

**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)

**PACIFIC GAS AND ELECTRIC COMPANY'S RESPONSE TO
MOTION OF THE DIVISION OF RATEPAYER ADVOCATES AND
THE UTILITY REFORM NETWORK FOR A RULING
CONFIRMING THE SCOPE OF THE PIPELINE SAFETY PLAN
("PSEP") UPDATE APPLICATION**

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I. INTRODUCTION

Pacific Gas and Electric Company ("PG&E") responds to the motion of the Division of Ratepayer Advocates ("DRA") and The Utility Reform Network ("TURN") requesting a ruling "confirming" the scope of the Pipeline Safety Enhancement Plan ("PSEP") Update Application. DRA/TURN's Motion should be viewed as another example of their myopic and singular focus on costs and not improving gas transmission pipeline safety. Unlike DRA and TURN, PG&E's focus is on safety. We seek to ensure the right work is performed on each gas transmission pipeline segment based on what we know about the pipelines *today*, and to work efficiently to minimize both customer and shareholder costs.

Our 2011 PSEP Application was based on a "snapshot" of the Geographic Information System ("GIS") data taken in January 2011, before PG&E completed its records search and Maximum Allowable Operating Pressure ("MAOP") validation work. Now that records validation is complete, PG&E has processed the updated data through the Pipeline Modernization Decision Tree, and has spent the past few months preparing a transparent PSEP

Update Application that will show *every* change from PG&E’s August 2011 PSEP Application, at the pipe segment level.¹ As a result of the nature of the data and the desire for transparency, PG&E’s work papers will be voluminous, as DRA and TURN indicate. The voluminous nature of the PSEP Update Application is not a reason to limit the scope of the application.

Furthermore, although the costs of some projects have increased based upon what we learned during records validation, the PSEP Update Application will propose *a net reduction* to the revenue requirements. The Commission should not limit PG&E’s PSEP Update Application based upon representations of TURN and DRA, but should instead have the benefit of PG&E’s full showing before it renders a decision. Finally, TURN/DRA’s proposal to bifurcate the review of changes to the PSEP into separate reviews conflicts with the Commission’s goal to align safety and ratemaking, and would be inefficient.

II. DECISION 12-12-030

The Commission issued Decision (“D.”) 12-12-030 on December 28, 2012, approving PG&E’s Pipeline Modernization scope of work, and adopting cost and revenue requirement caps for 2012-2014. The Decision adopted PG&E’s Pipeline Modernization Decision Tree, but recognized that the PSEP is “subject to revision and updating as new information comes to light.”² In particular, the Commission found that “new safety engineering information may provide the analytical foundation for revising priorities.”³ Accordingly, “improvements, efficiencies, and adjustments to the Implementation Plan based on sound engineering data and that further the objectives of the Plan are within the scope of the Plan.”⁴ Furthermore, the

¹ The August 2011 PSEP Application was also based on a database that identified the decision tree action for each pipeline segment in the PG&E gas transmission system.

² D.12-12-030, p. 84.

³ *Id.*

⁴ *Id.*; *see also* Finding of Fact 32.

Commission found that PG&E justified including pipeline segments located in Class 1 or 2 locations without High Consequence Areas (“HCA”) but adjacent to Class 3 or 4 locations, or with economic or engineering supporting rationale, as high priority work to be completed during 2012-2014.⁵

The Commission adopted program-based upper limits on expense and capital costs to be recovered from customers through 2014. To the extent specific authorized projects are not completed by the end of 2014 and not replaced with other higher priority projects, D.12-12-030 requires that the cost limits be reduced by the amounts associated with the project not completed.⁶ In addition, the Commission found that PG&E’s shareholders should absorb the costs of pressure testing pipelines placed into service after January 1, 1956 for which PG&E lacks pressure test records.⁷

The Commission also ordered PG&E to file an application 30 days after the completion of its MAOP Validation Project and records search to present the results of those efforts, and update its authorized revenue requirements and related budgets, consistent with D.12-12-030.⁸ The Commission specifically directed PG&E to submit an updated pipe segment database with the PSEP Update Application.⁹ The Commission recently approved PG&E’s request for an extension of time to file the PSEP Update Application, to October 29, 2013.¹⁰

⁵ *Id.*, Conclusion of Law (“COL”) 20; pp. 66-67.

⁶ *Id.*, p. 108.

⁷ *Id.*, COL 15, 16.

⁸ *Id.*, Ordering Paragraph (“OP”) 11.

