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.	R.11-02-019 (Filed February 24, 2011)

JOINT MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) TO CLARIFY APPLICATION OF 49 CFR 192.3 BY CALIFORNIA PIPELINE OPERATORS

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Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) submit the following Joint Motion to Clarify Application of 49 CFR 192.3 by California Pipeline Operators, pursuant to Rule 11 of the Commission's Rules of Practice and Procedure. As discussed below, SoCalGas and SDG&E request that the Commission clarify the application of 49 CFR 192.3 by California pipeline operators to promote the continued safe and reliable operation of California's natural gas pipeline system and provide for consistent application of this critical pipeline safety regulation across the State.

I. INTRODUCTION AND SUMMARY

The basic definitions used in Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards) are found in 49 Code of Federal Regulations (CFR) 192.3. Among these fundamental definitions is the definition of "transmission line":

> Transmission line means a pipeline, other than a gathering line, that: (1) Transports gas from a gathering line or storage facility to a distribution center, storage facility, or large volume customer that is not down-stream from a distribution center; (2) operates at a hoop stress of 20 percent or more of SMYS; or (3) transports gas within a storage field.
>
> Note: A large volume customer may receive similar volumes of gas as a distribution center, and includes factories, power plants, and institutional users of gas.[1]

[1] 49 CFR 192.3. (emphasis added)

Thus, the definition of transmission line relies upon the supporting definition of "distribution center" and the definition of "distribution center" is essential to appropriately categorize pipelines as either transmission or distribution. Distribution center, however, is not defined in the code.

The Pipeline and Hazardous Materials Safety Administration/Office of Pipeline Safety (PHMSA/OPS) is responsible for administering pipeline safety guidance relative to Part 192. PHMSA/OPS has acknowledged that, because there is no codified definition of distribution center, State definitions of "distribution center" can and will vary:

> FAQ-190. How do LDC operators and/or regulators define "distribution center"? (necessary to determine amount of transmission line.) [06/29/2004]
>
> "Distribution center" is not defined in federal pipeline safety regulations. State definitions can vary. OPS recognizes the actions of each state in defining what constitutes a distribution center.[2]

Significantly, differing definitions of "distribution center" result in different classifications of pipeline assets.

In Pacific Gas and Electric Company's (PG&E) Gas Transmission and Storage Rate Application Proceeding, Application 13-12-012 (GTS), PG&E proposes to modify how it classifies its transmission pipelines by changing its internal definition of distribution center. This proposal could potentially impact all California natural gas pipeline operators and the safe operation of California's natural gas pipeline system. As such, it would not be appropriate for the Commission to address this statewide issue in a utility-specific application proceeding. SoCalGas and SDG&E therefore request that the Commission transfer consideration of the issue to this Rulemaking, so that the Commission may carefully consider the potential statewide public safety impacts and develop a common definition applicable to all utilities.

II. PG&E'S PROPOSAL

In the GTS, PG&E proposes to modify how it classifies pipelines to increase the portion of its network designated as transmission. PG&E's reclassification results from the following new proposed internal definition of "distribution center:"

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[2] *See* PHMSA Gas Integrity Management website; Frequently Asked Question FAQ-190. http://primis.phmsa.dot.gov/gasimp/faqs.htm.

> For PG&E, the main change in this reclassification revolves around the physical location of the "distribution center" where the function changes from transporting gas to distributing it for two or more customers.[3]

If approved by the Commission, PG&E's new definition of a "distribution center" will result in the reclassification of approximately 942 miles of distribution pipeline as transmission pipeline, and increase PG&E's transmission mileage by about 16%, from 5,808 miles to 6,750 miles.[4] Once reclassified, the newly-classified transmission pipe segments may be removed from PG&E's Distribution Integrity Management Plan (DIMP) and placed into PG&E's Transmission Integrity Management Program (TIMP).[5] PG&E argues that this new interpretation will enhance safety by requiring PG&E to conduct more frequent maintenance and inspection activities and is appropriate based on a review of 49 CFR 192.3 and PHMSA interpretation letters.

