

**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)

**REPLY COMMENTS OF THE UTILITY REFORM NETWORK AND THE
OFFICE OF RATEPAYER ADVOCATES ON
PROPOSED RULE CHANGES TO GENERAL ORDER 112-E**

KAREN PAULL
TRACI BONE
Attorneys for
The Office Of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2048
E-Mail: tbo@cpuc.ca.gov

THOMAS J. LONG

Legal Director
THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
San Francisco, CA 94103
(415) 929-8876 x303 (office)
(415) 929-1132 (fax)
TLong@turn.org

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I. INTRODUCTION

Pursuant to the July 8, 2014 Ruling of Administrative Law Judge Bushey, The Utility Reform Network (“TURN”) and the Office of Ratepayer Advocates (“ORA”) submit these joint Reply Comments regarding proposed revisions to General Order (“GO”) 112-E developed by the Commission’s Safety and Enforcement Division (“SED”).

These Reply Comments focus on cost and cost recovery issues raised by Pacific Gas and Electric Company (“PG&E”) and Southern California Gas Company and San Diego Gas & Electric Company (collectively “the Sempra Utilities”).

II. BEFORE ADOPTING RULE CHANGES THAT THE UTILITIES CLAIM WOULD HAVE SIGNIFICANT COST IMPACTS, THE COMMISSION SHOULD DEVELOP A RECORD SHOWING THAT ANY ADDITIONAL COSTS ARE COMMENSURATE WITH THE RISK REDUCTION BENEFITS

In Opening Comments, TURN and ORA highlighted Proposed Rule 143.1(b) – which would require operators to perform gas leakage surveys for transmission pipelines at least twice per year, at intervals not exceeding 7 ½ months -- as a new proposed change with the potential to have significant operational impacts on the utilities.¹ In their opening comments, PG&E and the Sempra Utilities both confirmed that they believe this rule change could have significant impacts.² For example, the Sempra Utilities contended that the proposed new rule would be a “significant resource requirement” that would require “an additional funding mechanism” to implement.³

¹ TURN, pp. 1-3; ORA, p. 4.

² PG&E Comments, p. 11; Sempra Comments, p. 3, fn. 3.

³ Sempra Comments, p. 3, fn. 3.

In addition, PG&E identified at least two other proposed rule changes – the changes to the definitions of “high consequence areas” and “covered tasks” in Proposed Rule Change 3 – that it believed would have “significant cost recovery impacts.”⁴

Based on their expectation that Proposed Rule 143.1(b) could potentially affect utility operations, TURN and ORA’s Opening Comments urged the Commission to develop a record regarding the costs that would result from the change so that the Commission can determine whether the costs are commensurate with the expected benefits. In light of the utilities’ opening comments summarized above, TURN and ORA recommend that such a record be developed for any rule change that a utility asserts could have a significant cost recovery impact. In making this recommendation, TURN and ORA want to emphasize that, at this point, they are not intending to signal opposition to the proposed rule changes; TURN and ORA only wish to note the importance of weighing costs and benefits before adopting new rules. As the Sempra Utilities state, consideration of costs and benefits of proposed new rules is common practice with respect to federal pipeline safety regulations.⁵

As TURN stated in its Opening Comments, developing this record can be easily accomplished by requiring the rate-regulated utilities to submit a pleading estimating and substantiating cost impacts for any proposed rule change that they believe would have a significant cost impact.⁶ If the Commission were inclined to convene a further workshop,

⁴ PG&E Comments, pp. 8, 10

⁵ Sempra, p. 2, citing 49 C.F.R. Section 190.331.

⁶ TURN Opening Comments, p. 3; PG&E’s September 27, 2013 Comments have already provided such an estimate for the proposed change to the definition of “Covered Task.” PG&E Attachment A, p. 2

as recommended by PG&E,⁷ such cost information could be part of the discussion at the workshop, followed by post-workshop comments by all participants. If no further workshops will be held, then, as TURN suggested in its Opening Comments, other parties should have an opportunity to submit pleadings commenting on the utilities' cost estimates as well as the issue of whether the benefits appear to be commensurate with the costs.

III. THE COMMISSION SHOULD REJECT THE SEMPRA UTILITIES' PROPOSAL TO FASHION A NEW COST RECOVERY MECHANISM BEFORE THE NEXT GENERAL RATE CASE

The Sempra Utilities request that the Commission adopt a mechanism to allow gas utilities to recover costs of implementing the new rules before their next general rate case. Specifically, the Sempra Utilities propose a new balancing account for the utilities to record their costs that would then be moved into revenue requirements and rates in the utilities' annual regulatory balance update filings.⁸

The Commission should reject this request and instead adopt PG&E's recommendation that any revenue requirement changes associated with the rule changes be considered and adopted in the utility's next general rate case.⁹ In light of the utilities' claims that at least some of the rule changes would have significant cost impacts, no rate changes should be allowed until the utilities have made the requisite showing, in an evidentiary record pursuant to Public Utilities Code Sections 451 and 454, that their proposed costs are just and reasonable. The annual update filings that the Sempra

⁷ PG&E, p. 2.

⁸ Sempra, p. 3.

⁹ PG&E, p. 11.

Utilities reference do not afford such an opportunity to fully examine the utilities' proposed costs.

IV. CONCLUSION

TURN and ORA appreciate the opportunity to submit these Reply Comments.

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Respectfully submitted,

_____/s/_____
Thomas J. Long
Legal Director

THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
San Francisco, CA 94103
(415) 929-8876 x303 (office)
(415) 929-1132 (fax)
TLong@turn.org

_____/s/_____
Karen Paull
Traci Bone
Attorneys for THE OFFICE OF
RATEPAYER ADVOCATES
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2048
E-mail: tbo@cpuc.ca.gov