

California Public Utilities  
Commission  
Safety and Enforcement  
Division  
Preliminary Staff Report

Pacific Gas & Electric Company  
Proposal for Cost of Service and Rates for  
Gas Transmission and Storage for 2015-2015  
Application 13-12-012

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# PG&E's Preliminary Comments

## EXECUTIVE SUMMARY

The Staff of the California Public Utilities Commission (CPUC) Safety and Enforcement Division (SED) prepared this report on Pacific Gas and Electric's (PG&E) Application for cost of service and rates for Gas Transmission and Storage (GT&S) services for 2015-2017. This report provides a review of the risk identification, risk evaluation and risk ranking methodology used by PG&E in preparing this Application. Additionally, this report evaluates the proposed pipeline integrity management projects against the scope of projects identified in PG&E's Pipeline Safety and Enhancement Plan (PSEP). While critical in the final evaluation of the Application, this Staff report does not opine on funding levels associated with any project.

Staff recognizes that in this Application, PG&E is employing new methods to confront risk trade-offs across different lines of business. PG&E's Application makes strong use of qualitative risk assessments. Staff recommends that PG&E inject additional quantitative rigor into its risk evaluation process. PG&E should improve its risk models to adjust for different scopes and pace of implementation. Additional use of quantitative methods, such as linear programming techniques, could complement its risk decision-making process. In the future, PG&E should consider integrating techniques that consider both project cost and risk reduction, such as "As Low As Reasonably Practicable" (ALARP), and should provide additional transparency about its enterprise risk tolerance in its overall risk assessment and risk mitigation decision-making process. PG&E shifts its focus from primarily addressing untested segments of pipeline (as targeted by PSEP) to other potential pipeline threats. Overall, the proposals in this Application are more focused and refined. PG&E's proposal views its system more holistically, combining PSEP work with existing "base work."

**Comment [A1]:** As discussed throughout the proceeding, PG&E recognizes that expanded availability and use of meaningful data and information in its risk management process is a key area of continued focus for improvement as our processes evolve and mature.

**Comment [A2]:** Cycla, in its 2013 report, stated that use of ALARP 1) usually requires expressing the value of a human life in monetary terms (Atch04, p. 4) can lead to a "grossly inadequate safety budget" (Atch04, p. 5) and that "... industry best practices are de facto judgments made by both regulators and industry that these activities are reasonable and practicable" (Atch04, p. 5). PG&E has adopted the best practice approach, consistent with Public Utilities Code Sections 961 and 963.

**Comment [A3]:** PG&E has discussed in its testimony, in discovery responses, and in the various workshops that its methodology for quantifying risk reduction and determining its recommended appropriate level of risk tolerance has not fully matured.

Does SED have examples of systems in that are in place and being used in the natural gas industry to quantify risk reduction and determine acceptable levels of risk tolerance that PG&E can learn from?

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## INTRODUCTION AND BACKGROUND

As directed by the Assigned Commissioner's Scoping Memo in Application (A.)13-12-012, the California Public Utilities Commission (CPUC) Safety and Enforcement Division Staff (SED) has drafted this report focusing on Pacific Gas and Electric Company's (PG&E) proposal for cost of service and rates for Gas Transmission and Storage (GT&S) services for 2015-2017. The Scoping memo asks SED staff to consider whether "PG&E's proposed risk management approach and asset family categories" are reasonable. As further noted in the Scoping Memo, PG&E's "risk assessment approach is part of the basis upon which PG&E developed its cost for this proceeding." SED staff provides this report with the express aim of providing an evaluation of the risk assessment and risk management methodology used by PG&E in preparing this Application.

Staff's evaluation consists of two main parts. The first part is an objective review of the risk identification, risk evaluation, and risk ranking methodology used by PG&E in the GT&S application. This first part will also make use of the evaluation criteria developed by Cycla Corporation to evaluate the strength of the risk assessment/management program that PG&E has instituted to address transmission and storage related risks. The second part is an evaluation of the proposed integrity management projects against the scope of projects identified in PG&E's Pipeline Safety Enhancement Plan (PSEP)<sup>1</sup>.

This preliminary report does not opine on any specific proposed project. Given constrained resources and timelines, SED staff elected to focus its efforts on the two areas identified above. If requested by a majority of the parties and if appropriate, SED

**Comment [A4]:** PG&E's 2015 GT&S Application includes 12 integrity management programs (see testimony at page 4-17) and numerous projects. This report compares two of the 12 programs to two PSEP programs.

<sup>1</sup> Approved by the Commission in D.12-12-030, as part of Rulemaking (R.)11-02-019

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staff could augment this report with observations on particular projects, including program and project scope and implementation pace.

Our report is premised on three critical steps to examine PG&E's application in order to answer the questions posed by the Scoping Memo:

- 1) Risk Identification
- 2) Risk Assessment
- 3) Risk Management

Risk is classically defined as the probability of an event (in this context, a hazard or a threat to the natural gas system) occurring multiplied by the consequence (or impact) should that event occur. Risk assessment involves the analysis of data to identify which hazards/threats present the greatest risk in the system. Risk management is the process by which the organization responds to the identified risk. We note that risk can never be eliminated, but rather the risk can only be mitigated down to an acceptable level. With this generic vocabulary in place, we now turn to the particulars of PG&E's application.

**Comment [A5]:** PG&E's definition of risk management from the PAS 55 standard, "coordinated activities to direct and control an organization with respect to risk" is very similar to the Cycla Report definition in Attachment 1 on page 2, "Coordinated activities, beginning with risk assessment, to inform and implement decisions designed to direct and control an organization with respect to risk (Definition derived from ISO Guide 73:2009)".

PG&E's risk assessment practices are aligned with the Cycla definition of risk assessment (Ibid), "The overall process of risk identification, risk analysis, and risk evaluation", which is broader than analysis of data to identify threats that pose the greatest risk.

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## PURPOSE OF THIS REPORT

In evaluating whether or not PG&E was complete in its risk assessment methodology, SED considers whether or not PG&E included all of the "top" risks. It is not practical for PG&E to include a mitigation strategy for every potential risk; the value in risk assessment is derived from systematically identifying risks and prioritizing them based on their impact and likelihood of occurrence.

Following identification and ranking of risks, the next step is for PG&E to determine the suite of candidate risk mitigation measures. PG&E needs to then select the mitigation measure which best "fits" the assessed risk. Selecting a mitigation strategy should include an evaluation of best practices and available technologies. Selecting between the various different mitigation options should factor in both relative cost and benefits and also the operator's knowledge and perspective of that particular part of the system. While we encourage prudent spending, this report does not examine the cost effectiveness or affordability of any of PG&E's proposed risk mitigation programs and projects in this GT&S application. Ideally, a quantification of benefit of reduced risk exposure could be compared to the project's proposed costs. While SED staff is concerned about affordability, ultimately we did not have sufficient information or resources to provide this detailed analysis.

**Comment [A6]:** If the Commission has examples of this approach in use in the natural gas industry, PG&E would benefit from seeing them.

## OVERVIEW OF PG&E'S RISK ASSESSMENT & MANAGEMENT FRAMEWORK

This section briefly describes PG&E's risk identification, risk ranking, risk mitigation and, finally, investment<sup>2</sup> framework.

PG&E accomplishes the implementation of its asset management and risk mitigation strategies by segregating the gas assets into "asset families," five of which are part of the GT&S application: (1) transmission pipe, (2) gas storage, (3) compression and processing, (4) measurement and control, and (5) liquefied natural gas and compressed natural gas. For each asset family, the responsibility for identifying the threats associated with the asset family, ranking the associated risks, and identifying mitigation measures rests with an asset family owner, who is typically a director-level or senior director-level employee.

