and traceable data**. (emphasis in original)‖[10] Use of inaccurate data or incomplete data can result in improper projects being prioritized or delayed, or improper remediation (testing versus replacement). PG&E recognizes this failure but asserts that it will—mitigate any inaccuracies in the GIS database during preliminary project engineering phase for each project in the PSEP.‖[11] While this last-minute quality check on a project-by-project basis is useful, it is not a substitute for designing the program using the best data available.

2. The Decision Trees Do Not Use the Best Analysis Available

In addition to using inaccurate data, the PSEP does not incorporate the best analysis available. While PG&E asserts that the Pipeline Modernization decision trees are based on sound engineering judgment,[12] the PSEP's decision trees do not address all potential threats to pipelines.[13] For example, instead of considering the potential that a DSAW pipe segment may fail based on the history of failure in its own system, PG&E's decision tree performs no analysis

[9] See San Francisco Opening Brief at p. 21; DRA Opening Brief at p. 52; TURN Opening Brief at pp. 18-19.

[10] DRA Opening Brief at p. 52.

[11] PG&E Opening Brief at p. 20.

[12] PG&E Opening Brief at p. 5.

[13] NTSB Report at pp. 39 and 111; and CPSD San Bruno Report at pp. 41-42.

if the segment is made with DSAW.[14] The decision trees also do not consider PG&E's operational practices of intentional pressure spiking, unintentional over-pressurizations, and the effect that these events might have had on its pipelines.[15]

In its recent motion to admit additional evidence into the record,[16] San Francisco provided newly obtained evidence that ***PG&E's own experts admitted that*** *the expected time to failure for the peninsula lines has passed for some segments*.[17] More specifically, based on the report attached to the motion, given PG&E's practice of pressure spiking, the estimated time to failure for some segments of Line 132 expired in 2008.[18] In addition, using conservative assumptions, PG&E should have reassessed the integrity of those segments in 1978.[19] Further, many older segments of Line 109 should have been reassessed in 2006.[20] As detailed in the supporting motion, the report raises many additional questions which should be answered before the Commission can approve a comprehensive pipe modernization plan.[21] The report's findings also call into question whether PG&E has adequately prioritized the proper pipeline segments for testing and replacement, and whether PG&E should have tested or replaced certain segments earlier.[22] PG&E's PSEP does not address the findings of this report or the many questions raised by the report, including whether PG&E has performed a similar analysis for all of its pipelines and if there are other pipeline segments that should be prioritized for testing or replacement based on that analysis.

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[14] *See* Box 1D of Manufacturing Threats Decision Tree.

[15] See generally, San Francisco Opening Brief at pp. 12-20.

[16] Motion of the City and County of San Francisco to Admit Additional Exhibit Into Evidentiary Record, filed on May 17, 2012.

[17] Analysis of the Effects of Pressure-Cycle-Induced Fatigue-Crack Growth on the Peninsula Pipeline, dated March 19, 2012, at p. 2. (Proposed Exhibit 156).

[18] *Id.* at Table 1.

[19] *Id.*

[20] *Id.* at p. 2.

[21] Motion of the City and County of San Francisco to Admit Additional Exhibit Into Evidentiary Record, filed on May 17, 2012, at pp. 4-6.

[22] *Id.*

3. The Commission Should Require PG&E to Adhere to the Scope of Work Ordered in Ordering Paragraph 4, Unless It Can Demonstrate That Adjacent Segments Should be Tested.

PG&E asserts that Phase I of its pipeline modernization plan should include all pipeline segments in class 2 locations in addition to pipeline segments in class 3 and 4 locations that operate at over 30% SMYS.[23] In response to concerns from TURN, DRA and San Franciso regarding the scope of Phase I, PG&E claims that it took a more holistic approach to Phase I of the PSEP.[24] PG&E asserts that it—looked beyond the pure decision tree query results and considered adjacent pipeline segments as well, in order to develop projects that would enhance safety, enhance project and program efficiency, increase pipeline piggability, reduce overall community impact from construction, and result in long-term cost savings.‖[25] On cross-examination, PG&E's witness attempted to explain:

> —Q: Pick up again at page 16, Mr. Hogenson's testimony, rebuttal testimony, Answer 31. And perhaps if we could clarify within the Answer 31 when you say PG&E's pipeline modernization program gave increased focus. What do you mean by "increased focus" as far as the Class 2 segments that you are referring to?
>
> A: So when we developed our decision tree, we made a decision to include Class 2 urban area pipelines in our decision as well and say should we be including that in our priority one work. Because there is – when you look at pipelines and pipeline class, you don't necessarily go from 1 to 3 all the time. You may go from a Class 1 to a Class 2 to a Class 3 to a 2 to a 1. So it is not contiguous.
>
> So we wanted to recognize the fact that if we are going to be in there doing work on Class 3 pipe, let's look and see if there is Class 2 pipe there as well. And so we can get projects that are more holistic in nature, and we are having to come back immediately in Phase 2 to address a Class 2 -- a Class 2 pipe segment.‖[26]

While it is reasonable to schedule projects in a manner that achieves efficiencies and limits disruptions to local communities, the PSEP does not adhere to these principles. For

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[23] PG&E Opening Brief at p. 12.

[24] PG&E Opening Brief at p. 17.