III. SOCALGAS AND SDG&E'S POSITION

As a local distribution company operator, SoCalGas and SDG&E primarily engage in gas distribution, but also operate transmission pipelines. Gas entering the SoCalGas and SDG&E system is primarily for consumption rather than resale. In categorizing its pipelines, SoCalGas and SDG&E define "distribution center" as follows:

> Distribution Center - the transition point at which gas supplies from an Intrastate, Interstate or International pipeline, a California Producer, or a company gas storage field, are transferred into a transmission or distribution pipeline system.

SoCalGas and SDG&E's definition provides clear criteria that can be easily and consistently applied to a wide variety of complex and divergent situations found within the SoCalGas/SDG&E pipeline system.[6] Consistency and ease of application benefits both regulators and operators. It is notable that SoCalGas and SDG&E's definition has been presented to the California Public Utilities Commission (Commission or CPUC) and relied upon in various rate cases and safety audits.

Consistent with the Commission's goal to make California the leader in pipeline safety, SoCalGas and SDG&E's definition encourages the application of integrity management

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[3] Pacific Gas and Electric Company 2015 Gas Transmission and Storage Rate Case Prepared Testimony Volume 1 of 2, Chapter 4, at 4-3.
[4] *Id.* at 4-3.
[5] *Id.* at 4-3 and 4-4.
[6] For example, using this definition, SoCalGas and SDGE and successfully defined 92 distribution centers of varying complexity and circumstances in a clear and repeatable manner (SoCalGas/SDGE Distribution center tally as of year-end 2012).

principles in alignment with the properties of the pipeline infrastructure, resulting in a safer gas transportation system. The SoCalGas and SDG&E distribution center definition also avoids the potential unintended consequence of risk dilution, i.e. a shift in focus away from higher consequence segments in favor of line segments that are essentially lower risk.

Additionally, although each state may define "distribution center" differently, it is noteworthy that SoCalGas and SDG&E's definition is consistent with previous PHMSA/OPS interpretations. For example, in an interpretation letter to East Tennessee Natural Gas Company, PHMSA/OPS stated: "There is no question that as we previously stated, a 'distribution center' occurs at a point where gas enters piping used primarily to deliver gas to customers who purchase it for consumption."[7] PHMSA/OPS found this to "include[] points where title to gas is transferred from a transmission company to a distribution company."[8] In a separate interpretation, PHMSA/OPS acknowledged they …have used the point where ownership of the gas or a pipeline changes from one entity to another to determine whether a pipeline is a gathering or a transmission pipeline.[9] These interpretations support the SoCalGas and SDG&E position: if ownership of a pipeline is used for determining changes from gathering line to transmission line, it is also reasonable to use ownership changes to determine transmission versus distribution demarcation points, and where distribution centers are located.

In contrast, the modified interpretation proposed by PG&E would potentially create difficulties that may negatively impact the operation of natural gas systems in California. Whereas the SoCalGas and SDG&E definition provides a clear transition point between two easily-identifiable entities, PG&E's proposal does not define the transition point. Nor does it provide parameters for the size or type of customer that results in a pipeline being reclassified. The inability to establish a transition point may lead to ambiguities and inconsistencies, given the complexities of distribution systems. A robust definition should provide both clarity and drive consistency among a widely varying range of applications. It is unclear that PG&E's proposed definition can achieve this. In fact, PG&E's definition could result in decreased clarity and, in turn, a greater likelihood of an inconsistent implementation of these principles across the California utilities. As such, the Commission should not address and redefine "distribution

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[7] East Tennessee Natural Gas Company – November 30, 1978 (WinDOT #11 and #12).
[8] *Id.*
[9] Kansas State Corporate Commission, August 31, 1984 (WinDOT Interpretation 192.3 (Gathering) 6 of 11).

center" as part of a utility-specific application. It would be inappropriate to allow changes that could significantly alter a statewide interpretation of fundamental definitions to occur in a utility-specific case. Such changes have the potential to create confusion and inconsistency when applied to other California utilities in their respective safety audits and general rate cases or applicable ratemaking forums.