During the threat identification process, subject matter experts identify potential threats across all asset families according to one of the three risk categories:

- 1) Loss of containment
- 2) Loss of supply & service
- 3) Inadequate response & recovery

To incorporate the existing Pipeline and Hazardous Materials Safety Administration (PHMSA) Integrity Management framework into the threat classification process, PG&E uses the threat categories developed in American Society of Mechanical Engineers (ASME) B31.8S to classify all threats that can affect pipeline integrity (loss of containment) into three buckets: stable threats, time-independent threats, and time-dependent threats. PG&E then ranks the threats according to the relative risk each threat can produce based on its likelihood and consequence of an occurrence. Risk is

<sup>2</sup> The terms "investment" and "portfolio" as used by PG&E in this context refer to the mixture of proposed programs and projects and their associated capital expenditures and expenses.

**Comment [A7]:** And classifies the additional threats associated with Loss of Supply and Service (capacity/reliability threats) and Inadequate Emergency Response and Recovery, recognizing that one event, loss of containment, can cause a chain of seemingly unrelated events.

**Comment [A8]:** It is more accurate to say that, "PG&E then ranks the ensuing risks"

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calculated as the product of a likelihood score and a consequence score. For the consequence score, subject matter expert input is used to select a score. For the likelihood score, a combination of a subject matter expert's opinion and actual probability data is used, depending on the availability of the actual probability data.

**Comment [A9]:** In addition to subject matter expertise, where possible and practical, PG&E uses industry and internal data to support consequence and frequency scoring.

There are two phases to PG&E's risk score calculation and risk ranking process:

1) The risk register scoring phase, which focuses on the enterprise level risk, and 2) The programs and projects scoring phase, which focuses on individual program's ability to mitigate risk. We go into detail about each phase in further detail, below.

### Risk Register Scoring

PG&E conducts its risk register scoring phase at the enterprise level. The main purpose is to identify major threats across all lines of business. Using an Excel spreadsheet model PG&E developed with the assistance of a consultant, the subject matter experts select numeric frequency and consequence scores to each identified threat to produce a risk score associated with the threat. The risk register scoring is a relative, subject matter expert opinion-based measure of what could happen if steps were not taken to mitigate the threat using the program in question. The score reflects the enterprise-level risk, not the ability of any project to mitigate the risk.

**Comment [A10]:** Risk Register scoring is first conducted at the individual asset level, then scores are discussed and debated at the Asset Family level, again across all Gas Operations Asset Families, at the Gas Operations senior management level in the Risk and Compliance Committee, and finally, at the Enterprise level. Scoring is not complete until Session D, the Enterprise review, is complete.

**Comment [A11]:** The main purpose of the Enterprise review is to discuss top risks across the Enterprise.

**Comment [A12]:** Individual scores are ranked and used to set priorities. The scores can also be sorted across lines of business to rank risks and set enterprise priorities.

During the risk register scoring phase, six categories of consequences (attributes) are considered:

- 1) Health & Safety
- 2) Environment
- 3) Compliance
- 4) Reliability
- 5) Reputation
- 6) Financial

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Different weights are assigned to each of the six consequence categories, which along with the selected likelihood, produce a weighted risk register score for each threat. Through an iterative process referred to as "calibration", the risk register scoring process across different asset families is adjusted for the top 20 threats in order to result in a calibrated set of risk register scores across asset families. The calibration process involves adjustments of weights and consequence scores in order to ensure consistency of risk register scores across asset families. After calibration occurs, similar risks across different asset families should result in similar risk register scores. The threats associated with the top 20 risk register scores are forwarded to PG&E's top leadership at the "Risk and Compliance Session" (also known internally at PG&E as "Session D").

As part of Session D, the asset family owners propose mitigation programs to address some, most, or all identified threats in the combined risk register. At this point, output from Session D, consisting of the complete risk register and all proposed mitigation programs, becomes the input for another process referred to as "Session 1". During Session 1, which involves many iterative steps between top level management and asset family owners, program scope, program pace, and finally program costs estimates are refined in order to arrive at a subjective selection of final programs to adopt for the rate case cycle.

In addition to programs and projects proposed to mitigate specific threats and associated risks, Session 1 also considers programs and projects that are non-discretionary in nature. These non-discretionary programs and projects are compliance-based, customer-driven, or fixed cost items. PG&E uses the term "strategic" to classify discretionary programs and projects.

### Programs and Projects Risk Scoring

**Comment [A13]:** The weighted Risk Register score is for each risk, not "threat".

**Comment [A14]:** A more accurate word choice is "risks" instead of "threats".

**Comment [A15]:** The first iteration of calibration occurs within the Asset Family and the second across asset families. The risk register score may be adjusted for any of the high to medium risks.

**Comment [A16]:** The calibration involves adjustment of scores. The weights are fixed to assure consistency in inputs.

**Comment [A17]:** The full title is the "Integrated Planning Process Risk and Compliance Session."

**Comment [A18]:** PG&E does not identify all proposed mitigation programs as an output of Session D. PG&E develops mitigation programs as part of Session D and when developing Asset Management Plans. Mitigation programs are finalized after Session 1.

**Comment [A19]:** The final mitigation proposal is derived from the Session D risks, the asset management plans and the multi-year strategic planning session, Session 1. It follows a process that is designed to be not solely subjective - based on feelings or opinions - or solely numerical.

**Comment [A20]:** As defined in the Gas Operations Investment Planning Procedure, "Strategic" identifies "work that does not meet the definitions of Compliance, Customer Driven, or Fixed Costs. Note, this could include multi-year compliance programs."



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In Session 1, potential programs are risk-scored using an indexing scoring method, where both likelihood and consequence scores are integers ranging from 1 to 7, and, as before, the risk score is the product of the likelihood score and the consequence score. Each proposed program under the strategic category receives a set of three separate risk scores for safety, environment, and reliability. The program risk score is the maximum of the three risk scores. Each strategic program will have a final relative risk score. In order to gain further granularity in the mitigation programs, different "tiers" of programs are frequently developed with each tier addressing a different or escalating level of threat. The program and project risk scores help to inform the investment planning committee and senior management as to the relative importance of the programs on an obviously very rough relative risk mitigation effectiveness basis. The output from Session 1 is the portfolio of programs and projects, consisting of both capital and expense components, that PG&E proposes to put into an executable investment plan.

Output from Session 1 is fed into "Session 2", where risk-based prioritization and constraints across asset families are applied across all the selected programs and projects selected in Session 2 to arrive at the final, executable mix of investment portfolio. PG&E employs the same indexing scoring method in both Session 1 and Session 2.

The foregoing generally describes the risk identification, risk ranking, risk mitigation, and finally investment framework PG&E used to arrive at the list of capital and expense programs and projects in the current GT&S proceeding.

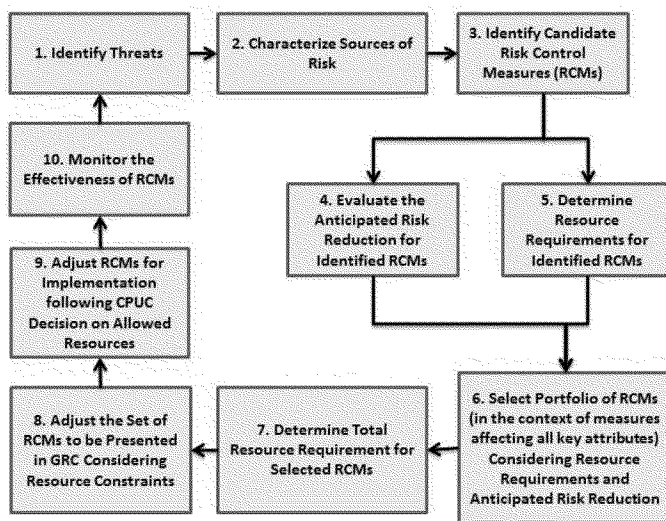
**Comment [A21]:** A more correct way to describe this would be, "... help to inform the Asset Family Owners, Subject Matter Experts and the Governance and Sanctioning Committee."

**Comment [A22]:** The program and project risk scores are based on the same scales and framework applied to the risk register. The program scores were tested against about 500 separate projects associated with risks ranked in the Risk Register. In all but three instances, there was alignment between the Risk Register and Program/Project score, making it a much higher caliber than, "obviously very rough".

