

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric  
Company (U39G) to Update Pipeline  
Safety Enhancement Plan.

Application 13-10-017  
(Filed October 29, 2013)

**PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES**

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## **I. INTRODUCTION**

In accordance with Rule 2.6 of the Commission's Rules of Practice and Procedure (Rules), the Office of Ratepayer Advocates (ORA) submits this protest to Pacific Gas and Electric Company's (PG&E) application to update its Pipeline Safety Enhancement Plan (PSEP Update Application or Update Application). The notice of the filing of the PSEP Update Application appeared on the Commission's Daily Calendar on November 6, 2013, and, therefore, pursuant to Rule 2.6(a), ORA's protest is timely filed.

ORA truly appreciates the effort PG&E has made to address the issues raised by ORA and The Utility Reform Network (TURN) in the pre-filing workshop in March of this year, and in the communications that followed, and to clearly identify the changes made from the original PSEP application to the Update Application. ORA also appreciates that the Update Application has resulted in a significant reduction in Phase I PSEP costs, as was contemplated when ORA and TURN requested an update mechanism.

ORA's preliminary review indicates that most components of PG&E's Update Application are probably reasonable and should be approved. However, PG&E's Update Application is voluminous, including over five volumes of work papers, and ORA has had limited opportunity to perform much more than a cursory review. Among other things, ORA did not receive a functional electronic version of PG&E's work papers until four to five business days before this Protest was due, which has limited its ability to perform any detailed analysis of the Update Application. Consequently, this Protest identifies the following high-level issues raised by the Update Application:

1. Whether PG&E's Update Application complies with Decision (D.) 12-12-030 (the PSEP Decision);
2. Whether PG&E has properly allocated costs in the Update Application between shareholders and ratepayers, as directed by the PSEP Decision;
3. Whether new projects added to PG&E's Update Application are appropriate for Phase 1 of the Pipeline Safety Enhancement Plan (PSEP); and

4. Whether PG&E’s description of its quality assurance and quality control (QA/QC) plans and procedures comprise a QA/QC Plan that will ensure that PG&E’s Phase 1 PSEP work is performed to the standards required for a safe gas transmission system.

ORA reserves the right to supplement these issues at a later date, as it conducts its review of the Update Application, and more information becomes available.

## **II. BACKGROUND**

### **A. Procedural Background**

In response to ORA and TURN requests made during the ratesetting portion of PG&E’s PSEP proceeding, the PSEP Decision issued in Rulemaking (R.) 11-02-019 ordered PG&E to submit an Update Application 30 days after the conclusion of its Maximum Allowable Operating Pressure (MAOP) validation and records search work.<sup>1</sup> The PSEP Decision recognized, based on arguments by ORA and TURN, 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.<sup>2</sup>

The PSEP Decision ordered that the Update Application be “limited in scope.”<sup>3</sup> The PSEP Decision also authorized a PSEP budget for PG&E, and ordered that expenditures in excess of this authorized budget not be recovered from ratepayers.<sup>4</sup> In other words, the PSEP Decision imposed a cost cap on PG&E’s Phase 1 PSEP expenditures (that is, a cap on the costs to be recovered from ratepayers). In ordering

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<sup>1</sup> D.12-12-030, p. 129, Ordering Paragraph 11.

<sup>2</sup> See, e.g., D.12-12-030, p. 115.

<sup>3</sup> D.12-12-030, p. 115.

<sup>4</sup> D.12-12-030, p. 125.

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.<sup>5</sup>

Pursuant to the PSEP Decision, PG&E, ORA, and TURN attended a March 26, 2013 Workshop hosted by Energy Division, and participated in several follow up conference calls and numerous document exchanges with PG&E to determine the contents of the Update Application.<sup>6</sup> ORA understood from these communications that the Update Application would be filed August 1, 2013, based on a projected MAOP completion date of July 1, 2013.

On July 8, 2013, without notice to the parties who attended the March workshop, PG&E requested an extension from the Commission's Executive Director to file its Update Application 120 days after completion of its MAOP validation and records search work on July 1, 2013 – rather than the 30 days provided in the PSEP Decision. PG&E's extension request was granted on July 22, 2013, over the objections of both ORA and TURN.

Also on July 8, 2013, ORA filed a motion in the PSEP Proceeding, R.11-02-019, requesting a ruling that PG&E provide a QA/QC Plan for the development and implementation of its PSEP (QA/QC Motion). ORA believed this ruling was needed because of PG&E's failure to provide a comprehensive QA/QC Plan in response to ORA data requests, and the National Transportation Safety Board's emphasis that both the San Bruno and Rancho Cordova explosions were caused, in part, by PG&E's prior QA/QC failures.<sup>7</sup> This motion has never been ruled upon.