[25] *Id.*

[26] Tr. Vol. 11 at 1450:12-1451:9.

example, for the pressure test of L-134A[27] PG&E proposes to hydrostatically test two sections of L 134A. One test section consists of one segment installed in 1956 that is 1,228 feet long, and is located in a Class 1 high consequence area.[28] This test would begin at milepost 25.3140 and end at milepost 25.5538.[29] Because this segment is located in a high consequence area, it should be prioritized according to Ordering Paragraph 4 of the June Decision.

The other test section consists of eight segments totaling 30,115 feet and consists of segments installed between 1944 and 1985, located in class 2 locations.[30] The test would begin at milepost 4 and end at milepost 9.71.[31] Based on the milepost markers, these segments are approximately 15 miles away from the first test section. Despite the fact that these segments are non-contiguous to the one segment in the class1 high consequence area, PG&E proposes to perform both tests as part of the same project. In fact, PG&E is proposing to test the 30,115 feet in class 2 locations because one segment totaling—6 feet of pipe [is] operating above 30% SMYS within a Class Location 2-4 of HCA.‖[32] There is only one segment that is 6 feet long in for this proposed test, segment 105.9, which was installed in 1970.[33] Thus,—to achieve efficiencies‖ PG&E is proposing to test 30,109 feet of pipe in a class 2 locations, located 15 miles away from another test on the same line, because PG&E determined that it should prioritize 6 feet of class 2 pipe operating over 30% SMYS for which it does not have a—complete‖ pressure test record.

Even if the Commission accepts PG&E's proposal to prioritize pipe segments in class 2 locations operating at over 30% SMYS, it should not burden the ratepayers with paying for these types of —efficiencies.‖ Not only is PG&E planning to perform this test before testing other pipe segments in class 3 locations operating between 20% and 30% SMYS, PG&E is not proposing to

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[27] Workpapers Supporting Chapter 3 (—WP‖), p. 3-876-3-878.

[28] WP 3-878

[29] *Id.*

[30] *Id.*

[31] *Id.*

[32] WP 3-876.

[33] WP 3-878.

pay for the costs of this testing project.[34] Given that PG&E has stated it will pay for some testing of pipeline segments installed between 1961-1970, the Commission should determine if PG&E is proposing to pay for the testing costs associated with segment 105.9. If so, PG&E should bear the costs associated with the entire test section, as the 30,109 feet of "efficiencies" are only necessary to test a segment for which PG&E admits it should have a pressure test record.

4. PG&E Admits that Safety Actions Have The Greatest Safety Impact In Class 3 and 4 Locations

One of the reasons PG&E asserts that it is appropriate to prioritize class 2 pipe segments operating above 30% SMYS is because those segments are more likely to rupture.[35] When discussing its valve automation proposal, however, PG&E asserts that it "proposes to install automated valves where they can have the greatest potential safety impact—on pipeline segments in Class 3 and 4 areas."[36] PG&E focused on these locations because it seeks to reduce the harm from "pipe segments containing large quantities of high pressure natural gas in populated areas in the event a pipeline rupture occurs."[37] Thus, providing assurance that the pipeline segments in Class 3 and 4 locations are operating with reasonable safety margins by testing and replacing those segments first will also provide "the greatest potential safety impact." This was the basis for the scope ordered by the Commission in Ordering Paragraph 4.

C. The Commission Should Require PG&E to Develop a Strategic Plan for Valve Automation

PG&E admits that it declined to perform any cost/benefit analysis to help the Commission evaluate PG&E's Valve Automation Program.[38] Despite this fact, PG&E asserts

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[34] WP3-877.

[35] PG&E Opening Brief at p. 17.

[36] PG&E Opening Brief at p. 37.

[37] Exhibit 2 (PG&E Direct Testimony at p. 4-3).

[38] Tr., Vol. 11, at 1349:25-1350:24 (Menegus).

that—the Commission should approve PG&E's Valve Automation Program because it provides an important safety benefit.‖[39] At the same time, PG&E itself recognizes, however, that there are many questions that must still be answered. —PG&E urges the Commission to adopt PG&E's proposal to install RCVs under the Population Density decision tree, until PG&E can further study the use of ASVs and the risk of false closure.‖[40] However, PG&E does not mention that the use of RCVs versus ASVs may affect the appropriate spacing requirements for the automated valves. Because ASVs may close off more quickly, they can be spaced at greater intervals than RCVs while still accomplishing the goal of completely stopping gas flow within 30 minutes.[41] Thus, if PG&E is still unsure whether it should install RCVs or ASVs, it cannot know how to properly space the valves. If PG&E does not know which type of valve to use or where to space the valve, the Commission cannot find that the valve automation program is reasonable.

PG&E has consistently failed to do the appropriate analysis, even though it could have a dramatic impact on safety. PG&E has had many opportunities to perform the proper valve analysis.[42] Despite repeated opportunities and direction from the Commission to properly consider the use of valves, and direction from the NTSB that PG&E—space them at intervals that consider the factors listed in 49 CFR 192.935(c),‖[43] PG&E has not performed this analysis or demonstrated how it has incorporated the analysis into the PSEP.

In addition, DRA notes that—the Commission has not retained anyone with valve expertise to assist in analyzing and potentially modifying PG&E's plan to make it safer and/or more cost effective. Thus, the Commission is unable to modify PG&E's plan consistent with the protection of the public' or to propose or adopt standards for how to prioritize installation'

[39] PG&E Opening Brief at p. 33

[40] PG&E Opening Brief at p. 36.