Accordingly, SoCalGas and SDG&E request that the Commission consider these important pipeline classification issues in Rulemaking 11-02-019. Here, the Commission will be able to engage all interested parties and develop a robust record and carefully consider the benefits and risks of the proposed definitional shift through testimony, workshops, and briefs. In so doing, the Commission can adopt a common definition applicable to all natural gas utilities that furthers the Commission's statewide pipeline safety objectives.

Finally, any modifications to utility classifications should be done on a prospective basis and allow the utilities' sufficient time to bring pipelines into compliance with the regulations applicable under any new classification, revise internal procedures and policies, and train employees on the new policies and procedures. The Commission should authorize sufficient funding to roll out any changes in a manner that promotes public safety.

IV. DISCUSSION

A. The Definition Proposed by PG&E May Have Negative Safety Impacts that Must be Considered by the Commission.

PG&E's proposed definition of "distribution center" would result in a 16% increase in transmission pipelines in PG&E's system. If applied to SoCalGas and SDG&E, the mileage impact is indeterminable at this time, but a comparable increase of 16% would negatively impact operations in numerous ways.

First, the reclassification of pipelines would require that those newly-classified transmission pipelines comply with TIMP regulations. As such, rather than the pipelines being managed effectively through DIMP, SoCalGas and SDG&E would be required to undertake a significant effort to revise internal standards and policies, educate and train personnel, and an enormous effort to perform baseline TIMP assessments and reassessments.[10] This issue is further complicated by proposed changes to General Order 112-E that expands the definition of

[10] A precise understanding of PG&E's proposal would be necessary to quantify the potential impact to SoCalGas, SDG&E, and our customers.

High Consequence Area,[11] and result in additional transmission pipelines requiring baseline assessment and more frequent ongoing testing and monitoring. Funding for all of this work is not currently included within SoCalGas and SDG&E's rates and, absent a separate funding mechanism, may require the reallocation of funds from other areas of work. This could have unintended negative safety impacts.

Second, the definition used by PG&E could create confusion within SoCalGas and SDG&E by creating a situation where pipes having nearly identical characteristics are classified differently. As discussed above, SoCalGas and SDG&E believe that having a clear, easily-understandable definition that can be followed consistently throughout the organization is critical from a safety perspective. The Commission's Pipeline Safety Rulemaking would be an appropriate location to better understand PG&E's proposed definition and determine if it better promotes this goal.

Third, moving pipelines from DIMP to TIMP may prompt the application of integrity management techniques that are not suited to the risk profile of distribution pipelines. An extension of TIMP standards to more pipeline segments does not inherently lower risk. In fact, it creates the possibility for the inefficient or ineffective allocation of resources to pipeline segments that are more appropriately managed through DIMP and away from pipeline segments where the resources align with the operating characteristics of the pipe. The DIMP and TIMP programs are large, complex and far reaching endeavors that use common principles to address assets that fundamentally differ in characteristics, requirements, resources and execution. Impacts to both DIMP and TIMP, as well as the management of all impacted pipeline segments—both old and new—will require significant time and effort. Distribution pipelines generally correlate with smaller diameters, lower pressures and typically lower risk as these systems tend to exhibit reduced susceptibility to rupture. However, distribution pipelines tend to run along more populated areas, which could potentially increase the consequences of a pipeline failure. For this reason, PHMSA expressly determined that application of prescriptive TIMP regulations to distribution pipelines would not further federal safety objectives:

> **B.1.2 Why don't distribution integrity management requirements focus on high consequence areas?**

[11] *See* Administrative Law Judge's Ruling Setting Schedule for Filing Comment on Proposed Rule Changes to General Order 112, Proposed Rule Change 3.

