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July 12, 2013

Re: R.11-02-019 - PG&E July 8, 2013 Request For Extension of Time
To Comply With Ordering Paragraph 11 of D.12-12-030

Dear Mr. Clanon:

This letter responds to Pacific Gas and Electric Company's ("PG&E") July 8, 2013 letter to you requesting a three month extension of time to comply with Ordering Paragraph 11 of Decision ("D.") 12-12-030, the Pipeline Safety Enhancement Plan or "PSEP" Decision. The Utility Reform Network ("TURN") and the Division of Ratepayer Advocates ("DRA") (together the "Consumer Parties") respectfully object to PG&E's request.

In response to the Consumer Parties' requests made during the PSEP proceeding, the PSEP Decision requires PG&E to submit an Update Application 30 days after the conclusion of its Maximum Allowable Operating Pressure ("MAOP") validation and records search work. The Consumer Parties and the PSEP Decision recognized that PG&E's proposed PSEP in its original application, which identified the pipelines to be tested and/or replaced based on missing pressure test records, included projects which might ultimately drop out because PG&E's records search was not complete at the time of its original PSEP Application. The Update Application was intended to ensure that PG&E's PSEP was updated to account for missing pressure test records that were eventually located, making testing and/or replacement of some pipelines unnecessary, thus reducing the scope and cost of the PSEP. The PSEP Decision explained:

... [W]e will not know the exact number of pipe segments PG&E lacks the test records for and their associated disallowance until its MAOP validation and records search is completed. After the MAOP validation and records search are completed, DRA's larger disallowance, or a portion of it, may be appropriate. Therefore, consistent with TURN's recommendation, we shall require PG&E to

file an expedited application 30 days after the conclusion of its MAOP validation and records search work that includes an updated pipe segment database.¹

The PSEP Decision ordered that this application be “limited in scope.”² The PSEP Decision also authorized a PSEP budget for PG&E, and ordered that expenditures over this authorized budget not be recovered from ratepayers.³ In other words, the PSEP Decision imposed a cost cap on PG&E’s Phase I PSEP expenditures (that is, a cap on the cost to ratepayers). In ordering PG&E to file a revised budget with its Update Application, the PSEP Decision clearly contemplated possible reductions in PG&E’s authorized expenditures as a result of reductions in the scope of the PSEP based on information obtained during the MAOP validation project.⁴

PG&E was well aware that the scope of the PSEP, and therefore its authorized expenditures, were likely to be reduced as a result of completing the MAOP validation and updating the PSEP with the new pressure test information. As TURN explained when it proposed something akin to the Update Application:

PG&E acknowledged that its PSEP estimates were based on a snapshot from its Geographic Information System (“GIS”) database as of January 2011, long before it had concluded its MAOP validation work for high consequence area (“HCA”) pipe segments. It is undisputed that, since January 2011, PG&E had located complete pressure test records that would obviate the need to test or replace at least 157 miles of pipeline in its PSEP, more than 15 percent of the total miles approved in the PD.⁵

TURN further concluded:

To remedy this error, the [Proposed Decision] should be modified to require PG&E to update its mileage estimates in an advice letter filing shortly after the decision’s issuance. In this way, the cost cap

¹ D.12-12-030, p. 115.

² D.12-12-030, p. 115.

³ D.12-12-030, p. 125.

⁴ *See, e.g.*, D.12-12-030, p. 129, Ordering Paragraph 11.

⁵ TURN Opening Comments on the Proposed Decision (“PD”), R.11-02-019, Nov. 16, 2012, p. 2 (*footnotes omitted*). PG&E did not dispute TURN’s estimates of the number of pressure test records PG&E had located since January 2011. *Id.*, p. 2, note 3.

can be reduced to exclude costs for ineligible segments and prevent any opportunity for cost recovery for work that is not performed.⁶

The PSEP Decision essentially adopted TURN's proposal, but elected the more formal application procedure, rather than TURN's proposed advice letter procedure.