[41] CPSD Technical Report regarding Pacific Gas and Electric Company's Pipeline Safety Enhancement Plan at pp. 3-4.

[42] San Francisco Opening Brief at pp. 26-27.

[43] NTSB Report at p. 104.

of the valves.‖[44] Before the Commission approves any valve automation proposal, it should ensure that staff with proper qualifications have reviewed the technical merits of the proposal. For these reasons, PG&E's valve automation program is not ripe for approval.

III. RECORD KEEPING IS NOT A NEW REGULATORY REQUIREMENT

There is no clearer example of where PG&E's proposal is necessary to mitigate its failure to comply with pre-existing safety standards than PG&E's Pipeline Records Integration Program. The program consists of PG&E's MAOP validation program and its Gas Transmission Asset Management plan (―GTAM‖). The record in this proceeding provides overwhelming evidence that natural gas operators have always been required to have accurate and reliable records.[45]

A. The PHMSA Advisory Makes Clear that Traceable, Verifiable, and Complete Is Not a New Standard

PG&E asserts that the NTSB's recommendation to validate MAOP through records using traceable, verifiable and complete records constituted a―sea change‖ in the way in which operators could establish MAOP for their pipelines.[46] To this point, PG&E states―furthermore, the Pipeline and Hazardous Materials and Safety Administration (―PHMSA‖) recently issued an Advisory that further defines the terms traceable, verifiable, and complete.‖[47]

This Advisory Bulletin, however, does not support PG&E's assertion that the traceable, verifiable and complete standard is a new standard for the pipeline industry. In fact, it makes the opposite point. It states that it is being issued to―*remind* operators ... to verify their records

[44] DRA Opening Brief at p. 128.

[45] See San Francisco Opening Brief at p. 35; TURN Opening Brief at p. 97, DRA Opening Brief at p. 23.

[46] PG&E Opening Brief at p. 40.

[47] PG&E Opening Brief at p. 41.

relating to operating specifications for MAOP required by 49 CFR 192.517.‖[48] Section 192.517 of the code of federal regulations has been effective since the regulations were adopted in 1970.[49]

In the Advisory Bulletin, PHMSA further clarifies that:

> Prior to 1996, there was a regulatory requirement titled: __Initial Determination of Class Location and Confirmation or Establishment of Maximum Allowable Operating Pressure‘‘ at 49 CFR 192.607. This regulation required operators to confirm the MAOP on their systems relative to class locations no later than January 1, 1973. The regulatory requirement was removed in 1996 because the compliance dates had long since passed. *PHMSA believes documentation that was used to confirm MAOP in compliance with this requirement may be useful in the current verification effort….*
>
> Owners and operators should consider the guidance in this advisory for all pipeline segments and take action as appropriate to assure that all MAOP and MOP are supported by records that are traceable, verifiable and complete.
>
> Information needed to support establishment of MAOP and MOP is identified in § 192.619, § 192.620 and § 195.406. An owner or operator of a pipeline must meet the recordkeeping requirements of Part 192 and Part 195 in support of MAOP and MOP determination.‖[50]

The substantive requirement of traceable, verifiable and complete, is not new; if it were new, PHMSA would not be reminding operators of it. It is clear from the Advisory Bulletin, that operators already have an obligation to validate MAOP and MOP, and that these pressures must be commensurate with the limits allowed based on the class location of the pipeline segment.[51] PHMSA instructs natural gas pipeline operators that the records used to perform this MAOP validation must be traceable, verifiable, and complete.[52] PHMSA provides further direction to operators by reminding them that this verification was first required by the 1970s regulations.[53] And in fact, the records used to initially perform the MAOP validation in the 1970s can be used

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[48] 77 Federal Register 26822 (emphasis added).

[49] Exhibit 52 (35 Federal Register 13248 (August 19, 1970)).

[50] 77 Federal Register at pp. 26823.

[51] *Id.*

[52] *Id.*

[53] *Id.*

for this verification effort today.[54] PHMSA makes clear that the quality of records expected in the 1970s is the same quality as those expected by the traceable, verifiable and complete standard.[55] In other words, natural gas pipeline operators are expected to have these records from the initial validation and these same records are sufficient to satisfy the traceable, verifiable and complete standard.

PHMSA also provided definitions of the words—traceable, verifiable, and complete.‖ The definitions are familiar and not overly technical. The Advisory Bulletin states—Traceable records are those which can be clearly linked to original information about a pipeline segment or facility;‖—Verifiable records are those in which information is confirmed by other complementary, but separate, documentation;‖—Complete records are those in which the record is finalized as evidenced by a signature, date or other appropriate marking.‖[56]

These are not new definitions of these terms, nor is the substance of the terms a new requirement. PHMSA clarified that—Operators should ensure that *all records establish confidence in the validity of the records*.‖[57] A utility cannot safely operate its natural gas system if it does not have confidence that its records are traceable, verifiable, and complete.

The Advisory Bulletin also serves as a reminder to operators that they must comply with the record keeping requirements contained in 49 C.F.R. Part 192, which have been effective since 1970.[58] PHMSA's—reminder‖ to operators to comply with historic record keeping requirements makes it clear that this is not a new requirement.

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[54] *Id.*

[55] *Id.*

[56] *Id.*

[57] *Id.* (emphasis added).

[58] Exhibit 52 (35 Federal Register 13248 (August 19, 1970)).

