

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)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON  
PROPOSED DECISION MANDATING PIPELINE SAFETY  
IMPLEMENTATION PLAN, DISALLOWING COSTS, AND AUTHORIZING  
MEMORANDUM ACCOUNT**

**I. INTRODUCTION**

In accordance with Rule 14.3 of the California Public Utilities Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) hereby submits its comments on the proposed decision (PD) of Administrative Law Judge Bushey mandating a pipeline safety implementation plan for Southwest Gas (SWG), disallowing certain costs and authorizing a memorandum account.

The PD errs in authorizing memorandum account treatment of SWG's implementation plan costs. SWG does not need such a mechanism given its pending general rate case (GRC).

**II. DISCUSSION**

DRA agrees with the PD's finding that "The lack of pressure test records for pipeline placed into service after January 1, 1956, reflect[s] an error in Southwest Gas' operation of its natural gas system."<sup>1</sup> The PD also correctly concludes that "It is

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<sup>1</sup> PD, Finding of Fact 6.

reasonable for the shareholders of Southwest Gas to absorb the cost of pressure testing the Victor Valley natural gas transmission pipeline because the absence of pressure test records was caused by imprudent management.”<sup>2</sup> In this regard, the PD authorizes approximately \$3.4 million in replacement costs for SWG’s Victor Valley System, and states: “To enable Southwest Gas to commence work on its Implementation Plan immediately, we will authorize a memorandum account until its 2014 test year.”<sup>3</sup> The PD also authorizes the addition of a remote controlled shut-off valve in SWG’s Harper Valley System, and states: “[W]e will authorize Southwest Gas to record any 2013 costs in its memorandum account and to include 2014 costs in the 2014 test year.”<sup>4</sup>

SWG does not require a memorandum account because it is currently undergoing a GRC with new rates going into effect on January 1, 2014. The policy adopted in the PD can be applied to the Test Year 2014 GRC proceeding. DRA’s review indicates that the pipeline replacement work necessary for the Victor Valley natural gas transmission system is already included in SWG’s projected plant additions in its GRC application for test year 2014.<sup>5</sup> The project is identified for inclusion among Test Year 2014 plant additions in the “Special Projects” category.<sup>6</sup> By the time the Victor Valley project is ready to enter into plant-in-service, the GRC rates will have already included the plant addition in SWG’s rate base. The PD therefore errs in authorizing the memorandum account because the factual evidence does not support a need for the account. DRA finds no need for the Commission to authorize any memorandum account to record any 2013 and 2014 costs addressed in the PD.

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<sup>2</sup> PD, Conclusion of Law 6.

<sup>3</sup> PD at 13.

<sup>4</sup> PD at 13.

<sup>5</sup> See Application 12-12-004, Prepared Direct Testimony of Robert A. Mashas for Southwest Gas Corporation, Dec. 20, 2012, Volume III, Chapter 17 (Rate Base), p. 8, Q.22.

<sup>6</sup> *Id.*

### III. CONCLUSION

DRA recommends that the final decision be revised pursuant to these comments, as shown in Appendix A.

Respectfully submitted,

/s/ Marion Peleo

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Marion Peleo

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-2130  
Fax: (415) 703-2262

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## APPENDIX A

### Proposed Revisions to PD language, Conclusions of Law and Ordering Paragraphs

#### **Page 13:**

To enable Southwest Gas to commence work on its Implementation Plan immediately, we will ~~authorize a memorandum account until its 2014 test year.~~ recognize these approved investments within Southwest Gas' Test Year 2014 General Rate Case proceeding (A.12-12-024).

#### **Page 13:**

As set forth above, we approve the addition of a remote shut-off valve in the Harper Valley System. ~~DRA's request that shareholder's fund this addition is not persuasive because the need for this valve arose outside of the rate case cycle. Therefore, we will authorize Southwest Gas to record any 2013 costs in its memorandum account and to include 2014 costs in the 2014 test year.~~ The reasonable cost associated with the investment for the remote shut-off valve shall be included in Southwest Gas' currently pending General Rate Case proceeding (A.12-12-024).

#### **Conclusion of Law 9:**

~~A memorandum account should be approved for all Implementation Plan projects prior to the 2014 test year.~~ A memorandum account is not required and should not be authorized given that Southwest Gas has filed its Test Year 2014 General Rate Case application (A.12-12-024) to be effective January 1, 2014.

#### **Ordering Paragraphs 2 and 3:**

~~2. Southwest Gas Company is authorized to file a Tier 1 Advice Letter to create a memorandum account in which to record expenditures pursuant to the Implementation Plan from the effective date of today's decision through December 31, 2013. Any accumulated balance on December 31, 2013, plus interest, will be amortized in the 2014 test year general rate case.~~

~~3. Southwest Gas Company must limit the amounts recorded in the memorandum account authorized in Ordering Paragraph 2 to \$250,000 for the remote controlled shut-off valve in the Harper Lake system, and the actual capital cost and expense of replacing the Victor Valley system, less \$3.75 million.~~