⁹ *Id.*, pp. 4, 115.

¹⁰ PG&E expects to file the PSEP Update Application in advance of the October 29, 2013 deadline.

III. DRA/TURN'S MOTION SHOULD BE DENIED

A. Revenue Requirements Will Be Reduced As A Result Of The Update Application

DRA/TURN's chief concern seems to be that PG&E will use the PSEP Update Application as a vehicle to increase revenue requirements over those adopted in D.12-12-030. PG&E will not. Although PG&E is still in the process of preparing the PSEP Update Application, preliminary analysis indicates that the update will show a significant net reduction in strength testing and pipeline replacement from PG&E's August 2011 PSEP filing.¹¹ This mileage reduction will result in a reduction to revenue requirements that will be reflected in PG&E's PSEP Update Application.¹²

PG&E's PSEP Update Application will not provide a "second bite at the contingency apple," as DRA and TURN suggest.¹³ PG&E is using the same unit cost calculators to calculate project costs for the PSEP Update Application that it used for the August 2011 PSEP Application, despite the fact that actual costs are running significantly above the approved unit costs embedded in the cost calculators. While an individual PSEP project may be shorter or longer than originally filed following data validation, the unit cost calculations remained the same. Applying the same unit cost calculators from the original PSEP filing to project scopes

¹¹ The overall cost of some projects will increase, while others will decrease, based upon information learned during records validation. However, applying the adopted unit costs, the update will show a net reduction in program scope and revenue requirements.

¹² The PSEP Update Application will also reflect shareholder cost responsibility for strength testing of pipelines installed after 1955, for which PG&E lacks records of a prior strength test.

¹³ It is DRA and TURN that continue to seek multiple bites at the apple—first by arguing in the PSEP proceeding that the Commission should disallow all PSEP costs based upon the separate Orders Instituting Investigation ("OII"), then by seeking additional PSEP disallowances as "remedies" in the OIIs, and now seeking to limit the PSEP Update to only downward adjustments to costs based upon a small piece of records validation.

that have been updated as a result of records validation isolates the changes due to records validation, and avoids “relitigating costs.”

B. DRA/TURN’s Motion Mischaracterizes PG&E’s Records Search And MAOP Validation Work

DRA and TURN suggest that PG&E’s records search and MAOP validation effort was narrowly focused on locating records of prior strength tests; in fact, it was a much broader undertaking to collect and organize all pipeline strength tests and pipeline features data necessary to re-calculate the MAOP of gas transmission pipelines and all associated components.¹⁴

Records validation captured the length of every piece of pipe and pipeline component from project files, as-builts and construction documents, resulting in a Pipeline Features List (“PFL”) for every numbered pipeline route. The PFL contains a list of every pipeline component and specific attribute information on each pipeline segment and component (such as type, size, diameter, wall-thickness, yield strength, pressure test information, and date of install). This is not a new “measuring technology” as TURN and DRA suggest, but rather an entirely new electronic pipeline information database that captures and contains detailed attribute information on every existing gas transmission pipeline component.¹⁵

It is important to recognize, however, that our older, historic records are not complete, and that records validation is an ongoing effort subject to continuous improvement. We will continue to discover new information about our pipelines through records validation and field testing of engineering assumptions. PG&E’s goal is to base the PSEP work reflected in the

¹⁴ For a full description of PG&E’s records search and MAOP validation effort, see PG&E’s August 26, 2011 testimony, Chapter 5.

¹⁵ PG&E has provided this description to DRA and TURN many times (including in PSEP testimony), and has provided a sample of the new PSEP pipe segment database to DRA so that it can get comfortable with how to view the pipeline segment level data.

Update Application on what we know about our gas transmission pipeline segments and components today.¹⁶ PG&E believes that its approach is consistent with a commitment to safety, which the Commission shares. DRA and TURN's proposed limitations to the scope of the PSEP Update Application are focused on costs, not safety, and should be rejected.

C. PG&E Is Preparing A Transparent PSEP Update Application In Accordance With The Requirements Of D.12-12-030

PG&E has agreed to provide in the PSEP Update Application detailed work papers that show—for each pipe segment—the changes from PG&E's August 2011 PSEP Application to the PSEP Update Application.¹⁷ This requires a massive effort, and will result in a transparent PSEP Update Application that will allow parties to see all changes *at a pipe segment level*.

