

**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)

**RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY TO
PETITION OF THE UTILITY REFORM NETWORK AND THE
DIVISION OF RATEPAYER ADVOCATES FOR
MODIFICATION OF DECISION 12-12-030**

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Dated: March 8, 2013

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I. INTRODUCTION

Pacific Gas and Electric Company (“PG&E”) opposes the modifications to Decision 12-12-030 proposed by the Division of Ratepayer Advocates (“DRA”) and The Utility Reform Network (“TURN”) (together, “Joint Parties”). Joint Parties’ Petition for Modification, filed less than two months after issuance of Decision 12-12-030, should be rejected as an attempt to get a second bite at the apple. Joint Parties fail to identify anything that has changed since the Commission issued Decision 12-12-030 that would justify modification of the decision. With respect to the specific modifications proposed, Joint Parties’ first proposed modification—which would require PG&E to file an updated Pipeline Safety Enhancement Plan (“PSEP”) Phase 1 (“Update Application”) within 30 days of the Commission’s decision on the Petition for Modification—is unworkable and would defeat the purpose of the Update Application by requiring it to be filed *before* PG&E completes data validation of all 6,750 miles of gas transmission pipelines and processes these data through the Decision Trees. The second proposed modification—to remove non-adjacent, non-High Consequence Area (“HCA”) Class 1 and 2 pipe segments from the scope of Phase 1 without regard to justification for their inclusion—should be rejected because it ignores the record evidence justifying the inclusion of some Class 1 and 2 non-HCA segments for reasons other than adjacency to Class 3 and 4

segments. Finally, Joint Parties' third proposed modification—a clarification that the projects that can be accelerated to Phase 1 to replace projects that PG&E no longer needs to do as a result of records validation must meet the Phase 1 criteria—should be rejected because it is unnecessary and would prejudge the evaluation of the Update Application.

II. JOINT PARTIES' FIRST SUGGESTED MODIFICATION IS IMPRACTICABLE

As Decision 12-12-030 recognizes, PG&E's August 2011 PSEP filing was based on the best available pipeline data in PG&E's Geographic Information System ("GIS") as of January 2011, before completion of a comprehensive records search and Maximum Allowable Operating Pressure ("MAOP") Validation Project.¹ As a result, the exact number of pipe segments for which PG&E has previous strength test records based on a "traceable, verifiable and complete" standard was not known at the time of the PSEP filing, and will not be known until PG&E completes MAOP data validation through the development of Pipeline Features Lists ("PFL"). Therefore, the Commission required PG&E to file an Update Application 30 days after the conclusion of the MAOP Validation Project. The Update Application will present the results of the MAOP validation through an updated pipe segment database, and update the PSEP authorized revenue requirements.²

Joint Parties ask that the decision be modified such that the Update Application will be filed within 30 days of the date when the Commission acts on their petition, which will likely be *before* the conclusion of PG&E's MAOP Validation Project. Joint Parties' proposed schedule is unworkable. As PG&E has consistently stated throughout this proceeding, the construction of PFLs, data entry, and analysis of pipeline MAOPs based upon these data, will be completed by the end of April, 2013. The completion of data entry and the analysis to validate MAOP, however, is only the first step in completing the MAOP Validation Project. Before the MAOP Validation Project can be deemed "complete," PG&E must take the component level data from

¹ D. 12-12-030, p. 114.

² *Id.*, Ordering Paragraph ("OP") 11; pp. 114-115.

the PFLs and integrate the data with PG&E's enhanced GIS (Intrepid), and ensure geospatial alignment at the pipe segment level.³ Once the data are uploaded into Intrepid, PG&E plans to conduct a thorough Quality Assurance/Quality Control ("QA/QC") process before the data transfer can be deemed reliable. PG&E expects to complete the integration of the data into Intrepid, and the QA/QC process, by July 1, 2013. Only then can the MAOP Validation Project be deemed "complete."

After the MAOP Validation Project is complete, the Pipeline Modernization Decision Trees must be re-run using the updated data, and the results of that must be compared to the scope of work that PG&E forecasted in the original PSEP filing. Once PG&E has an updated forecast of capital and expense projects that result from running the new data through the Decision Trees, a new revenue requirement must be developed, and new gas rates must be produced. PG&E expects the process of re-running the Decision Trees and developing new revenue requirements and rates to require at least one month's work.

Joint Parties suggest that the Update Application should be filed before PG&E completes the MAOP Validation Project, because MAOP validation for HCA segments has already been completed, leaving unfinished only MAOP validation for non-HCA segments. While PG&E has in fact finished MAOP validation for HCA segments, it would be counterproductive to prepare the Update Application prior to completing MAOP Validation for non-HCA segments. As Joint Parties recognize, Decision 12-12-030 approved the inclusion of some non-HCA pipeline segments in the scope of Phase 1, when they are located adjacent to Class 3 or 4 pipeline segments that are included in Phase 1, or where there is an "economic or engineering supporting rationale."⁴ Because some non-HCA segments are slated for work in Phase 1, it makes sense to re-run the Decision Trees *once*, with updated data for both non-HCA pipeline segments and

³ The original PSEP filing, Decision Trees and workpapers were based on GIS segment data. The information used for the Update Application will also use pipeline segment data.