## RISK ASSESSMENT AND MANAGEMENT EVALUATION

SED's evaluation of PG&E's GT&S Application relies on the identical criteria developed by Cycla Corporation and used during its evaluation of the PG&E general rate case, A.12-11-009. The evaluation is based on a set of 10-step criteria, which we represent graphically below.

### Elements of a Risk-Informed Rate Case Development Process



- 1) Identify the threats having the potential to lead to safety risk;
- 2) Characterize the sources of risk;
- 3) Characterize the candidate measures for controlling risk;
- 4) Characterize the effectiveness of the candidate risk control measures (RCMs);
- 5) Prepare initial estimates of the resources required to implement and maintain candidate RCMs;

- 6) Select RCMs the operator wishes to implement (based on anticipated effectiveness and costs associated with candidate RCMs);
- 7) Determine the total resource requirements for selected RCMs;
- 8) Adjust the set of selected RCMs based on real-world constraints such as availability of qualified people to perform the necessary work;
- 9) Document and submit the General Rate Case filing, on which the CPUC decides the expenditures it will allow, and, based on CPUC decision, adjust the operator's implementation plan;
- 10) Monitor the effectiveness of the implemented RCMs and, based on lessons learned, begin the process again.

We evaluate generally the reasonableness and completeness of PG&E's application and its underlying decision process by examining its documentation using these criteria. As applicable, we apply a series of four grading levels to evaluate the GT&S filing.

#### Grading Levels

- A. Fully satisfies evaluation criteria
- B. Substantially satisfies the evaluation criteria and provides a good foundation for future satisfaction of the criteria
- C. Partially satisfies the evaluation criteria but requires substantial improvement to fully meet the criteria
- D. Fails to satisfy the evaluation criteria

#### 1. Identify the threats having the potential to lead to safety risk

*Evaluation result: B (substantially satisfies criteria)*

The structured threat identification process PG&E relied on to identify threats using subject matter experts input over an ASME B31.8S threat-categorization inlay shows a good level of sophistication, but has some obvious weaknesses.

- The risk register of threats is comprised of fairly high level entries that in many cases do not show sufficient granularity. An example is the conglomeration of vintage construction in one large threat category, which is comprised of pre-1962 girth welds, wrinkle bends, dresser couplings, miter bands, etc. To the extent that more granular data can be obtained, it

**Comment [A23]:** PG&E disagrees with this conclusion. The level of granularity in the risk register is appropriate for that tool which is identifying high consequence, low probability risks. PG&E agrees that more granular detail is needed for final planning purposes. That level of granularity (segment-by-segment risk assessment) exists for pipeline family assets and is used in PG&E's TIMP algorithm to prioritize transmission pipeline integrity management projects.

would be beneficial to have more granular data to drive more specific mitigation measures. We encourage PG&E to continue the path of improving data collection to improve granularity. In the absence of this granularity, it is difficult (later in this process) to determine how much resource should be devoted to each sub-threat.

- PG&E should provide detailed analyses to demonstrate that interactive threats have been adequately addressed<sup>3</sup>.

**Comment [A24]:** PG&E has obtained more granular data, including industry data, and uses it with the TIMP algorithm to prioritize integrity management projects for its pipeline assets.

**Comment [A25]:** PG&E applies interactive threats using RMP-16, Section 8.1, and includes in its interactive threat considerations all other interactive threats in its overarching integrity management program assessments.

Further, PG&E believes that the best approach to addressing interactive threats is an evolving industry issue. PG&E is a member of a joint information project to find the best way to address interactive threats.

**2. Characterize the sources of risk**

*Evaluation result: B (substantially satisfies criteria)*

In accordance with ASME B31.8S, PG&E uses a pipeline segmentation process that characterizes the threats and associated risks by segment. Although PG&E’s current risk ranking process is still substantially qualitative in nature, we expect tangible substantial improvements in the future as data quality improves to further improve on the characterization of the risks in a more quantitative fashion. There is an insufficient showing that PG&E has translated data on historic failure rate of equipment into probabilities of consequential events and/or accidents. In characterizing risk, PG&E seems to emphasize qualitative factors and subjective evaluation by subject matter experts and does not put enough emphasis on quantitative models. PG&E could have provided more information on how the data has been validated or the level of uncertainty with the data.

**Comment [A26]:** PG&E agrees that greater use of probabilistic analysis, where appropriate, will enhance decision-making, and we have described our work to develop this capability as our process evolves. PG&E disagrees, however, that PG&E’s showing is insufficient. ASME B31.8s specifically contemplates reliance on the judgment of subject matter experts (see Section 5.5 – Risk Assessment Approaches) in one of its four acceptable approaches to characterize risk.

**Comment [A27]:** Section 3 of each of PG&E’s Asset Family Plans (Attachments E and F to PG&E’s Supplemental Testimony, Chapter 2A) addresses data quality and gaps. PG&E provided those plans in response to TURN 001, Q1, in February 2014, and has included them as attachments to its July 15, 2014 supplemental testimony.

**3. Identify candidate risk control measures (RCMs)**

*Evaluation result: B (substantially satisfies criteria)*

This step requires the operator to document its process so that it includes a description of the sources included in identifying risk control measures and a description of the breadth of application of identified risk control measures. While PG&E has identified a variety of risk control measures, there should be more analysis about how PG&E analyzed and examined these risk control measures and their

**Comment [A28]:** PG&E has provided the requested information to the SED.

<sup>3</sup> A presentation on this topic was requested by SED staff but was not furnished in time for additional review. SED staff expects to receive this information for inclusion in the final report.

effectiveness in mitigating risks similar to those confronted by PG&E. There could also be a higher level of detail as to whether the risk control measures PG&E proposes are broadly used throughout the industry or employed by operators in the top quartile of performance. PG&E should also demonstrate that it has evaluated how these risk control measures performed in other similar circumstances, as much as feasible.

**Comment [A29]:** PG&E’s testimony defines industry best practices as those widely accepted in the industry as driving toward safety excellence. PG&E’s testimony identifies such best practices throughout (searching for the phrase “best practice” yields over 50 hits). PG&E’s supplemental testimony identifies 41 industry best practices and details how PG&E identified them. For the programs evaluated by the SED, PG&E is aligned with INGAA initiatives and direction.

**4. Characterize the effectiveness of the candidate risk control measures (RCMs)**

*Evaluation result: C (partially satisfies criteria but needs substantial improvement)*

PG&E has generally adequately characterized the list of RCMs aimed at addressing the identified threats and associated risks. In evaluating the anticipated risk reduction for identified risk control measures, PG&E has documented the basis for key decisions it has made. However, it is significant to note that PG&E has not made a showing of the incremental risk reduction achieved by the RCMs to justify the proposed scope and pace of implementation. The current risk scoring methods reflect that the programs are either fully adopted or not adopted at all. PG&E’s model provides no evaluation of the incremental reduction in risk that would result from partial implementation of candidate risk control measures. PG&E has not identified its approach to considering uncertainty in assessing the effectiveness of selected risk control measures.

**Comment [A30]:** In the 2011 GRC, the American Gas Association provided PG&E a letter that enabled PG&E to identify top quartile performance. PG&E does not have access to non-confidential information to provide similar evidence concerning transmission operations. Cycla recognized the difficulty on relying on industry benchmark data in its report on p. 64, summarizing its recommendation to the CPUC to work with agencies, state regulators, and others to promote exchanges of information writing, “Proprietary considerations that have impeded past efforts to open this process and share its results will need to be addressed”.

**Comment [A31]:** PG&E’s integrity management programs, described in Chapter 4A of testimony, set specific and measurable safety goals for percentages of populations living and working near pipelines. For example, PG&E has set a goal over a 10-year period to reduce the risks posed by the threats that in-line inspection, a widely recognized condition assessment tool, identifies for approximately 80% of population living within the potential impact radius of PG&E pipelines.