B. The Commission Should Deny Cost Recovery For The MAOP Validation Project and GTAM

1. The MAOP Validation Project and GTAM Are Not Necessary to Meet New Regulatory Standards

PG&E asserts that the MAOP validation efforts and the GTAM are necessary to comply with new regulatory standards.[59] PG&E's assertion, however, fails to take into account that the NTSB recommendations to validate MAOP were necessary to cure PG&E's unreliable and missing records.[60] As discussed above, operators have long been required to keep accurate records. PG&E may or may not need the MAOP validation project and the GTAM to keep accurate records but keeping traceable, verifiable and complete records is not a new requirement.

2. PG&E Has Already Recovered Costs To Maintain And Update Its Record Keeping Programs

PG&E also asserts that the Pipeline Records Integration Program costs are incremental to existing rates.[61] However, DRA notes that PG&E has received funding through decades of general rate cases (GRCs) to maintain its records and update and consolidate its databases, including moving paper records into electronic formats."[62] Further, DRA found that PG&E has charged rate payers for nearly three decades to operate a records-based integrity management system that was supposed to prioritize pipeline inspection, repairs and replacements." And worse still, "investigations after the San Bruno explosion have revealed that these systems were fatally flawed when they were created because much of the information needed for them to function was either incorrect or missing, and that PG&E ignored every opportunity to correct these errors over nearly 30 years."[63] Based on these findings, not only has PG&E already recovered in rates for the work it now proposes, PG&E did not spend those amounts wisely.

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[59] PG&E Opening Brief at pp. 42-43.

[60] June Decision at p. 17.

[61] PG&E Opening Brief at p. 45.

[62] DRA Opening Brief at p. 23.

[63] *Id.*

There is no reasonable standard under which PG&E should be able to recover costs to correct its record keeping deficiencies.

3. The Purpose Of the Grandfather Provision Was Not to Excuse Poor Record Keeping

PG&E attempts to use section 192.916(c), commonly referred to as the grandfather clause, to excuse its failure to keep adequate records. PG&E asserts that the—grandfather clause was adopted because the Department of Transportation recognized that pressure tests on pre-1970 pipelines may not have been conducted or the records of such tests may not be available.‖[64] As the federal register adopting the 1970 federal safety regulations makes clear, however, the grandfathering provision was not drafted as a—safe harbor‖ for operators without records. It was intended to avoid pressure reductions for pipelines that *already had records of pressure tests to only 50 psi above MAOP*.[65] Because these older pipelines were not tested to the newer ratios implemented in the 1970s federal regulations, natural gas operators would have been required to reduce the pressure on those lines to comply with the new regulations.[66] Instead of requiring widespread pressure reductions when it could not determine that the historic operating pressures were unsafe, the Department of Transportation opted to allow the use of historic operating pressures.[67] Thus, the grandfather clause assumed that pipelines being operated according to historic pressures *had been hydrotested and that pipeline operators had records of these tests*. The Commission should reject PG&E's post-hoc rationalizations intended to excuse its failure to keep adequate and necessary records.

PG&E claims that because both the 1970 federal regulations and GO 112 were not intended to be applied retroactively, they—did not require gas utilities to hydrotest (or retain records of hydrotests) gas transmission pipeline installed prior to the effective date of the

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[64] PG&E Opening Brief at p. 72.

[65] Exhibit 52 (35 Federal Register 13248 (August 19, 1970)).

[66] *Id.*

[67] *Id.*

regulation.‖[68] The Commission should not be confused by PG&E's attempts to obfuscate the relevance of retroactivity, and the purpose of the grandfather clause. As discussed above, based on the Department of Transportation's statements in the federal register, it was expected that operators using the grandfathering section would have pressure test records. If PG&E decided to set the MAOP for its pipelines using the grandfather clause in 1970, and if it were operating as a prudent operator it should have had pressure test records for pipelines operated pursuant to 192.619(c).

In addition, simply because the regulations did not apply retroactively did not excuse natural gas operators from considering the history of pipe segments or keep records that would allow it to consider relevant history in the future. As stated in the federal register adopting the 1970 regulations,—existing pipelines are subject to the maintenance, repair, and operations requirements.‖[69] For example, section 192.605 requires PG&E to have a manual which has procedures that make available to its operating personnel—construction records, maps and operating history.‖[70] In order for PG&E to comply with these maintenance, repair and operations requirements and to provide this information to its personnel, PG&E would have necessarily created and kept records for those activities. Thus, simply because the 1970s requirements did not apply retroactively, PG&E was not excused from keeping adequate records for its older pipelines.

IV. PG&E'S COST SHARING PROPOSAL UNFAIRLY BURDENS RATEPAYERS

A. PG&E Has Not Demonstrated That The PSEP Is Incremental to Existing Rates

PG&E proposes two principles for sharing costs between ratepayers and shareholders. The first principle is that ratepayers should fund work that is incremental to existing rates. Based

[68] PG&E Opening Brief at p. 73.

[69] Exhibit 52 (35 Federal Register 13250 (August 19, 1970)).