In order to prepare the PSEP Update, the updated pipe segment/component data was processed through the Decision Tree to verify the PSEP recommended actions. As a result, project scopes may be redefined due to additional information obtained as part of records validation. The changes from the original filing generally fall into the following categories:

- (1) No Change to PSEP Planned Action: Records validation confirms the pipeline segment attributes and pressure testing data identified in the PSEP database were accurate in August 2011; no changes to the proposed action are warranted.
- (2) Changes Due to Records Found of Prior Strength Test: If records validation confirms a proposed project had a valid pressure test record that complied with the regulations at the time of the test, the project is removed.
- (3) Changes Due to MAOP Validation, Class Location and HCA Updates: If records validation confirms that the pipeline attribute(s) for a pipeline segment are different than what was known when the August 2011 PSEP was submitted, the pipeline attributes are updated and the pipe segment is re-processed through the Decision Tree. This action can result in multiple outcomes: (i) a project can

¹⁶ This includes updated information on Class Location and High Consequence Areas (“HCA”) based on work performed in 2011 and 2012.

¹⁷ Other than some minor edits from the Safety and Enforcement Division (“SED”) on the sample work papers provided to DRA, TURN, SED and Energy Division, SED appeared to have no objection to PG&E's approach to the level of detail provided in the work papers.

change from test to replace or *vice versa*; (ii) a project can be deferred beyond 2014 consistent with D.12-12-030 (if, for example, a segment changes from a Class 2 HCA to a Class 2 non-HCA); or (iii) pipeline segments not identified in the August 2011 PSEP filing may now require a replacement or pressure due to information learned about the pipeline attributes.¹⁸

(4) Changes Due to Engineering Judgment/External Factors: These are circumstances in which PG&E's proposed action for a particular pipe segment differs from the raw Decision Tree results for that segment. PG&E has identified 19 unique reasons why the actions proposed for a pipeline segment may deviate from the Decision Tree results. PG&E has shared a description of these deviations with TURN and DRA, and deviations at the pipeline segment level will be noted in the updated PSEP database.

(5) Changes Due to Retirements and Downrates: PG&E has identified opportunities to either convert a gas transmission pipeline to a gas distribution pipeline, or retire the gas transmission pipeline because it is no longer needed to serve customers. There are about a dozen such projects that will be identified in the update. Because the cost to perform the downrate or retirement is significantly less than the cost to replace, this change will result in a revenue requirement reduction.

As this section demonstrates, the Commission and all interested parties will have full access to a new, updated pipe segment database, and work papers for each project that show—at the pipe segment level—changes from PG&E's original PSEP filing to the PSEP Update Application. The Commission should decline DRA's and TURN's invitation to limit PG&E's PSEP Update Application before it is filed.

D. DRA/TURN's Proposed Bifurcated Approach Severs The Link Between Safety And Ratemaking And Is Inefficient

DRA and TURN pay lip service to the importance of ensuring that all high priority work is performed before 2015 by suggesting a bifurcated approach in which SED performs a separate review of the PSEP database and all changes in scope from the August 2011 PSEP Application. DRA/TURN's proposal suffers from several flaws. First, it conflicts with the Commission's

¹⁸ PG&E understands that it must demonstrate that any new projects identified in the PSEP Update Application that were not proposed in the August 2011 PSEP filing meet D.12-12-030 criteria for priority work that should be completed prior to 2015.

objective of aligning safety and ratemaking. DRA and TURN recognize that the PSEP work should be prioritized based upon updated pipeline segment data, but deny that the allocation of costs between PG&E shareholders and customers should reflect the most recent data. In essence, DRA/TURN's proposal would deny PG&E an opportunity to even seek recovery of costs for work that is necessary to meet new Commission standards, is not remedial, and otherwise would have been recoverable had the August 2011 PSEP Application been based on validated pipe segment data.

Second, DRA/TURN's proposal would result in an inefficient use of resources. PG&E is preparing one updated pipe segment database, and one set of work papers that show changes resulting from records validation between August 2011 proposed PSEP projects, and the projects proposed in the PSEP Update Application. It would require duplication to prepare one database and set of work papers for SED that shows all changes to projects, and another pipe segment database and set of work papers for the PSEP Update Application that shows only the changes that DRA and TURN believe should be shown because they reduce costs.¹⁹

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¹⁹ In addition, DRA/TURN's proposal ignores the fact that the Commission ordered PG&E to submit an updated pipe segment database showing the results of records validation with the PSEP Update Application. D.12-12-030, p. 115.