**5. Determine resource requirements for identified RCMs**

*Evaluation result: B (substantially satisfies criteria)*

The structured investment planning approach involving top level corporate leadership in Sessions 1 and 2 is indicative of a generally effective approach to investment planning. The process that is used to consider resources and constraints is however, very subjective and qualitative in nature. PG&E should provide more analysis and documentation to support its basis for determining resources required to implement selected risk control measures. For example, it appears that the proposed

**Comment [A32]:** PG&E did not decide on programs by either fully adopting programs as initially proposed or not adopting programs at all. Through the portfolio prioritization process, PG&E used the program and project risk scores to modify the pace and scope of most programs included in the rate case based on risk and constraints. Some PG&E programs were presented during the integrated planning process as “tiered” programs, reflecting that portions of the programs mitigated more risk than others. This is reflected in the 59 program and project risk scoring sheets identified as “tiered”. The example scoring sheets provided in response to TURN01 Q01 included the tiered sample for the Vintage Pipe program.

**Comment [A33]:** It is not clear to PG&E what this sentence means.

**Comment [A34]:** See the approximately 250 scoring sheets PG&E provided. In addition, PG&E’s resource management team uses a model to forecast resource needs. PG&E is happy to share/discuss the model with SED and others. In addition, PG&E analyzed system and execution constraints. PG&E can provide additional information documenting this analysis.

Earthquake Fault Crossings Program and the Geo-Hazard Threat Identification and Mitigation Program overlap somewhat in terms of resource requirements. In this case, PG&E should seek out and estimate economies of scale to reduce resource requirements. The Geo-Hazard Threat identification and Mitigation Program also overlaps with the Vintage Pipeline Replacement program<sup>4</sup>, in that both deal with land movement. PG&E could also strive to obtain more information from peer utilities on resources required for similar projects as a basis upon which to evaluate PG&E's resource requirements. It is unclear whether resource requirements for some of PG&E's programs (Hydrostatic Testing, Vintage Pipe Replacement) have been scaled for activities that would actually represent an increase in the use of existing practices.

**6. Select RCMs the operator wishes to implement (based on anticipated effectiveness and costs associated with candidate RCMs)**

*Evaluation result: C (partially satisfies criteria but needs substantial improvement)*

PG&E has generally provided a basis for selecting risk control measures but has not always provided enough analysis and documentation supporting its decisions. In considering alternatives to decisions made on pace and scope, PG&E rejects alternatives with a rather cursory explanation. For example, in deciding between an 8-year, 10-year, and 12-year plan to make a system piggable, PG&E rejects the 12-year plan despite the fact that this plan is \$84 million less than the 10-year plan over the rate case period. PG&E states:

Although the cost of traditional [In-Line Inspection] Upgrades under a 12-year plan is lower by approximately \$84 million over the rate case period, the risk reduction benefit of the increase in make piggable under the 10-year plan was more important than the cost impact. Delaying make piggable work would also delay our ability to collect more specific and accurate data about not only the specific segment under inspection, but about trends that could impact other areas on the system. Given that

<sup>4</sup> See PG&E Testimony page 4A-59

**Comment [A35]:** There is no measurable overlap of resources for these programs. The Vintage Pipe Replacement Program will mostly utilize pipeline engineers while the Geo-Hazard Threat Identification and Mitigation Program is the first analysis that must be completed by risk engineers and then second, specialized work that will use contract experts. Both will consult with PG&E Geosciences. PG&E adopted, in 2013, the alliance contractor approach (discussed with SED in the 6/30/2014 review session with the 2015 GT&S Rate Case Chapter 9 Project Management Office witness) to generally strengthen efficient utilization of contract resources.

**Comment [A36]:** While the two programs are related to land movement, the two programs are different and complementary. The Geo-Hazard program is better identifying and defining the risks associated with specific sites of land movement, allowing for better definition within the strategic programs related to land movement. The Vintage Pipe replacement program is aimed at replacing pipe where vintage construction and fabrication threats interact with that land movement. The Geo-Hazard Threat Identification program will provide more risk profiling of site specific land movement that will improve the risk prioritization within the Vintage Pipe Replacement Program.

**Comment [A37]:** The PG&E Gas Operations team is engaged in a number of activities in the industry, including the peer-to-peer information exchange PG&E and several other American Gas Association (AGA) members piloted in 2013.

**Comment [A38]:** PG&E will perform hydrostatic testing at the same pace in 2015 as in 2014 and pipeline replacement at a slower pace than the pace leading up to the 2015 forecast. The forecast need for critical resources is flat between 2013 and 2015, moving up 15% from 2015 to 2017, giving PG&E ample time to implement its hiring strategy and to build on the technical competence of its newly hired employees.

**Comment [A39]:** PG&E has provided substantial documentation in testimony and workpapers to support its selection of risk control measures and has supplemented that information through discovery.

Is SED aware of another gas operator's rate case in which more analysis and documentation supporting the selection of RCM's was provided?

better data drives better decision-making, we believe the additional investment made under the 10-year plan strikes the right balance between cost and risk reduction.

PG&E does not, however, quantify or discuss the "risk reduction benefit" versus cost under the 10-year plan as compared to either the 8-year plan or 12-year plan. Although PG&E states that the delay between the 10-year and 12-year plans would delay its ability to collect more data about the system, it does not discuss how it plans to use this data or justify why the same delay in data collection between the 8-year and 10-year plan is tolerable. PG&E should provide more detailed analysis of the basis for the risk control measures that were selected and how the resources required for those risk control measures were estimated.

**Comment [A40]:** The make piggable program for which the risk basis is population and system constraints (See testimony at pages 4A-16 to 4A-19 for the make piggable alternatives analysis). Testimony at pages 4A-17, lines 13 through 4A-18 line 13 that explains the alternatives considered and clearly states that an 8-year plan was not feasible due to system constraints.

With respect to Hydrostatic Testing, PG&E summarily states that its forecast "provides the most appropriate risk reduction associated with previously untested pipe" but does not provide detail or quantification of said risk reduction. In the Earthquake Fault Crossings Program, PG&E provides a little detail as to why three alternatives were rejected, but then summarily states that the chosen program was selected because it incorporated the:

**Comment [A41]:** PG&E's hydrostatic testing program is based on a detailed risk-based prioritization process that details the criteria for ranking the projects by risk. While PG&E is not able to quantify the risk reduction expected from this program, it is intended to address the highest risk segments of pipe first.

best aspects of the transmission integrity management program algorithms along with additional geotechnical site specific data to understand and prioritize the specific risk presented by each earthquake fault crossing. It is the right amount of work because it does not constrain the system with too many outages and it is supported by the limited engineering resources available for this type of specialized work.

PG&E has not provided sufficient detail or quantification as to why the selected program provides "the right amount of work" or what "too many outages" means. In the Vintage Pipe Replacement Program, PG&E concludes that "20 miles of pipeline replacement per year is the right pace for reducing risk for these interacting threats... because we are able to reduce risk to 90 percent of the population in the vicinity of our

**Comment [A42]:** PG&E's testimony provides support for its programs based on the subject matter expertise of its witnesses coupled with available data and benchmarking to identify industry best practices. PG&E can provide through discovery additional details on the limited engineering resources and the number of outages that would result if more work were forecast.

pipelines<sup>5</sup>." However, there is no basis by which to compare PG&E's determination of the right pace or sufficient surrounding analysis to support its conclusion.

Within the Programs to Enhance Integrity Management, PG&E again makes summary statements without providing sufficient supporting detail or analysis. PG&E states "the current RCA [(Root Cause Analysis)] process is not robust enough to achieve our desired risk reduction and continuous improvement levels."<sup>6</sup> However, there is no explanation of what that "desired risk reduction" level or amount is and how the corresponding funding request will reduce risk per dollar spent. Similarly, with respect to the Risk Analysis Process Improvements, PG&E simply states "[t]he scope and volume of integrity assessments that is required... requires this level of funding" yet does not provide any explanation or analysis as to why.

In general, there is a lack of detailed analysis surrounding the proposed risk-mitigation activity and its cost as compared to the alternatives that were rejected.