[70] 49 C.F.R. § 192.605(b)(3).

on PG&E's position in this proceeding – that its historic failures are not relevant to the PSEP – it is hardly surprising that PG&E finds that the majority of PSEP work is incremental to its existing rates. In support of this, PG&E asserts that no party has identified any double counting between the PSEP rate request and the 2011 GT&S rate case.[71] This statement presents both the wrong analysis and the wrong conclusion. It is PG&E's burden to demonstrate the reasonableness of the PSEP proposal. This standard has been applied by the Commission for decades and still applies today.[72] It is "incumbent upon the applicant to justify its application and to make an affirmative showing as to the necessity for such adjustment by complete and dependable data based on accounts kept in the manner proscribed by the Commission."[73] Here, as discussed more fully below, PG&E has provided no affirmative demonstration that it has not already recovered in rates for the work proposed, or that the work proposed was not already required by pre-existing regulations.

The Commission recognized that to receive rate recovery, a utility must be able to demonstrate that it provides "safe and reliable" service, that it has "reliable and responsible" supervision and maintenance, and that the utility has proffered reliable estimates based on actual operating conditions.[74] In D. 74980, the Commission limited recovery to the water utility, until such time as the company could demonstrate

> that it has an adequate, safe and reliable supply of water, has provided for reliable and responsible local supervision and maintenance of the water system, and upon the presentation of reliable estimates based on actual operating conditions, this Commission will consider further rate relief for applicant.[75]

In addition, the Commission considered the utility's past operating practices before granting cost recovery. "Due to the inadequate and unsafe service and the deficiencies in this

[71] PG&E Opening Brief at p. 58.

[72] See e.g., D.10-06-048 at p. 14; D. 95-12-008 at pp. 20-22.

[73] D.10665, (Application No. 7545) (Decided July 6, 1922).

[74] D.74980, (Application No. 50184) (Decided November 26, 1968).

[75] *Id.*

record, it is reasonable not to consider at this time net operating revenue requirements and to set rates on consideration of value of service and operating cash requirements.‖[76] Given the well documented, longstanding failures by PG&E, the Commission should consider PG&E's inadequate and unsafe service before granting cost recovery. PG&E's historic practices are relevant both to determining which costs should be paid by ratepayers because they are for work that is incremental to existing rates and requirements and to evaluating the overall reasonableness of the PSEP proposal, including PG&E's adherence to prudent safety practices and its ability to carry out the work it proposes.

Even if it were true that there is no—doublecounting‖ between the PSEP and the 2011 GT&S rate case, that would not demonstrate that the PSEP work is incremental to the existing rates. It would only demonstrate that the PSEP is incremental to the narrow scope of work approved in Gas Accord V. Given that the PSEP is the result of decades of mismanagement, PG&E's burden is to demonstrate that the work proposed in the PSEP is incremental to its rates recovered historically. PG&E has not met this burden, or even attempted to do so even though this issue was clearly within the scope and is addressed by PG&E's opening testimony.

For example, PG&E has not demonstrated that it did not seek prior rate recovery for testing and replacement of segments on Lines 101, 109 and 132. In fact, in 1984 as part of its Gas Pipeline Replacement Program, PG&E identified these pipelines as being older and in need of replacement—with modern pipe to enable PGandE to continue to provide safe and reliable' service.‖[77]

> The steel transmission lines proposed for replacement are 38 to 55 years old and were originally installed in open spaces, often in narrow rights-of way in areas wh1ch have since been highly developed. Many of these pipelines are now in confined areas with reduced ground cover. They need to be replaced with modern pipe to enable PGandE to continue to provide safe and reliable' service. In addition, the three pipelines supplying San Francisco from Milpitas were built between 1929 and 1947 also. They will be replaced with pipelines capable of operating at higher pressures, which

[76] *Id.*

[77] CSPD Record Keeping Report (Felts) at p. 18.

> will provide sufficient pipeline storage to allow abandonment of the remaining aboveground low-pressure gas holder in San Francisco.[78]

Thus, PG&E knew in 1984 that it needed to replace Lines 101, 109 and 132 in order to provide—safe and reliable service.‖ As DRA identifies, PG&E sought recovery for its Gas Pipeline Replacement Program, and—all of PG&E's integrity management work – over nearly three decades – has been funded by ratepayers through rates.‖[79] Because the Gas Pipeline Replacement Program was already funded by rates, it is doubtful that PG&E can demonstrate that the work proposed in Line 101, 109 and 132 is incremental to rates recovered for its Gas Pipeline Replacement Program. Thus, examining only the work proposed in Gas Accord V is an insufficient comparison to determine if ratepayers should be burdened with the costs associated with the PSEP.

Finally, this analysis may not even be adequate to determine the appropriate portion of costs to be borne by the ratepayers. Given the many deficiencies identified with PG&E's gas operations, it is doubtful that PG&E would have sought recovery for testing or assessments that it should have been performing. Ratepayers should not bear all of the proposed costs simply because PG&E failed to seek recovery of costs for actions it should have performed.

B. The PSEP Is Necessary to Come Into Compliance With Pre-existing Regulatory Requirements

Under PG&E's second cost sharing criteria, it should be required to bear the entire cost of Phase I. As PG&E states—it is fair to ask the question _would PG&E have been obligated to do the work if Decision 11-06-017 had never been issued?' If the answer is yes, PG&E is doing the work under the PSEP to come into compliance with a pre-existing regulatory requirement‖ and the costs should come out of funding from existing GT&S rates. PG&E proposed Pipeline 2020 in October 2010, well before the Commission issued the June Decision,[80] and PG&E has

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[78] *Id.*

[79] DRA Opening Brief at p. 36.

