

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Develop a Risk-Based Decision-Making Framework to Evaluate Safety Improvements and Revise the General Rate Case Plan for Energy Utilities.

Rulemaking 13-11-006
(Filed November 14, 2013)

OPENING COMMENTS OF EXXONMOBIL POWER AND GAS SERVICES, INC.

TARA S. KAUSHIK
Manatt, Phelps & Phillips, LLP
One Embarcadero Center, 30th Floor
San Francisco, CA 94111
Telephone: (415) 291-7400
Email: TKAushik@manatt.com

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Attorneys for ExxonMobil Power and Gas Services, Inc.

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. BACKGROUND	2
III. COMMENTS	4
A. The Commission Should Require Public Reports On Major Incidents Within 30 Days for Greater Transparency	4
B. The Commission Should Require that GRC Plans Include Utility Reports on Maintenance And Repairs Of Electric Systems To Optimize Safety and Reliability	6
C. The Commission Should Reevaluate Utility Standards Of Equipment Selection And Replacement	7
D. The Commission Should Ensure That Utilities Log And Report To The Commission On Events, Conditions And Security Breaches On Utility Facilities That May Impact Reliability Or Jeopardize Safety	7
E. The Commission Should Ensure That Ratepayers Do Not Pay For Utility Failures To Implement Authorized Safety and Reliability Projects	8
IV. CORRESPONDENCE	9
V. CONCLUSION	9

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I. INTRODUCTION

Pursuant to Rule 6.2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, and Ordering Paragraph 4 of the Commission’s *Order Instituting Rulemaking To Develop A Risk-Based Decision-Making Framework To Evaluate Safety And Reliability Improvements And Revise The General Rate Case Plan For Energy Utilities* filed November 14, 2013 (“OIR”), ExxonMobil Power And Gas Services, Inc., a subsidiary of ExxonMobil Oil Corporation (“ExxonMobil”) respectfully submits the following opening comments in the above-captioned proceeding.

ExxonMobil applauds the Commission for issuing this OIR to “prioritize safety and reliability issues in GRC applications of energy utilities” and “clarify the rate case review process.”¹ ExxonMobil owns and operates a refinery in Torrance, California (“Refinery”) that is one of the largest customers that purchases power from Southern California Edison (“SCE”). The Refinery depends on reliable electric service from SCE for the Refinery’s operation. Without reliable service, the Refinery risks damage to its equipment, disruptions to its operations, and unavoidable impacts on the surrounding community. ExxonMobil believes all customers of investor-owned energy utilities will benefit from greater transparency and communication between utilities and their customers when safety or reliability issues arise.

¹ OIR, p. 1.

Accordingly, ExxonMobil submits the following informed recommendations for greater transparency in the rate case review process and measures for safety and reliability.

II. BACKGROUND

A. ExxonMobil's Interest In This Proceeding

ExxonMobil is the world's largest publicly traded international oil and gas company, as well as a significant petroleum refiner and marketer of petroleum products, operating seven refineries across the United States. ExxonMobil's Refinery in Torrance has provided customers in Southern California, Arizona and Nevada with high quality gasoline, aviation fuels and other products for more than 83 years. The Refinery produces nearly 10 percent of gasoline production in California, most of which is sold in Southern California.

The Refinery is located in SCE's service territory, and SCE has provided electric service to the Refinery since approximately 1966. SCE provides electric service to two substations at the Refinery from SCE's La Fresa substation, located in the City of Torrance. The Refinery provides essential products to California consumers and depends on reliable electric service for around-the-clock operations.² In the last three years, however, the Refinery has experienced at least five major power disruptions on SCE's system.³ Power disruptions to the Refinery can cause sensitive Refinery equipment, which must be precisely calibrated, to shut

² D.02-04-060, *Order Instituting Rulemaking into the Operation of Interruptible Load Programs Offered by Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company and the Effect of these Programs on Energy Prices, other Demand Responsiveness Programs, and the Reliability of the Electric System*, 2002 Cal. PUC LEXIS 300, Appendix B, **206, 208-209; *see also*, D.01-06-085, *Order Instituting Rulemaking into the Operation of Interruptible Load Programs Offered by Pacific Gas & Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company and the Effect of These Programs on Energy Prices, Other Demand Responsiveness Programs, and the Reliability of the Electric System*, 2001 Cal. PUC LEXIS 593, *7 (stating that petroleum refineries should receive exemptions during the energy crisis for curtailments of electricity as "transportation fuels are critical to public health and safety . . ."); *see also*, D.01-07-035, *Order Instituting Rulemaking into the Operation of Interruptible Load Programs Offered by Pacific Gas & Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company and the Effect of These Programs on Energy Prices, Other Demand Responsiveness Programs, and the Reliability of the Electric System*, 2001 Cal. PUC LEXIS 538, *4 (noting that the California Energy Commission recommended that the Commission exempt all fossil fuel infrastructure and ancillary services, including refineries, from electricity curtailment).