**7. Determine the total resource requirements for selected RCMs**

*Evaluation result: B (substantially satisfies criteria)*

Overall, the process PG&E used to arrive at the final portfolio of programs and projects lacks some transparency. The process is transparent as to the identification of threats and associated risks, but lacks details pertaining to the decision making process that led to the evolution of different cost estimates and different scopes and paces of implementation. PG&E explains that the decision making process occurs during Sessions 1 and 2, but the precise methodology and guiding criteria behind the evolution of the different estimates are not provided. Although the testimony alludes to the concept of risk tolerance, there is no showing of risk tolerance at the corporate level to adequately justify the scope and pace of the proposed programs.

**Comment [A43]:** The basis for PG&E's determination of pace and surrounding analysis is the best practice INGAA member commitment described in testimony at page 2-9, line 23 through page 2-10, line 15 introducing PG&E's commitment to extend integrity management principles to 90% of the population living along its pipelines by 2020 and to 100% of the population by 2030. See page 4 13, lines 7 through 19. Details for each program are provided in Chapter 4A of testimony.

**Comment [A44]:** PG&E made a commitment to apply integrity management principles beyond high consequence areas to all of its pipeline assets and the goals of that commitment apply to the Programs to Enhance Integrity Management. This is explained in the comment above.

**Comment [A45]:** PG&E's assessment of Risk Analysis Assessments is timed to be able to meet or exceed the INGAA member commitment to apply integrity management principles to 100% of the population residing in the potential impact radius of pipelines by 2030.

**Comment [A46]:** Through the discovery process and supplemental testimony, PG&E provided copies of its risk and asset management policies and procedures, 250 project scoring sheets, asset management plans, and 4,000 pages of information describing its risk and asset management activities. This significant volume of documentation outlines the processes and procedures used to arrive at the final portfolio of programs and detailing the adjustments made to each programs through the decision process, including the presentations reviewed and discussed with senior leadership.

Documents that provide specific insight into risk mitigation decision-making, are notably the Session D, Session 1, and Session 2 materials. Specifically in Session 1, the section titled, "Risk-Informed Strategies: Translation of Top Session D Risks to S 1", pages 10 and 11 (Supplemental Testimony, Chapter 2A, Attachment B- 26, and Session 2, Section D "Risk Summary", pages 21- 25 (Supplemental Testimony, Chapter 2A, Attachment B- 27).

PG&E requests that SED clarify this statement and request the additional information SED needs for PG&E to be more transparent, but has not obtained to date.

**Comment [A47]:** PG&E disagrees that we need to identify a risk tolerance in place of the proposed programs. In addition, PG&E agrees with SED's statement on page 19, "PG&E has not yet reached the level of risk reduction where the concept of risk tolerance becomes relevant."

<sup>5</sup> PG&E Testimony, Page 4A-55

<sup>6</sup> PG&E Testimony, Page 4A-64

<sup>7</sup> PG&E Testimony, Page 4A-66



**8. Adjust the set of RCMs to be presented in the rate case considering resource constraints**

*Evaluation result: C, partially satisfies criteria but needs substantial improvement*

In general, PG&E has taken resource constraints into account when selecting its risk control measures. However, the decision-making process incorporating resource constraints seems highly subjective. SED believes an appropriate application of quantitative optimization methods, such as linear programming techniques, that take into account resource constraints, incremental risk reductions at different incremental paces and project scopes, and risk tolerance would be conducive to improved decision making on overall portfolio selection.

Additionally, as mentioned above, PG&E should provide more explanation or analysis to support its decision to select certain risk control measures while rejecting alternatives. Generally, PG&E does not discuss potential resource constraints associated with the selected risk control measure and whether and/or how those resource constraints will be managed.

Steps 9 and 10 are not applicable at this stage of the rate case process; both steps are how PG&E performs post-CPUC decision.

Findings and Observations

Based on our preliminary review of PG&E’s GT&S application, SED staff makes the following evaluation findings and observations about PG&E’s risk assessment and risk management methodology.

**1. No determination of incremental risk reduction values for various risk**

**mitigation programs.** The programs are either “on or off” and the risk scores reflect this dynamic. The risk scores, whether at the risk register level or at the program and project level, reflect what could happen if a threat develops in the

**Comment [A48]:** PG&E utilized a model to evaluate resource constraints and also analyzed system and execution constraints, which is later documented in Program and Project Risk Scoring Sheets and summarized in Session 1 and 2 materials. PG&E can provide additional information documenting this analysis.

**Comment [A49]:** PG&E is not aware of any operator in the industry performing such programming techniques, especially with respect to incorporating risk. PG&E is familiar with linear programming in the context of optimizing resources.

**Comment [A50]:** Chapter 4A and 4B include a section titled, “Alternatives Considered” for each program. A good example of the explanation is the text regarding increasing use of In-Line Inspection over time and decreasing the use of Direct Assessment to assist in addressing specific anomalies identified and trending anomalies across the system (see testimony at page 4A-16 through page 4A-19).

**Comment [A51]:** PG&E specifically discusses resource constraints and how these constraints will be managed in documentation of the decision making process (TURN 1 data response). The resource constraints for each program are identified on each scoring sheet provided to SED. Finally, resource constraints are discussed in testimony, where applicable. See e.g.:

- In-Line Inspection Program (page 4A-17, lines 26 – 33)
- Hydrotect Program LNG/CNG Availability (page 4A-36 lines 1 -14)
- Earthquake Fault Crossing Program (page 4A46, lines 5 -9 and 4-49 lines 18-21)
- Risk Analysis Program resource analysis (page 4 66, Table 4A-21)

absence of a mitigation program. There is no provision in the scoring process to address partial reductions in risk. Even with a relative risk ranking model, such incremental risk evaluations would help decision makers balance affordability and risk reduction.

**Comment [A52]:** See prior comment.

2. **Allocation of funding to different programs is subjective.** SED could not find documentation (or other apparent evidence) of a structured process to determine the combined portfolio funding or the optimal allocation of funding mix to the different programs and projects. It appears that there is a large degree of subjectivity involved in the planning process in both portfolio size and allocation of funding (or partial funding) to the portfolios. Additional quantification of the risks subject to constraints would help in deciding the best pace and best mix of strategies. This may mean exploring the use of some formalized decision making algorithms, such as linear programming techniques, to help inform best allocation of resources subject to constraints. This observation is not meant to force PG&E to blindly use a “press a button” approach to dispense with or override human knowledge-based decision making; rather, SED suggests this more structured approach as a tool to enhance decision making.

**Comment [A53]:** What does SED mean by this statement?

**Comment [A54]:** PG&E uses a resource model, that the SED did not review, to evaluate resource constraints and to schedule resources. The SED is welcome to review that model with PG&E.

3. **The use of an indexing scoring method to inform decision making at the programs and projects level in Sessions 1 and 2 has many known limitations.** Despite the apparent level of sophistication displayed at the risk register scoring level, the method PG&E employs to calculate and rank risks at the program and projects level is fundamentally a relative risk scoring method that has well known limitations. We caveat our statement with the admission that PG&E is relying on this relative risk scoring method due to the lack of reliable probability of failure data for many of the identified threats. We also fully recognize that

**Comment [A55]:** The method that PG&E uses to calculate and rank risk at the program and projects level is the same method (likelihood and consequence), same scale, and same framework used in the Risk Register process. The investment prioritization process consequence and likelihood scales increase along the same exponential curve, even though they the scores are represented by the categorical numbers 1 through 49.

**Comment [A56]:** PG&E and the industry in general lacks reliable probability failure data.

<sup>1</sup> Problems with scoring methods and ordinal scales in risk assessment by Douglas Hubbard and Dylan Evans, IBM Journal of Research and Development, Vol. 54 No. 3 Paper 2 May/June 2010.

PG&E is embarking on a journey to apply risk-based decision making techniques to managing its gas assets; progress made to-date is commendable. Risk scoring methods have well known limitations, including:

- Scoring methods do not make any allowance for flawed perceptions of analysts who assign scores and do not consider the effect of cognitive bias.
- Qualitative descriptions assigned to each score are understood differently by different people.
- There is rarely any *objective* guidance as to how an analyst is to distinguish between a high or medium risk. There can be huge variances in understanding of qualitative descriptions, even when people are given specific guidelines as to what the descriptions or terms mean.