[80] Exhibit 30 (NTSB Presentation on PG&E Pipeline 2020 Program).

confirmed that in key respects the PSEP is identical to Pipeline 2020.[81] Thus, in October 2010, PG&E committed to all of the pipe modernization and valve automation work that it now proposes as part of the PSEP. In other words, PG&E would have performed the work for these projects even if the Commission had not issued the June Decision. Using PG&E's second criteria, the Commission should find that—PG&E is doing the work under the PSEP to come into compliance with a pre-existing regulatory requirement and the funding provided under existing GT&S rates should cover the costs of the work since PG&E would have been required to comply with pre-existing regulatory requirements even if Decision 11-06-017 had never been issued.‖[82]

Using cost sharing principle 2, PG&E proposes to have shareholders bear $139.5-$155 million of Phase I costs (out of a potential $2.25 billion).[83] However, this figure is still uncertain. Even using its own cost sharing principles, PG&E does yet know what portion of the Phase I costs should be attributable to shareholders. PG&E admitted that it—determined after filing the PSEP that certain pipe segments will be hydrotested as part of its 2012 Transmission Integrity Management Program work plan. Since this hydrotesting will be completed to meet a pre-existing regulatory requirement, the costs of such TIMP hydrotests will be excluded from PSEP cost recovery and this reduction in costs will be passed on to customers as part of the true-up of forecasted expense to actual expense for the hydrotesting program.‖[84] PG&E concedes that it does not know how much work proposed in Phase I is necessary to comply with pre-existing regulatory requirements. This is another reason that the Commission cannot find that PG&E's cost sharing proposal is reasonable.

Even more troubling, this indicates that PG&E *still* does not know what aspects of its operations are not in compliance with the law. Rather than addressing this issue through the semi-annual reports subject to Commission review, the Commission should require PG&E to

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[81] Exhibit 33 (CCSF DR 005-05); Exhibit 34 (CCSF DR 005-03).

[82] PG&E Opening Brief at pp. 61-62.

[83] PG&E Opening Brief at p. 62.

[84] PG&E Opening Brief at pp. 62-63.

demonstrate from the outset which parts of its operations are non-compliant with applicable safety regulations and which projects are proposed to comply with pre-existing regulatory standards. PG&E's report on—Analysis of the Effects of Pressure-Cycle-Induced Fatigue-Crack Growth on the Peninsula Pipeline,‖ attached to San Francisco's May 17, 2012 motion was prepared in March 2012. Based on the age and operating history of Lines 101, 109 and 132, the report finds that the estimated times to failure and estimated times for reassessment have already passed for many of the older pipe segments. The federal regulations already require PG&E to evaluate and assess segments subject to the threat of pressure cycling.[85] PG&E should have already assessed many of these segments. However, this report was only prepared very recently, and suggests that PG&E is still in the process of conforming its gas operations to the regulatory requirements.

C. PG&E Should Pay For Testing and Replacement For All Pipeline Segments Installed After 1955

PG&E states that it—started following ASA guidance in 1955 when ASA B31.1.8 was adopted by the American Society of Mechanical Engineers.‖[86] If PG&E had pressure tested new segments beginning in 1955 and kept records of those segments, then it should have those records now. Because it was obligated to test new segments after those dates and to keep records of those tests, if PG&E is proposing to test those segments now, then its shareholders should be responsible for bringing its operations into compliance. This is consistent with PG&E's reasoning in proposing to pay for all testing and replacement for all pipeline segments installed after 1970, and some pipeline segments installed after 1961.[87] Applying these principles, San Francisco's witness Gawronski found, based on the date of installation, and faithful compliance

[85] 49 C.F.R. § 192.917(e)(2).

[86] PG&E Opening Brief at p. 75.

[87] Exhibit 21 (PG&E Rebuttal) at pp 1-17-1-18.

with TIMP, PG&E could have avoided 84% of the hydrotesting costs proposed for Line 101, 109 and 132.[88]

D. Any Cost Recovery Should Be Subject to Refund

PG&E argues that a review of the reasonableness of PG&E's historic gas pipeline safety operations is unnecessary, inappropriate, and illegal.[89] This contradicts the testimony of its own witnesses. The prudence of PG&E's historic operations is relevant to both PG&E's ability to carry out the PSEP and whether it is reasonable for ratepayers to pay for PSEP work.[90] Using PG&E's own standard, the Commission cannot determine whether PSEP work is "incremental" unless it considers the work that PG&E did or should have done in the past.

PG&E's witnesses Bottorf and Tierney both recognized that PG&E's historic practices could be considered relevant to its PSEP rate request and that the Commission might reduce the PSEP revenue requirement proposed by PG&E based on findings that work proposed in the PSEP should have been performed earlier.[91] While PG&E's position is that such a determination should be made in the appropriate investigation, it does not dispute that the analysis is relevant or that it can result in a reduction in the revenue requirement authorized for PSEP work.

As noted by PG&E's witnesses, the Commission's scheduling of this proceeding has created a timing problem that the Commission must address. As PG&E's witness Tierney acknowledged:

> In a situation where the timing of these findings in the investigation were such that they were known prior to the conclusion of the rulemaking process, the rulemaking process could take notice of them and incorporate the effect of those recommendations in the investigation as if they were disallowances or shareholder absorption of certain costs that are proposed by PSEP in the rulemaking. In the case where the timing isn't perfect, I

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[88] Exhibit 137 (CCSF Direct Testimony, at pp. 14-16; Exhibit 7 to CCSF Testimony).

[89] PG&E Opening Brief at pp. 85-89.