> The integrity management requirements for transmission pipelines are focused on portions of the pipeline where significant consequences could result if an incident occurs — so-called "high consequence areas". Transmission pipelines often traverse rural areas. This approach requires safety-improvement efforts to be focused on areas where consequences of an event would be more significant, in areas with greater human density, or more sensitive environment. Distribution pipelines are largely in developed, more populated areas, since they exist to deliver gas to those populations. As the population is in close proximity to much of these distribution systems, the consequences of an incident are similar throughout. For distribution pipelines, PHMSA concluded it is more appropriate that operators consider their entire pipelines under their integrity management programs.[12]

DIMP currently uses an appropriate risk-based framework that recognizes the unique risk profile associated with the entire distribution system as a whole. In contrast, the TIMP specifies prescriptive steps to be taken to assess and mitigate threats to transmission pipelines that are located in high consequence areas. Therefore, moving distribution pipelines into TIMP would not necessarily lead to a safer system. Indeed, it may undermine PHMSA's safety objectives by allocating assessment resources to pipelines that would be better managed under a comprehensive DIMP risk mitigation approach.

Fourth, PG&E's proposed definition is a substantial deviation from SoCalGas and SDG&E's past practices and would alter the basis for SoCalGas and SDG&E's existing TIMP. If applied to SoCalGas and SDG&E, the adoption of PG&E's proposed definition would significantly impact how SoCalGas and SDG&E operate and maintain their pipeline system and require modification of internal policies and procedures and the training of personnel to roll out the new interpretation and bring pipelines previously-classified as distribution into compliance with transmission pipeline regulations. The new definition would therefore result in SoCalGas and SDG&E incurring increased costs and engaging in additional work, without a demonstrated increase in efficiency or pipeline safety. Because a change in definition would impact all natural gas utilities, the Commission should address the appropriate definition of distribution center in this Rulemaking.

[12] PHMSA DIMP FAQ B.1.1. (emphasis added)

B. Where Possible, the Commission Should Adopt a Consistent Statewide Approach to Interpretation of Key Provisions of 49 CFR 192.

Clear criteria that can be easily and consistently applied to a wide variety of complex and divergent situations found within the State's pipeline systems is of benefit to both regulators and operators. Clarity and consistency are not served in any regard if the fundamental definitions within the code that affect daily operations differ within the State when applied to different operators. As such, it would be appropriate to include a common definition of "distribution center" in General Order 112-E that is applicable to all of the California natural gas utilities. PG&E's GTS is not an appropriate forum for establishing such a definition.

To establish uniform and clear definitions and regulations, the Commission should address these pipeline classification issues in R.11-02-019.[13] Indeed, R.11-02-019 lists the following as one of its primary objectives:

> Develop and adopt safety-related changes to the Commission's regulation of natural gas transmission and distribution pipelines, including requirements for construction, especially shut-off values, maintenance, inspections, operation, record retention, ratemaking, and the application of penalties.[14]

In R.11-02-019, through workshops and testimony, the Commission can develop an appropriate record to assess the benefits and risks of the different "distribution center" definitions and determine criteria that can be easily and consistently applied to situations found within the State's pipeline systems.

V. CONCLUSION

For the foregoing reasons, SoCalGas and SDG&E respectfully request that the Commission determine, in this proceeding, the proper interpretation of the term "distribution center" as used in 49 CFR 192.3, and that this definition apply to all California pipeline operators.

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[13] The Commission's OIR stated that the result of Rulemaking 11-02-019 would be "new rules for the safe and reliable operation of natural gas pipelines in California." Definitions that impact pipeline safety and management are integral to rules governing the safe and reliable operation of natural gas pipelines.

[14] *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* (Pipeline Safety Rulemaking), issued February 25, 2012, at 4.

Respectfully submitted,

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