³ The disruptions resulted in litigation between ExxonMobil and SCE, which remains pending (*ExxonMobil Oil Corp. v. Southern California Edison Co.*, Case No. 12-cv-10001-GHK, U.S. District Court, Central District of CA). ExxonMobil provides this reference purely as background information and makes no comment on that case in this proceeding.

down for extended periods of time. Refinery machinery is particularly sensitive to voltage dips, electric power outages or electric service interruptions, and unscheduled shutdowns can not only damage refinery equipment, but also compromise production and create environmental issues throughout the surrounding community. Accordingly, ExxonMobil has a strong interest in this proceeding.

B. Issues Addressed

In Section 4.2 of the OIR, the Commission invites parties to comment on issues including:

1. How should the Commission develop a new RCP for energy utilities in a way that will link strategy and goals to resource allocation? What kind of reporting requirements are needed in order to identify the framework, method, practices and activities used in assessing risk of safety, security, and/or reliability deficiencies and linking it to the requested funding in a GRC?⁴

ExxonMobil supports the Commission's proposal to consider safety, reliability, security and risk management in utility general rate case ("GRC") applications. The high level and comprehensive risk assessment contemplated in the OIR, however, is contingent on having access to detailed and auditable data regarding utility maintenance and inspection activities as well as the condition of utility facilities. Collection of this detailed and auditable data cannot and should not be done as part of the triennial GRC but must be an ongoing utility obligation. ExxonMobil believes that this information is already required by law to be collected and maintained by utilities.⁵ Reporting that data to the Commission and ratepayers is a natural and logical circumstance.

Having the data to conduct a GRC risk assessment, therefore, requires that the Commission first ensure that it has in place sufficient inspection, maintenance and reporting

⁴ OIR, Section 4.2, p. 12.

⁵ See, e.g., Pub. Util. Code § 451 and General Orders 95, 165, 174, see D.96-09-045, *Application of Pacific Gas And Electric Company for Authority, Among Other Things, to Decrease Its Rates and Charges for Electric and Gas Service, and Increase Rates and Charges for Pipeline Expansion Service; Commission Order Instituting Investigation into the Rates, Charges, Service and Practices of Pacific Gas and Electric Company*, 1996 Cal. PUC LEXIS 912.

requirements. The reports submitted under such requirements will provide the basic workpapers for an evaluation of safety and reliability in a GRC. ExxonMobil also proposes that the Commission ensure utilities implement safety and reliability projects authorized in each GRC during the applicable GRC time period. ExxonMobil believes the following requirements will serve this end and will, in part, provide the raw data for a comprehensive risk assessment.

III. COMMENTS

A. The Commission Should Require Public Reports On Major Incidents Within 30 Days for Greater Transparency.

Transparency is critical for the Commission to evaluate utility risk assessment of current reliability and safety issues. The Commission recognized the importance of transparency in R.11-02-019 concerning safety and reliability rules for natural gas pipelines. In Decision (“D.”) 12-04-010, the Commission noted the Independent Review Panel’s recent conclusion from its investigation of the San Bruno natural gas explosion, which stated:

PG&E should develop and adopt a maturity framework that reflects the importance and advancement of thinking of pipeline integrity and safety as a journey, which is coherently applied across the enterprise, where progress is *transparent and measurable*, and is consistent with the best thinking on pipeline integrity and process safety management.⁶

This standard, that system integrity and safety be transparent and measurable, should be applied to the State’s electrical systems as well and should not be limited to the natural gas pipeline context. To that end, ExxonMobil proposes that electric utilities provide reports to the Commission and any affected customers within 30 days of a significant power disruption or other major incidents relating to reliability or safety. From an industry perspective, a major incident is one that results in disruptions including a shutdown of machinery or disruption of commercial operations for a large industrial utility customer. The reports should include the results of any utility investigation, including a root cause analysis. They should also include a

⁶ D.12-04-010, *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*, 2012 Cal. PUC LEXIS 150 (“D.12-04-010, 2012 Cal. PUC LEXIS 150”), **19-20, quoting Independent Review Panel Recommendation No. 5.4.4.5.

list of corrective actions proposed with target completion dates, to be managed as part of a sustainable incident management system.