[90] See Order Instituting Rulemaking 11-02-019, at p. 12, fn 6; June Decision at p. 23 ("we intend to take official notice of the record in other proceedings, including the investigation of PG&E's gas system record-keeping, in our ratemaking determination.").

[91] Tr. Vol. 9 at 1026-1029 (Tierney); and Tr. Vol 8 at 807-814 (Bottorff).

> could imagine where the investigation's findings are not complete but the rulemaking process were ready to be finished. The Commission could have two options at least in that circumstance to either put the rates into effect subject to refunds, waiting upon notice of findings in the investigation, or could modify rates on a going-forward basis once the new findings were made in the investigation.[92]

There is plenty of evidence in this record to support a disallowance of PSEP and other costs based on PG&E's failure to demonstrate the reasonableness of its proposals. The pending investigations, however, are examining PG&E's historic practices in greater detail. If the Commission intends to approve any costs in this proceeding, prior to the completion of investigations, it must do so only on an interim basis and subject to refund so that rates can be adjusted to account for any disallowances adopted in those cases.

Contrary to PG&E's argument against a review of PG&E's past practices,[93] a disallowance based on such a review would not violate the prohibition on retroactive ratemaking since it would not adjust the rates authorized in prior cases, but would instead inform the Commission's determination of the appropriate revenue requirement in this case.

Nor is there a risk that PG&E will be penalized multiple times for the same conduct.[94] The Commission will be able to determine in each proceeding whether it is appropriate to adopt penalties or fines in addition to reductions to the PSEP revenue requirement it may adopt now based on findings that work proposed was funded or should have been performed in prior years.

E. Approving Additional Costs Will Not Motivate PG&E to Perform the Necessary Safety Actions

PG&E argues that a utility in sound financial health *may* be better positioned to achieve the many broad public policy objectives, including, but not limited to, increasing the safety of its system for customers, workers and communities. Given the capital-intensive nature of utility systems, investments are particularly important to achieving these public benefits. The

[92] Tr. Vol. 9, at p. 1089:3-23 (Tierney).

[93] PG&E Brief at 88.

[94] PG&E Brief at 89.

Commission should support ratemaking that enables the utility to attract the capital needed to make these investments and maintain or improve its systems and to do so at reasonable cost.‖[95]

PG&E has caveated this statement by acknowledging there is no guarantee that more money for PG&E will equal more safety—that—may‖ be the result. The record in this case makes clear that PG&E's gas operations have been in sound financial health for decades,[96] and yet the company has failed to satisfy the most basic requirements for safe operations. PG&E's witness Bottorf , answering questions from the ALJ, also acknowledged this fact:

> Q. Would you say that it's generally true over this 30-year span that to the extent the company has sought ratepayer funding for safety improvements that the Commission has granted those requests generally?
>
> A. Yes.
>
> Q. Would you also say generally over those 30 years that the Commission has granted full rate of return for all those capital investments in the gas system? Is that true?
>
> A. Well, it's provided -- it's authorized a rate of return and authorized a revenue requirement that makes it possible to achieve that authorized rate of return.[97]

In fact, PG&E has earned significantly more than its authorized rate of return on gas operations.[98] Approving ratepayer funding and providing the opportunity for substantial earnings by PG&E has not ensured a safe system in the past, and the Commission should not expect that same approach to ensure a safe system in the future.

Further, the Commission should not countenance PG&E's recasting of the PSEP as a program required—to achieve many broad public policy objectives,‖ and—public benefits.‖[99] The Commission's objective in D.11-06-017, which led to the PSEP, is safe gas operations, the most

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[95] PG&E Opening Brief at p. 57 (*emphasis added*).

[96] See e.g., DRA Opening Brief at pp. 13-16.

[97] Tr. Vol 9, at p. 959:6- 21 (Bottorff).

[98] See, e.g., DRA Brief at 14; Exhibit 129 (Letter from Congresswoman Jackie Speier) at p. 2.

[99] PG&E Opening Brief at p. 57.

basic obligation of utility service. As the Commission stated,—PG&E needs to rebuild the Commission's and the public's trust in the safety of its operations. The directives in today's decision are necessary steps to ensure safe operations and to restore public trust.‖[100]

F. The Commission Should Reject PG&E's Proposal To Seek Recovery of Additional Costs Through Tier 3 Advice Letters

PG&E asks the Commission to approve the use of a Tier 3 advice letter process for —expedited review of a request to change the approved forecasts for PSEP Phase I.‖[101] PG&E believes that this creates a—transparent process whereby PG&E can request recovery of additional costs required to complete Phase I work.‖[102] As DRA points out, there is no limit to the advice letter filing, and PG&E could theoretically use the advice letter process to increase its Phase I costs. San Francisco supports DRA's recommendation to deny the use of tier 3 advice letters as part of the PSEP to allow increases to PSEP costs.

G. Unless the Commission Rejects the PSEP Cost Recovery Proposal Entirely, It Should Limit Cost Recovery to A Memorandum Account

The record here presents a number of strong reasons for the Commission to defer any final decisions regarding rate recovery until it has completed the pending investigations into PG&E's past practices.[103] Given the numerous uncertainties with PG&E's proposal,—deferral of a decision on cost recovery rather than an immediate approval of costs is a much better ratemaking approach.‖[104] —This is an effective way of cost recovery as it allows the Commission to make a decision about cost recovery once it has been presented with full information, rather

[100] June Decision at p. 17.