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<sup>5</sup> See, e.g., D.12-12-030, p. 129.

<sup>6</sup> 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.”).

<sup>7</sup> NTSB Accident Report NTSB/PAR-11/01 PB2011-916501, adopted August 30, 2011, p. xii (“... the probable cause of the [San Bruno explosion] was the Pacific Gas and Electric Company's ... (1) inadequate quality assurance and quality control in 1956 during its Line 132 relocation project, which allowed the installation of a substandard and poorly welded pipe section with a visible seam weld flaw

On August 21, 2013, ORA and TURN filed a Joint Motion in the PSEP Proceeding for a ruling confirming the scope of the PSEP Update Application (Joint Motion). The Joint Motion requested confirmation that PG&E’s Update Application should be “limited in scope”<sup>8</sup> to PSEP project changes resulting from the MAOP validation and related records search work, as contemplated by the PSEP Decision. It also asked for confirmation that the project cost estimates adopted in D.12-12-030 will not be revisited in the Update Application. That motion, also, has never been ruled upon.

**B. PG&E’s PSEP Update Application**

**1. Reduction In Scope Of Work Authorized In PSEP Decision**

PG&E filed its PSEP Update Application on October 29, 2013, and held a workshop to present an overview of the Update Application on November 21, 2013. PG&E states that the PSEP Update Application reflects a reduced scope of work “[a]s a result of records located of prior strength tests on many of PG&E’s gas transmission pipelines, and other information regarding pipeline features learned during MAOP validation...”<sup>9</sup> In sum, PG&E represents that this reduced scope will result in:

- Removing 42.4 miles of pipe from planned replacement, representing a 23% decrease from the 186 miles authorized for replacement in the PSEP Decision;<sup>10</sup> and
- Removing 125 miles of pipe from planned strength tests, representing a 16% decrease from the approximately 783 miles authorized for strength tests in the PSEP Decision.<sup>11</sup>

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that, over time grew to a critical size, causing the pipeline to rupture during a pressure increase stemming from poorly planned electrical work at the Milpitas Terminal...”) and p. 116 (“... the NTSB notes that several of the deficiencies revealed by this investigation, such as poor quality control during pipeline installation and inadequate emergency response, were also factors in the 2008 explosion of a PG&E gas distribution line in Rancho Cordova, California.”).

<sup>8</sup> D.12-12-030, p. 115.

<sup>9</sup> Update Application, p. 1.

<sup>10</sup> Update Application, pp. 1-2; PG&E Testimony, p. 2-26.

<sup>11</sup> Update Application, pp. 1-2; PG&E Testimony, p. 2-29.

PG&E unequivocally states: “The net reduction does not compromise safety.”<sup>12</sup>

PG&E quantifies the ratepayer savings proposed in the Update Application as follows:

- A decrease of capital costs for PSEP Phase 1 of \$237.6 million;
- A reduction in PSEP Operating and Maintenance (O&M) expenses of \$31.2 million; and
- An overall reduction of revenue requirements to be collected from customers of approximately \$52.7 million for the 2012-2014 period.<sup>13</sup>

PG&E explains: “The revised costs set forth above are based on the same unit cost calculators approved in D.12-12-030, despite the fact that actual costs are running significantly above the approved unit costs embedded in the cost calculators.”<sup>14</sup>

## **2. Response to ORA’s QA/QC Motion**

PG&E’s July 23 response to ORA’s QA/QC Motion explained that there was no need to grant the motion because PG&E would include testimony in the Update Application to describe its “QA/QC procedures from MAOP Validation through PSEP project validation.”<sup>15</sup> PG&E explained that there was therefore “no need for the Commission to issue the ruling” requested by ORA.<sup>16</sup> Notwithstanding ORA’s objections that testimony was not a QA/QC Plan, PG&E has included that testimony summarizing its QA and QC activities in Chapters 1, 2, and 3 of the Update Application.

Regarding MAOP validation, PG&E explains in Chapter 1: “To ensure the integrity of the work performed, PG&E implemented peer review, QC checks and QA sample testing as part of its overall quality assurance plan to ensure the safe operation of our gas transmission system.”<sup>17</sup> PG&E makes similar representations in Chapter 2

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<sup>12</sup> Update Application, p. 2.

<sup>13</sup> Update Application, p. 2.