We also note that scoring methods themselves *add their own errors*. Below are brief descriptions of some of these:

- Typical risk matrices can correctly and unambiguously compare only a small fraction (e.g., less than 10%) of randomly selected pairs of hazards. They can assign identical ratings to quantitatively very different risks." This behavior is known as "range compression" – and it applies to any scoring technique that uses ranges.
- Assigned scores tend to cluster around the mid-low high range. Analysis by Douglas Hubbard shows that, on a 5 point scale, 75% of all responses are 3 or 4. This implies that changing a score from 3 to 4 or vice-versa can have a disproportionate effect on classification of risks.
- Scores implicitly assume that the magnitude of the quantity being assumed is directly proportional to the scale. For example, a score of 2 implies that the criterion being measured is twice as large as it would be for a score of 1. However, in reality, criteria are rarely linear as implied by such a scale.
- Scoring techniques often presume that the factors being scored are independent of each other – i.e. there are no correlations between factors. This assumption is rarely tested or justified in any way.

**4. PG&E should continue the path to develop a more robust quantitative approach to risk ranking.** In order to avoid more of the pitfalls associated with

**Comment [A57]:** The article addresses linear scoring rated on an ordinal scale and is irrelevant to the methods PG&E uses. For example:

- The report addresses how cognitive bias can skew results. This is why PG&E calibrates risk at several different levels, within an asset family, across families, with the senior leadership team, and across the enterprise.
  - The report discusses variances in qualitative descriptions. PG&E's consequence and likelihood categories are mostly quantitative, not qualitative, data is used where possible to support conclusions, and calibration provides an extra layer of review to assure the team is viewing similar risks through the same lens.
  - The report introduces the phenomena of "range compression" and "clustering". PG&E attempts to avoid these phenomena by using a logarithmic instead of linear scale to score risks and further tests results with debate, challenge sessions, and calibration.
  - The report discusses scaling and assumptions regarding direct proportionality within the scale, (e.g. a "2" is twice as large as a "1"). PG&E uses a logarithmic scale where an easy to understand comparison is the Richter scale, a magnitude of 5 earthquake is exponentially greater than a magnitude of 4 earthquake. This enables PG&E during calibration sessions to "gut check" the results.
- Finally, the report states that scoring techniques often presume that factors scored are independent of each other. PG&E recognizes the complex, interactive nature of its natural gas system in the way risks are scored. The six categories of consequence PG&E considers work together to consider multiple concurrent outcomes. For example, reliability is one of the six consequence categories considered for each risk.

an indexing risk scoring method, PG&E should continue to refine the risk ranking models by driving toward a more probabilistic model. To alleviate the constraint imposed by the lack of meaningful frequency data, PG&E could consider pooling information with other utilities to obtain more credible frequency data.

5. **Inadequate rigorous consideration of interacting threats other than earth movement with construction defects.** Current methodology to consider

interacting threats is very qualitative at best and not conducive to adequate consideration of interactions. SED staff is aware of a fairly sophisticated mathematical model to incorporate interacting threats using quantitative means, but the current indexing method of risk ranking does not seem to lend itself to a ready application of such a mathematical model. In general, PG&E did not examine effects of interacting threats or their effects on the mitigation efforts of those risks. We note at least one exception to this observation: PG&E did consider the danger of earth movement interacting with construction vulnerabilities (such as wrinkle bends and mitered bends). Besides this example, PG&E has not furnished any evidence that interactive threats were considered beyond cursory display of the matrix in Risk Management Procedure (RMP)-16<sup>9</sup>. PG&E has not demonstrated whether its risk registers and the associated scoring mechanism properly took into account other interactive threats.

6. **No quantification of risk tolerance.** PG&E mentions the need to establish the appropriate level of risk tolerance, but no evidence of a corporate level risk tolerance was shown to SED.<sup>10</sup> PG&E has not yet reached the level of risk reduction where the concept of risk tolerance becomes relevant. As noted above, risks can never be completely eliminated, but rather mitigated down to an

**Comment [A58]:** For transmission pipelines, PG&E does have access to and uses PHMSA’s nationwide data sets as well as reviewing NTSB reports and PHMSA advisory bulletins, essentially a large pool of credible frequency data.

**Comment [A59]:** PG&E already applies interactive threats using RMP-16, Section 8.1, and includes in its interactive threat considerations all other interactive threats in its overarching integrity management program assessments.

**Comment [A60]:** Please share this mathematical model. Where has it been used?

<sup>9</sup> GTS\_RateCase 2015\_DR\_ORA\_077Q4Atch01CON#

<sup>10</sup> Prepared Testimony, P.1-9.

**Comment [A61]:** This data response addresses internal corrosion assessments. It does not discuss or address RMP-16. PG&E would like the opportunity to make available needed information on interactive threats.

acceptable level. Quantifying risk tolerance is critical to determining this “acceptable level” depending on the context.

Risk tolerance and risk tradeoff are foundational to risk management, whether from a theoretical viewpoint or from a practical viewpoint. PG&E should explore the concept of risk tolerance in an As Low As Reasonably Practicable (ALARP) framework and supplement this framework with prudent application of industry best practices. We reproduce a subsection from the report prepared by Cycla Corporation on PG&E’s General Rate Case<sup>11</sup> (Attachment 1) discussing an ALARP approach to risk management. We encourage PG&E to explore this concept in future rate cases. It is our expectation that incorporation of an ALARP approach to utility risk management could improve decision making with respect to the question of scope and implementation pace of the proposed programs and projects.

**7. Insufficient documentation of basis for selecting alternative mitigation approaches.** PG&E has selected more than one method to control similar risks without clearly documenting the basis for these selections. While such variation may well be appropriate, additional documentation on why PG&E changed its selection methodology should be provided in the future. This type of additional documentation will provide additional context into how the selection process.

**Comment [A62]:**  
 Cycla, in its 2013 report, stated that use of ALARP 1) usually requires expressing the value of a human life in monetary terms (Atch04, p. 4) can lead to a “grossly inadequate safety budget” (Atch04 p. 5) and that “. . . industry best practices are de facto judgments made by both regulators and industry that these activities are reasonable and practicable” (Atch04, p. 5). PG&E has adopted the best practice approach, consistent with Public Utilities Code Sections 961 and 963.

Is SED suggesting that PG&E should monetize the value of human life as part of its risk management? The Cycla report appears critical of doing this and indicates it has little value.

If that is not what SED is suggesting, what exactly is SED suggesting?

If SED is suggesting that PG&E analyze whether “costs are grossly disproportionate to the benefits realized,” PG&E has done so and has determined that they are not. PG&E has also relied on industry best practices, which Cycla indicated are “de facto judgments made by the regulators and industry that these activities are reasonable and practicable.”

**Comment [A63]:** Could the SED clarify “the selection methodology” that changed?

<sup>11</sup> A.12-11-009 and I. 13-03-007

**RECOMMENDATIONS ON RISK ASSESSMENT AND RISK MANAGEMENT**

1. PG&E should continue the path of injecting quantitative rigor into the risk evaluation process by improving data collection to enhance knowledge on failure likelihoods. Along this line, PG&E should consider sharing failure data with other utilities to help expand the knowledge on rates of pipeline failure due to different threats and mechanisms.
2. PG&E should improve the risk calculation and ranking models to demonstrate the incremental value of risk control measures at different scopes and paces of implementation. PG&E should provide more detailed analysis, including incremental values, of not only the proposed risk-mitigation activity and its cost, but also the alternatives that were rejected to support its selection of the activity.
3. PG&E should explore the use of optimization methods, including linear programming techniques, to enhance decision making to incorporate resource constraints, risk tolerance, and incremental risk reduction. This should not be misconstrued to be a recommendation to forgo subjective judgment in favor of a blind application of quantitative approach to decision making. Rather, we believe there is value in having output from a quantitative approach to act as one of many input ingredients in a subjective decision making process.
4. PG&E should explore the concepts of risk tolerance and As Low As Reasonably Practicable to future rate cases decision making. PG&E should balance this approach with prudent application of industry best practices.
5. PG&E should provide additional information on the methodology and guiding criteria used in Session 1 and Session 2 steps to show the reasoning behind the evolution of final programs and projects selected, as well as their respective scopes and paces of implementation. Additional information on how the

**Comment [A64]:** PG&E comments on preceding pages apply to these recommendations and PG&E is not repeating those comments here.