[101] PG&E Opening Brief at p. 98.

[102] *Id.*

[103] See, e.g.,TURN Opening Brief at p. 139.

[104] Exhibit 137 (CCSF Direct Testimony at p. 75).

than a mechanism such as PG&E proposes here where the Commission is being asked to approve large, uncertain, and questionable costs in advance.‖[105]

PG&E asserts that the Commission should approve the memorandum account with an effective date of January 1, 2011.[106] In support, PG&E claims that the Commission has already approved the use of memorandum accounts for the Sempra Utilities and that denying a memorandum account for PG&E alone would be arbitrary, and capricious.[107] However, there is no indication in D. 12-04-021, which approved the use of memorandum accounts, that the accounts were intended to be given retroactive effect.[108] Furthermore, PG&E is not in the same position as the other utilities. The Commission recognized this fact by requiring PG&E to develop a cost sharing proposal as part of its PSEP. Disparate treatment of PG&E, in this instance, does not constitute undue discrimination.

V. THE COMMISSION SHOULD AVOID "THE COMMON EXPERIENCE OF REGRET"

PG&E cites D.06-07-027 as an example of an instance where the Commission allowed PG&E to recover incremental revenue requirements associated with the Advanced Meter Infrastructure program during an existing rate cycle.[109] PG&E asserts that there are many similarities between the AMI case and the PSEP. Similarities of note include that PG&E filed the AMI program as a result of a Commission rulemaking; the application also called for significant capital investment, estimated to be $1.6 billion at the time of approval, and PG&E hopes, the Commission authorized significant investments and a revenue requirement outside of the normal GRC process.

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[105] *Id.* at p. 76.

[106] PG&E Opening Brief at p. 96.

[107] *Id.*

[108] In describing the costs that may be recorded, D. 12-04-021, pp. 6-7, references Attachment A to the January 13, 2012, filing of the Sempra Utilities. That filing and Attachment A indicated that the costs had not yet been incurred.

[109] PG&E Opening Brief at p. 69.

PG&E omits the fact that after that decision, PG&E had to seek an additional $500 million to replace some meters that were approved in the initial SmartMeter decision. In fact, the Commission later questioned the prudence of approving the AMI application.

> Regulators understand that there is never a guarantee that a decision adopted in the face of both economic and technological uncertainty will be viewed in retrospect as the best outcome. This is the context in which Commissioner Peevey's remarks to the Legislature—that allowing PG&E to go forward with the Smart Meter program *was a half billion dollar mistake and that ratepayers are the individuals paying for this mistake*‖ must be interpreted. President Peevey's statement is an honest appraisal of a situation in which an ex-post-facto look at an ex-ante decision reveals that a better course of action could have been chosen. The statement reflects the common experience of regret over the outcome of a decision made.[110]

The need for the unprecedented scope of pipeline work was created by decades of mismanagement by PG&E. The Commission should not compound these failures by rushing to approve the PSEP, a program that does not use the best information and analysis available, and saddle ratepayers with a multi-billion dollar mistake that may also have serious safety impacts.

VI. PG&E AND THE COMMISSION MUST ACCEPT THAT HISTORIC OPERATIONS AND OVERSIGHT WERE DEFICIENT

PG&E asserts that its decision to not emphasize hydrostatic pressure testing as part of its TIMP was—vetted and approved by the Commission.‖[111] As the City of San Bruno acutely recognizes,—historically there has been too close a relationship between the regulator and the regulated utility‖ and that this—has led to the acceptance of practices, policies and safety protocols that are more ‗convenient' for the parties than are scientifically or technically based.‖[112] Whether or not the Commission vetted and approved PG&E's decision to disfavor hydrostatic pressure testing in the past, or furthered the illusion of safety by condoning the over-reliance on External Corrosion Direct Assessment, this proceeding presents the opportunity to

[110] D.10-09-015, at pp. 10-11 (emphasis added).

[111] PG&E Opening Brief at p. 80.

[112] San Bruno Opening Brief at p. 4.

correct failings by PG&E and the Commission using the most relevant information and analysis. The Commission must perform its constitutional and statutory duties to ensure that California public utilities—furnish and maintain safe equipment and facilities.‖[113] To accomplish this goal, the Commission must ensure that all relevant analysis and findings are utilized.

PG&E has steadfastly refused to make any improvements to the PSEP. Even if PG&E is unwilling to make the necessary changes, the Commission should order PG&E to modify the PSEP to incorporate the NTSB's findings. This should be a minimum starting point for developing a vision for future pipeline operations and oversight. The Commission has publicly committed to implementing the NTSB's findings, and should require PG&E to take the necessary steps to do so as well.

The Commission must closely review PG&E's work proposal to determine whether the rates charged for the work proposed will result in just and reasonable rates. This will require the Commission to not only review PG&E's past practices but also review, whether PG&E's asserted efficiencies are in fact true, and scrutinize PG&E's cost sharing principles. If the Commission does not apply this scrutiny to the PSEP, not only will ratepayers have little assurance that the most immediate threats are being remediated ratepayers will suffer through higher, unwarranted rates.

[113] June Decision at p. 16.

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Respectfully submitted,

DENNIS J. HERRERA
City Attorney
THERESA L. MUELLER
AUSTIN M. YANG
Deputy City Attorneys

By: /S/
AUSTIN M. YANG

Attorneys for
CITY AND COUNTY OF SAN FRANCISCO