Providing such reports within 30 days is standard in the natural gas industry. For instance, natural gas pipeline operators are required to submit written reports to the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (“PHMSA”) within 30 days of a pipeline incident, with information including the location, cause, and consequences.⁷ By making this information available and accessible for electrical systems, utilities will address reliability or safety issues, and provide information essential to minimizing future risks.

ExxonMobil also proposes that utilities include information on reliability and safety incidents in GRC plans, for the Commission to evaluate how utilities addressed such incidents and took steps to minimize future risks. In R.11-02-019, the Commission noted that natural gas pipeline operators are required under national safety regulations to provide similar reports, which the public has the opportunity to review.⁸ Such reports provide an effective way to monitor industry wide compliance, minimize potential risks, and prevent recurrence of major incidents. If the Commission authorizes a utility to record expenses addressing such incidents and minimizing future risks of recurrence, the Commission can evaluate the utility’s actual expenditures “to ensure that authorized safety projects have been implemented and, if not, whether procedural or accounting mechanisms need to be instituted.”⁹ By holding electric utilities accountable for addressing such incidents, the Commission will promote an industry-wide culture of safety and risk management.

⁷ See 49 C.F.R. § 191.9: “(a) Except as provided in paragraph (c) of this section, each operator of a distribution pipeline system shall submit Department of Transportation Form RSPA F 7100.1 as soon as practicable but not more than 30 days after detection of an incident required to be reported under §191.5.” See also, <<http://www.phmsa.dot.gov/incident-report>> (as of January 9, 2014).

⁸ D.12-04-010, 2012 Cal. PUC LEXIS 150, **6-7.

⁹ D.12-04-010, 2012 Cal. PUC LEXIS 150, *30.

B. The Commission Should Require that GRC Plans Include Utility Reports on Maintenance And Repairs Of Electric Systems To Optimize Safety and Reliability.

In D.12-04-010, the Commission ordered financial audits of natural gas utilities to “include, but not be limited to, the authorized and budgeted safety-related capital investments and operation and maintenance expenditures of PG&E, SDG&E, and SoCalGas for their last two authorized General Rate Case cycles.”¹⁰ The Commission stated its ultimate goal is to “to review and, where necessary, improve existing systems for safe gas utility operations.”¹¹ The same goal in this proceeding requires energy utilities to improve their existing systems for safe electric operations.

In D.13-09-028, the Commission conditionally approved a settlement between SCE and the Commission Safety Enforcement Division concerning the investigation of the Malibu Canyon Fire that occurred in 2007. In that decision, the Commission ordered SCE to complete electric pole assessments, submit bi-monthly reports on such assessments and related expenditures, and verify that its poles in the Malibu Canyon area meet standards for high-wind areas, or upgrade the poles to meet such standards.¹² The Commission recognized that the poles required regular assessment, maintenance and replacement to prevent safety issues such as the Malibu Fire.

The Commission should review standards regarding frequency of inspection, assessment and maintenance of all electric facilities, not just poles. To evaluate risk assessment practices, the Commission should require that utilities maintain auditable inspection and maintenance records with notes regarding facility conditions. These reports could be made available to parties during the GRC or at other appropriate times. Such transparency would

¹⁰ D.12-04-010, 2012 Cal. PUC LEXIS 150, *30.

¹¹ D.12-04-010, 2012 Cal. PUC LEXIS 150, *30.

¹² D.13-09-028, *Investigation on the Commission's Own Motion into the Operations and Practices of Southern California Edison Company, Cellco Partnership LLP d/b/a Verizon Wireless, Sprint Communications Company LP, NextG Networks of California, Inc. and Pacific Bell Telephone Company d/b/a AT&T California and AT&T Mobility LLC, Regarding the Utility Facilities and the Canyon Fire in Malibu of October 2007*, 2013 Cal. PUC LEXIS 514, **2-3.

promote the assessment of safety issues to minimize risks of recurring outages, fires, or other significant events.

C. The Commission Should Reevaluate Utility Standards Of Equipment Selection And Replacement.

For effective utility maintenance, the Commission must reevaluate and enforce standards on the quality of selected equipment and the frequency that utilities replace electrical equipment. It is essential the Commission ensure utilities use industry standard, durable equipment to provide safe and reliable electric service. Modern and longer-lasting equipment will save costs in the long run and reduce the risk of service interruptions and unsafe conditions. ExxonMobil recommends the Institute of Electrical and Electronic Engineers (IEEE) Gold Book as the industry standard for selection and maintenance of equipment. To promote a culture of safety, it is imperative that utilities conform their equipment selection to that standard.

D. The Commission Should Ensure That Utilities Log And Report To The Commission On Events, Conditions And Security Breaches On Utility Facilities That May Impact Reliability Or Jeopardize Safety.