⁴ D.12-12-030, Conclusion of Law ("COL") 20. Joint Parties do not take issue with the inclusion of adjacent Class 1 and 2 segments in Phase 1, but seek modification of COL 20. PG&E addresses Joint' Parties suggested modification of COL 20 in the next section.

HCA pipeline segments. To rush to re-run the decision trees with *only* updated HCA data would defeat the purpose of the Update Application, and would require another “update” only a few months later.

III. JOINT PARTIES’ SECOND MODIFICATION IGNORES RECORD EVIDENCE JUSTIFYING THE INCLUSION OF NON-ADJACENT CLASS 1 AND 2 NON-HCA SEGMENTS

Joint Parties take issue with COL 20, which provides that “PG&E has justified including pipeline segments located in Class 1 or 2 locations without high consequence areas but adjacent to Class 3 or 4 locations, or with economic or engineering supporting rationale, within Phase 1.” The Joint Parties seek a modification of COL 20 that would require PG&E to remove non-HCA and non-adjacent Class 1 and 2 pipeline segments from Phase 1, thereby removing “economic or engineering rationale” as justifications for including Class 1 and 2 non-HCA areas in Phase 1. This proposed modification should be rejected.

This issue of the inclusion of Class 1 and 2 segments in Phase 1 was a contested issue in the litigation of PSEP Phase 1.⁵ DRA and TURN proposed to eliminate many Class 2 segments that are not adjacent to Class 3 or 4 segments. In response, PG&E explained that while this approach may reduce costs in the short-term, it may increase costs in the long-term because PG&E will have to go back and either pressure test or replace Class 2 and Class 1 pipe segments at a later time.⁶ The Commission considered this record evidence in determining the exception to the general rule that pipeline segments in Class 1 or 2 locations will not be included in Phase 1 except for “sound engineering or economic reasons.”⁷ The Commission noted that adjacency to Class 3 and 4 locations “logically fit” within such exceptions, but did not define adjacency as the sole criterion for an exception to the general rule.⁸ Joint Parties’ attempt to narrow the “sound

⁵ Joint Parties’ Petition for Modification is a naked attempt to relitigate contested issues resolved by Decision 12-12-030.

⁶ Exhibit (“Ex.”) 21, PG&E Rebuttal, p. 3-16, lines 14-19.

⁷ D.12-12-030, pp. 66-67.

⁸ There are reasons to include Class 1 and Class 2 non-HCA segments in Phase 1 other than adjacency to Class 3 and Class 4 segments. For example, including non-adjacent Class 1 and 2

engineering and economic reasons” criteria to a question of mere adjacency is unwarranted.

However, PG&E understands the concern of the Commission and other parties regarding inclusion of Class 1 and 2 segments in the scope of Phase 1, and has taken action to modify the Phase 1 scope. After the Proposed Decision was issued in this case, PG&E reviewed the pipeline replacement and strength testing projects proposed for Phase 1 for any projects which consisted entirely of Class 1 and 2 non-HCA pipe. Several projects were identified and removed from the scope of Phase 1. This information will be included in the Update Application.

Finally, we have now entered Year 3 of the 4 year Phase 1 Program (2011-2014). Some of the projects that include non-HCA and non-adjacent Class 1 and Class 2 pipeline segments are at an advanced stage of engineering, permitting and project planning.⁹ While it may be feasible to remove some Class 1 and 2 segments from these projects and defer them for a few years, it may not be efficient in all cases. In some cases, PG&E would no longer be able to take advantage of economies of scale by including short, non-contiguous Class 1 and 2 segments in Phase 1. These are precisely the “engineering and economic” justifications that led the Commission to craft an exception to the general rule that Class 1 and 2 non-HCA segments will not be included in Phase 1. The Commission’s originally crafted exception should not be truncated to include only adjacent Class 1 and 2 non-HCA segments.

IV. JOINT PARTIES’ THIRD MODIFICATION IS UNNECESSARY AND PREJUDGES THE OUTCOME OF THE UPDATE APPLICATION

Decision 12-12-030 establishes program-based upper limits on expense and capital to be recovered from ratepayers for the specific projects included in Phase 1, and provides that, “to the extent specific authorized Phase 1 projects are not completed by the end of 2014 and not replaced with other higher priority projects, the expense and capital cost limit of the balancing

segments that are located nearby (albeit not adjacent to) a project that includes Class 3 and 4 segments may increase the piggability of PG&E’s transmission pipeline system. Ex. 21, PG&E Rebuttal, p. 3-16, line 4.

⁹ In fact, some of these projects already have been completed.

account is reduced by the amounts associated with the project not completed.”¹⁰ Joint Parties ask the Commission to clarify that “other higher priority projects” must meet the criteria for Phase 1 in order for those projects to replace Phase 1 projects that no longer need to be done.

This proposed clarification is unnecessary, because the Update Application will identify any “high priority projects” that PG&E proposes to accelerate to Phase 1 to replace projects that are no longer necessary. At that time, the Commission will have the opportunity to evaluate whether those projects are of such a high priority that they should be performed in Phase 1. PG&E remains committed to performing this important safety work in the most efficient manner possible.

V. CONCLUSION

For the foregoing reasons, PG&E respectfully requests that the Commission deny Joint Parties’ Petition for Modification of Decision 12-12-030.

Respectfully Submitted,

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¹⁰ D. 12-12-030, p. 108.