Pursuant to the PSEP Decision, the parties, including PG&E and the Consumer Parties, attended a March 26, 2013 Workshop hosted by Energy Division, and have participated in several follow up conference calls and numerous documents exchanges with PG&E to determine the contents of the Update Application.⁷ Consumer Parties agree with PG&E that workshop participants were not able to agree on the scope or filing requirements for the Update Application.⁸ Unfortunately, the March Workshop, in combination with the other communications with PG&E, reveal that PG&E seeks to use the Update Application to revisit much more than the issue of whether it has located qualifying pressure test records.

Among other things, the discussions with PG&E reveal that it seeks to increase project costs by: (1) increasing the length of many PSEP projects based on a new measuring methodology, thereby increasing the costs of each project, which are computed on a per-foot basis; (2) incorporating increased costs from changes unrelated to MAOP Validation, such as newly discovered permitting requirements and cultural resource issues; and (3) incorporating cost changes from revised engineering assessments. This increased scope is also supported by DRA's review of the sample workpaper appended to PG&E's extension request.

In sum, PG&E seeks a second bite at the contingency apple by attempting to revise project costs approved in D.12-12-030 to take into account precisely the kind of project changes supporting PG&E's request for a 21% contingency. However, D.12-12-030 explicitly denied PG&E's contingency request on the basis that PG&E's proposed project costs were already "generous" and at "the high end of the range of reasonableness."⁹ Thus, PG&E's PSEP cost estimates were assumed to take these types of changes and/or mistakes into account.

⁶ *Id.*, p. 3.

⁷ D.12-12-030, p. 115 ("The specific showing that PG&E will be required to provide in its application will be considered in a workshop to be held no later than 90 days from the effective date of this decision.").

⁸ PG&E letter to Paul Clanon, July 8, 2013, pp. 1-2.

⁹ *See, e.g.*, pp. 63 and 98-99.

Ultimately, by broadening the scope of the Update Application, PG&E apparently hopes to mitigate against any cost cap reductions that would otherwise result from having located pressure test records. The cost cap serves an important ratepayer and efficiency interest and it should be adjusted downward to take into account the reduced number of projects to be performed based on found pressure test records.

Allowing PG&E to increase its project costs and thereby claw back the ratepayer savings that should result from found pressure test records is not only inconsistent with key provisions of D.12-12-030, but would also eliminate the efficiency incentives the Commission sought to create by adopting those same provisions. The PSEP Decision expressly concluded that: “The Commission should impose strong incentives on PG&E to encourage efficient construction management and administration of the Implementation Plan.”¹⁰

PG&E’s Update Application is not the appropriate forum for PG&E to seek to increase the approved costs of its projects – an issue already litigated and resolved in D.12-12-030.

If PG&E’s Update Application was properly limited to updating the segments for which PG&E has found qualifying test records and reducing its testing and replacement programs accordingly, PG&E would have little trouble meeting the PSEP Decision’s goal of an “expedited” application.

Moreover, PG&E’s representations that it needs additional time because it only completed its MAOP validation and records search work on July 1, 2013 are confounding given PG&E President Chris John’s representations to the National Transportation Safety Board (“NTSB”) that its MAOP validation work was completed prior to January 31, 2013. On the basis of Mr. John’s representations, the NTSB closed its “urgent recommendation” that PG&E complete this work.¹¹

On August 1, 2013, PG&E should be required to file the limited and expedited application that the PSEP Decision requires, *i.e.*, to update the PSEP scope and costs based on pressure test records located after the creation of the original PSEP database. If PG&E wants to broaden the scope of its Update Application, it should file a petition for modification of D.12-12-030 or otherwise obtain leave of the Commission to do so.

¹⁰ D.12-12-030, p. 125, Conclusion of Law 34.

¹¹ See, e.g., CPSD Reply Brief, Recordkeeping Investigation, I.11-02-016, April 24, 2013, pp. 3-6. PG&E’s suggestion that it has completed Quality Assurance/Quality Control processes is also in question. See, DRA Motion For A Ruling Directing PG&E To Provide Quality Assurance And Quality Control Plans For The Development And Implementation Of Its PSEP, R.11-02-019, July 8, 2013.

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Using an extension request to significantly expand the scope of its Update Application is inappropriate.

Respectfully submitted,

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Official Service List for R.11-02-019