The Commission has required that natural gas utilities immediately address breaches of safety requirements to promote an industry-wide “culture of safety that will minimize accidents, explosions, fires, and dangerous conditions for the protection of the public and the gas corporation workforce.”¹³ ExxonMobil believes electric utilities have the same duty to address safety and risk issues as part of their duty to provide safe and reliable service. Consistent with that goal, the Commission should ensure that energy utilities log all events, conditions and security breaches on utility facilities that could potentially impact reliability or jeopardize safety of their electric systems. These logs should be available to the Commission and ratepayers in the event any safety or reliability incidents occur.

It is widely understood that weather events, fallen vegetation, stray balloons, and bird collisions on electric transmission and distribution systems can result in system disruptions and contribute to unsafe conditions such as fire or electrocution. Safety and reliability may also

¹³ D.12-04-010, 2012 Cal. PUC LEXIS 150, *21.

be jeopardized when humans or animals breach fencing or other security infrastructure critical for safeguarding electrical equipment such as substations and transformers. At a minimum, the Commission should ensure energy utilities regularly record, address and respond to any report of unsafe system conditions and security breaches. For example, an electric utility employee may notice during routine maintenance in a rural area of the utility service territory that a local substation has a large hole in the surrounding fence, and that people or animals could enter inside the fence. The utility should include in its GRC plan a report to the Commission's Safety Enforcement Division on repairs it made to the fence or protective insulation installed on substation equipment to address such risks. With that information, the Commission can ensure utilities undertake safety and reliability projects proactively. That will promote transparency and ensure that utilities are vigilant in inspecting and maintaining their electric systems.

E. The Commission Should Ensure That Ratepayers Do Not Pay For Utility Failures To Implement Authorized Safety and Reliability Projects.

The Commission has recognized that regulatory oversight of risk assessment should include holding utilities accountable for their performance. In D.12-04-010, the Commission ordered financial audits of the investor-owned utilities' budgeted capital investments and maintenance expenditures authorized in the last two GRCs to determine "the revenue requirements previously authorized by the Commission compared with actual expenditures by each utility, as well as each utility's earnings over the audited period."¹⁴ The Commission stated its goal was "to ensure that authorized safety projects have been implemented and, if not, whether procedural or accounting mechanisms need to be instituted."¹⁵ The Commission recognized that holding utilities accountable to implement authorized safety projects would improve existing systems for safe natural gas utility operations.

Similarly, the Commission should apply this standard of accountability to utility electrical systems in GRCs. The Commission should evaluate going forward whether a utility

¹⁴ D.12-04-010, 2012 Cal. PUC LEXIS 150, *30.

¹⁵ *Id.*

has used the revenue allocated in its previous GRC for safety and reliability management. If a utility does not implement the reliability and safety projects authorized in previous GRCs, the utility should not recover additional revenue in rates to perform the projects. Similarly, if a major incident occurs from a utility's failure to perform Commission-approved safety or reliability projects, the utility should perform the projects at its own shareholders' expense. Ratepayers should not bear the burden of a utility's failure to maintain its electrical system safely and reliably. This accountability will promote transparency in GRCs and safe electrical utility operations.

IV. CORRESPONDENCE

All correspondence and communications in this regard and the official service list of the Commission should include the following on behalf of ExxonMobil:

Tara S. Kaushik
Manatt, Phelps & Phillips, LLP
One Embarcadero Center, 30th Floor
San Francisco, CA 94111
Telephone: (415) 291-7400
Email: TKaushik@manatt.com
Party: ExxonMobil Power and Gas Services, Inc.

V. CONCLUSION

ExxonMobil appreciates the Commission's invitation for comments on ways to evaluate risk assessment activities of energy utilities. ExxonMobil believes the proposed reporting requirements set forth above are standard in the industry and required as part of a utility's duty to provide safe and reliable electric service to its customers. To promote a culture of safety, it is critical the Commission ensure utilities address safety and reliability issues *before* they significantly impact customers. It is also essential utilities use the revenue allocated to them in their GRCs to proactively maintain their electrical systems in a safe and reliable manner. For the foregoing reasons, ExxonMobil respectfully requests the Commission to adopt the above recommendations for investor-owned energy utilities to evaluate their risk assessment practices

in their GRCs.

Dated: January 15, 2013

Respectfully submitted,

By: /s/ Tara S. Kaushik
Tara S. Kaushik

TARA S. KAUSHIK
Manatt, Phelps & Phillips, LLP
One Embarcadero Center, 30th Floor
San Francisco, CA 94111
Telephone: (415) 291-7400
Email: TKAushik@manatt.com

*Attorneys for ExxonMobil Power and Gas
Services, Inc.*

311175104.4