**Comment [A65]:** What does SED mean by "prudent application" of best practices?

assumptions from the Session D process feed into Sessions 1 and 2 should also be provided.

6. PG&E should consider interactive threats in its threat identification and risk ranking steps in a more mathematically rigorous manner than the current subjective qualitative approach.

**RELATIONSHIP BETWEEN GT&S REQUEST AND PSEP**

As discussed in its Testimony<sup>12</sup> and noted in SED's Safety Review Report of the Pipeline Safety Enhancement Plan Update Application (PSEP Update)<sup>13</sup>, PG&E's GT&S Application proposes a new decision-making framework to determine pressure testing and replacement activity priorities for untested pipeline segments that differs from the one previously approved under PSEP in 2012. PG&E asserts these changes result in a more holistic risk assessment approach to prioritizing, i.e. PG&E will not plan PSEP work separately from base work.<sup>14</sup> PG&E indicates the changes incorporate the lessons learned from PSEP work so far.

As mandated by Decision (D.) 11-06-017 and approved by D.12-12-030, the original<sup>15</sup> PSEP contained PG&E's comprehensive plan for implementing the CPUC's order that all California gas operators either pressure test or replace every untested segment of natural gas transmission pipeline.

In order to ensure PG&E's continued progress towards complying with the CPUC's and the State of California's<sup>16</sup> orders ending historic exemptions from pressure testing, SED reviewed the Hydrostatic Testing and Vintage Pipeline Replacement Programs<sup>17</sup> proposed in this GT&S application and evaluated PG&E's modifications against the previously approved PSEP. Although other PSEP components include in-line inspection and valve automation activities, this review focuses its attention on the aforementioned programs: their activities are fundamental to meeting the CPUC's and

**Comment [A66]:** D. 12-12-030, the authorized decision making framework for PSEP, ended with Phase 1. The only exception was work that carried into the 2015 GT&S Rate Case period. To continue this work, PG&E created decision trees in the GT&S Rate Case for pressure testing and replacement for untested pipeline segments based on risk.

<sup>12</sup> Testimony p. 1-12, p. 2-25, and Chapter 4A.

<sup>13</sup> A.13-10-017 - Pipeline Safety Enhancement Plan (PSEP) Update filed on October 29, 2013. SED's Report was issued to that service list on April 25, 2014.

<sup>14</sup> Capital and O&M Expenditures included in the Gas Transmission and Storage Rate Case.

<sup>15</sup> Filed on August 26, 2011,

<sup>16</sup> Following D.11-06-017 mandated filing of the implementation plan the California Legislature codified this requirement under Section 958 of the Public Utilities Code.

<sup>17</sup> Chapter 4A of the Testimony. This values does not include the results from the records integration program completed mid-2013.



State of California's goal of ensuring a safe and reliable natural gas pipeline system. In formulating its observations, SED primarily relies on the approved PSEP, the applicable CPUC orders, its experience with oversight of the PSEP program activities, previous review of PSEP, interviews with testimony witnesses, and the corresponding application testimony and workpapers. It is important to note that this review is by no means an exhaustive assessment of the PSEP transition. Rather, our review is comprised of observations intended to assist in determining the reasonableness of the modifications to the approach.

#### Background

In D.11-06-017, the CPUC required the implementation plan to:

- Comply with the requirement that all in-service transmission pipelines have been pressure tested in accordance with 49 Code of Federal Regulations (CFR) 192.619, excluding 49 CFR 192.619 (c).
- Include a timetable for completion and interim safety enhancement measures for pipelines that must run at or near Maximum Allowable Operating Pressure, or above 30% System Minimum Yield Stress.
- State the criteria on which pipeline segments are identified for replacement rather than pressure testing.
- Contain a priority-ranked schedule for pressure testing pipeline not previously tested and for certain Maximum Allowable Operating Pressure reductions.
- Consider retrofitting pipeline to allow for in-line inspection tools and shutoff valves.
- Include expense and capital cost projections by component for each Plan year.
- Recommend a rate proposal with cost sharing between shareholder and ratepayer.

To generate a prioritized schedule based on risk assessment, PG&E developed an analytical framework in the form of a decision tree to evaluate every transmission pipeline segment in its system. PG&E's decision tree focuses on five of the nine potential threats to pipeline integrity specified in ASME B31.8S and groups into three categories:

- 1) Manufacturing threats
- 2) Fabrication and construction threats
- 3) Corrosion and latent mechanical damage threats

The PSEP "Pipeline Modernization Decision Tree"<sup>18</sup> (PSEP Decision Tree) groups work into two phases, prioritizing based on pipe vintage, population density surrounding the pipeline segment, and the operating pressure. The CPUC approved the PSEP plan in D.12-12-030 and required PG&E to file an update upon completion of its records integration program. As referenced above, A.13-10-017 is the PSEP update.

Although PSEP was approved late in 2012, Phase 1 has been underway since 2011 and is set to conclude at the end of 2014. During that time PG&E targeted two untested pipeline profiles:

- 1) Segments in highly populated areas (Class 3, 4 locations and High Consequence Areas (HCA) ), operating at or above a Specified Minimum Yield Strength (SMYS) of 30 percent or greater, and characterized with a construction/fabrication and/or corrosion/mechanical damage threat; and/or
- 2) Segments located in highly populated areas and characterized with a manufacturing threat.

As of March 31, 2014, PG&E reports having replaced 105 miles of transmission pipeline and pressure tested another 541 miles as part of PSEP. However, SED learned upon review of the PSEP Update, there still exist pipeline segments that meet the criteria for Phase 1 mitigation which were not and will not be addressed by Phase 1. These have been deferred beyond Phase 1.

PG&E explains that work related to pipeline replacement and strength testing outside of the PSEP Phase 1 period of 2011-2014 is reflected in this 2015 GT&S proceeding. Work includes the deferred segments and Phase 2 segments. PG&E estimates that approximately 1,500 miles of untested pipeline still remain to be addressed. This is discussed in Chapter 4A of its testimony.

**Comment [A67]:** PG&E would like to clarify that the timing of events did not allow all segments that met the criteria for Phase 1 to be addressed during the Phase 1 time period. The 2015 GT&S rate case filing was developed based on segment data as of mid-2013. However, the PSEP team and SED did not identify the PSEP segments that would carry forward to the GT&S case until early 2014.

<sup>18</sup> Attachment C, D.12-12-030

GT&S modifications to PSEP

Despite PG&E's assertions that the logic and approach in GT&S are only an extension of PSEP by adding context to an otherwise unspecified approach to Phase 2 of PSEP, PG&E's proposal does represent a noticeable change to the approach and logic used in the previously approved PSEP. We detail further our observations, below.

**Integrated PSEP and Base Work Planning.** The most evident change to the transition of PSEP is PG&E's approach to no longer plan PSEP work separately from base work. From its discussions with the PG&E witnesses, SED understands that, prior to this proceeding, PG&E designated resources to focus solely on PSEP related work, even though other resources may have performed the same type of activities for base work. PG&E now plans to integrate those groups responsible for the same workstream.<sup>19</sup> PG&E contends this should result in improved collaboration and information flow, as well as a reduction in duplication of efforts, and increase in other process efficiencies. SED believes that it is important that PG&E be able to track and readily identify the specific drivers for any given project within a workstream. Several drivers can exist within a single workstream, even co-mingled drivers for a specific project within the workstream. For example, the hydrotesting program can encompass work required by compliance with 49 CFR Part 192, Subpart O, compliance with state-only mandates (California pressure testing mandates ), or for integrity assessment of non-HCA segments (expansion of integrity management principles beyond required HCA's). In some circumstances a single project could have more than one of those drivers. PG&E should also be mindful of how prioritization takes into account regulatory compliance and non-compliance integrity management drivers in its work prioritization process.