<sup>14</sup> Update Application, p. 2.

<sup>15</sup> PG&E Response to ORA QA/QC Motion, July 23, 2013, R.11-02-019, p. 6.

<sup>16</sup> *Id.*

<sup>17</sup> PG&E Testimony, p. 1-11.

regarding its pipeline modernization program. Chapter 3 provides an overview of all of PG&E’s QA/QC work related to the PSEP. PG&E also explains that “a third-party external audit firm with extensive experience with similar QA testing programs, assisted PG&E with the QA testing development, implementation, and execution for the PSEP Update Application.”<sup>18</sup>

### **III. ISSUES IDENTIFIED IN ORA’S PRELIMINARY REVIEW**

#### **A. Compliance With The PSEP Decision, Including Allocation Of Costs**

As described in Section II.A above, the PSEP Decision, among other things, imposed a cost cap on PG&E’s Phase 1 PSEP expenditures, and limited the scope of the Update Application. The PSEP Decision also imposed certain requirements regarding the allocation of PSEP costs between ratepayers and shareholders.<sup>19</sup>

ORA has not yet had an opportunity to fully review PG&E’s work papers to ensure that it has complied with these requirements, and the others imposed by the PSEP Decision. ORA intends to perform this review, and hearings may be required to address these issues.

#### **B. Appropriateness Of New Work For PSEP Phase 1**

The Update Application proposes to include certain new work in PSEP Phase 1 that appears to fall into two categories:

1. New projects added to Phase 1 due to new information from MAOP validation, and/or updates to the class location and high consequence area (HCA) designation which now results in a different Decision Tree outcome; and
2. New projects added to Phase 1 based on engineering judgment or external factors.

ORA has not yet had an opportunity to fully review PG&E’s work papers to ensure that this new work complies with the PSEP Decision, or to determine whether it is

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<sup>18</sup> PG&E Testimony, p. 3-2.

<sup>19</sup> D.12-12-030, p. 122, Conclusions of Law 13-16.



appropriate to include these projects in PSEP Phase 1. ORA intends to perform this review, and hearings may be required to address these issues.

### **C. Adequacy Of PG&E’S QA/QC**

ORA believes that PG&E’s QA/QC activities described in its testimony do not comprise a comprehensive QA/QC Plan that will ensure that PG&E’s Phase 1 PSEP work is performed to the standards required for a safe gas transmission system. Among other things, the totality of PG&E’s activities appear to comprise a mostly after the fact quality control program, rather than the type of comprehensive QA/QC Plan that the Commission should expect for a multi-billion dollar rebuild of PG&E’s gas transmission system. ORA plans to continue its review of PG&E’s QA/QC testimony and hearings may be required to address the deficiencies ORA identifies.

## **IV. PROCEDURAL ISSUES**

### **A. Hearings**

ORA proposes that it is appropriate for this proceeding to include hearings to address material issues of disputed fact.

### **B. Schedule**

ORA is not necessarily opposed to the schedule provided by PG&E, but may need more time to review the Update Application than is provided by PG&E’s schedule. Because it would be premature for ORA to propose an alternative schedule, ORA will strive to be prepared to discuss the schedule at the pre-hearing conference. ORA understands that the Commission’s Safety and Enforcement Division (SED) may play a role in this proceeding, and that SED may not be able to provide recommendations in a time frame consistent with PG&E’s proposed schedule. To the extent that SED will offer recommendations or other commentary on PG&E’s Update Application, ORA would like the schedule to accommodate intervenor testimony in response to any SED recommendations no sooner than 3 weeks after such a SED submission.

### **C. Scope**

ORA proposes that the scope for this proceeding include the following:

1. Whether PG&E's Update Application complies with the PSEP Decision;
2. Whether PG&E has properly allocated costs in the Update Application between shareholders and ratepayers, as directed by the PSEP Decision;
3. Whether new projects added to PG&E's Update Application is appropriate for PSEP Phase 1; and
4. Whether PG&E's description of its QA/QC procedures comprises a QA/QC Plan that will ensure that PG&E's Phase 1 PSEP work is performed to the standards required for a safe gas transmission system.

**D. Categorization**

ORA recommends that this proceeding should be categorized as "ratesetting."

**V. CONCLUSION**

ORA respectfully recommends that this matter be set for evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this protest. ORA also requests that the Commission adopt a procedural schedule that

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provides adequate time for participation by the Commission's Safety and Enforcement Division, as well as discovery, analysis, preparation of testimony, and preparation for evidentiary hearings.

Respectfully submitted,

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