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<sup>19</sup> Testimony p.9-10 Workstreams are a grouping of projects aligned with particular skills, industry disciplines, and expertise.

**Reduced Scope of Pipeline Replacement.** Another significant change in PG&E’s approach is the reduced scope of the replacement activities to address the State’s pressure testing requirements. PG&E will primarily rely only on hydrotesting activities exclusively to comply with the pressure testing mandate. At the proposed implementation rate PG&E estimates compliance will be completed by 2024.

**Comment [A68]:** The Vintage Pipeline Replacement program was not designed to meet the State’s pressure testing mandate (D. 11-060-017). Only those untested pipelines that cannot be hydrotested based on engineering analysis will be included in the Vintage Pipe Replacement program.

**Overall Reduction in Scope Targets at Addressing Pressure Testing Requirements.** The Hydrostatic Testing Program will not just address most pressure testing of untested pipeline but will also cover testing of segments as necessary for other integrity management purposes. The proposed pace of 170 miles is reported to be close to the average of that tested in PSEP but in GT&S the total mileage to be tested will cover not just PSEP but also other hydrostatic testing priorities necessary for integrity management. This program integration will result in a reduction in the current pace of pressure testing targeted at meeting the State’s pressure testing goal.

**Comment [A69]:** PG&E estimates that 90% of the strength testing mileage will be on untested pipe. Based on PG&E’s Risk Assessment, there is other higher priority work in the GT&S rate case period that should be done prior to additional hydrotesting.

**Average Occupancy Count/Total Occupancy Count.** PG&E will be using the concept of Average Occupancy Count/Total Occupancy Count (AOC/TOC) to further prioritize work. This concept consists of using the potential impact radius (PIR) to evaluate the population that would be impacted by a failure and prioritize based on people. PG&E should provide additional details, including any white papers, supporting the development of the AOC/TOC concept.<sup>20</sup>

**Comment [A70]:** PG&E has provided a paper titled, “2013 Consequence Assessment: Assumptions and Methodology” which describes the development of the AOC/TOC concept to SED as a part of GTS-RateCase2015\_DR\_ORA\_091-Q16Atch01 and to SED last week.

**Valid Pressure tests to meet code at the time only.** PG&E will prioritize pressure testing of segments based on whether a valid pressure test that *met code at the time* exists. These segments will be deprioritized in order to raise priority to segments that remain untested. Although this approach was introduced and at times applied in the PSEP Update, the original PSEP and Decision Tree still specified prioritization based on whether a pressure test met 49 CFR Part 192, Subpart J requirements. Today’s Subpart J

**Comment [A71]:** D.12-12-030 explicitly allows PG&E to prioritize strength tests using whether a previous strength test met code at the time (even if it did not meet 49 CFR Part 192, Subpart J requirements). As reference, please see CPUC Decision Findings of Fact 21, Conclusion of law 18, and CPUC Decision Page 59 and D.11-02-019 Conclusion of Law 3 and 8.

<sup>20</sup> SED staff was unable to review this whitepaper since it was not furnished on a timely fashion.

requirements are more demanding. PG&E has expressed that, as with the PSEP program, its long term goal still remains to have its entire transmission pipeline tested based on Subpart J requirements. At least 47 percent of PG&E's natural gas transmission system was installed before the Subpart J requirements were in place.

SED's observations on the PSEP transition changes and how they affect the remaining untested segments are discussed in more detail below.

#### Hydrostatic Testing Program

As of March 31, 2014 PG&E has pressure tested, to 49 CFR 192 Subpart J standards, approximately 541 miles of transmission pipeline as part of PSEP. It estimates that, by January 1, 2015, approximately 2,700 miles of transmission pipeline in its system will not have been tested to Subpart J standards<sup>21</sup>. However, PG&E's testimony states that 1,500 miles<sup>22</sup> of transmission pipeline operating at 20 percent or more of SMYS remains to be addressed.

PG&E developed what it describes as an extension of the PSEP decision tree as it moves from Phase 1 into the pressure testing program proposed in GT&S. Figure 4A-9 of the testimony depicts the proposed hydrostatic testing program's decision tree which uses a similar deterministic threat model to PSEP. That decision tree contains new prioritization criteria that will be used to not only comply with the State's pressure testing mandate, as was done in PSEP, but also to assess the integrity of its already pressure tested transmission pipeline. For the 2015-2017 cycle, the program will first address untested pipeline in HCAs followed by non-HCA class 3 and 4 segments operating at greater than 20 percent SMYS. All remaining pipeline (tested or untested) which is identified by either integrity management or via cyclic fatigue analyses to require a test to assess immediate threats will also be addressed in this cycle. All

**Comment [A72]:** To clarify, the decision tree for the 2015 GT&S Rate Case will also cover HCA baseline assessment requirements of the new HCA miles. Where the pipe does not have a documented pressure test, the manufacturing threat will be considered unstable and will require a pressure test as the integrity assessment.

<sup>21</sup> GTS-RateCase2015\_DR\_ORA\_007-Q07

<sup>22</sup> It is unclear to SED whether the 1,200 mile difference between mileage without Subpart J pressure test and remaining to be addressed represents pipeline operating below twenty percent SMYS.

remaining untested pipeline, i.e. untested non-HCA segments located in class 1 and 2 (rural) areas or non-HCA segments operating under 20 percent SMYS will be addressed at some point beyond 2017.

**Test to meet code only.** The first filter determining pressure testing priorities under the program is now whether a pipeline segment has pressure test records that at least met the code at the time as opposed to Subpart J Standard.

PG&E has expressed that, although its long term intent remains to test all pipeline to today's Subpart J standards, it is using the condition of whether the test has met code at the time as a means of prioritizing to focus on pipeline that has no record of a pressure test.

While this approach may be a reasonable means of *prioritizing* work, e.g., some testing as opposed to no test, there are a few considerations that must be kept in mind when implementing this approach. Although the PSEP Decision Tree shows filtering of segments to be addressed based on whether a Subpart J test has been conducted, actual implementation was based on evaluation of two criteria for each segment: whether 1) Test met PSEP criteria and 2) Test met Code at the time. The "Test met PSEP" criterion stipulates that some Subpart J requirements be met by pre-1970's tests, specifically test pressure factor and witness requirements. For a test to meet code only, the criterion is based on whichever code or best practice in effect at the time, resulting in tests conducted pre-regulation with no minimum requirements, including no minimum pressure factor or duration requirement, depending on operating pressure and class location properties. PG&E should very clearly define what criteria it will apply to determine if test met the code, especially considering Ordering Paragraph 3 of D.11-06-013:

A pressure test record must include all elements required by the regulations in effect when the test was conducted. For pressure tests

conducted prior to the effective date of General Order 112, one hour is the minimum acceptable duration for a pressure test.

**Comment [A73]:** PG&E would also like to reference the conclusion of law 8 (D.11-06-017) which states the PSEP Implementation Plan should set a priority rank and schedule for pressure testing pipelines not previously strength tested.

PSEP pressure test record evaluation also failed to consider whether the record was traceable, verifiable, and complete (TVC), and validated records that did not meet these documentation criteria. TVC record criteria must be considered. If PG&E expects to further prioritize work based on the level of TVC of records, it must develop and document the prioritization policy. However, in no circumstance should a pipeline with a record of intent to conduct a test, such as design documents, be considered for deprioritization.

**Comment [A74]:** PG&E's entire MAOP records validation process was designed to ensure pressure testing records were traceable, verifiable and complete (TVC) per the regulations in effect at the time of the test.

PG&E must clearly define what it means by "verified records"<sup>23</sup> as it relates to its segment development for the hydrotesting database. A data validation effort should be performed to verify these records and the database development and data validation

**Comment [A75]:** PG&E acknowledges that it did not use the STPR quality codes in the PFL to validate pressure tests for purposes of performing work under PSEP (PG&E's response to the CPU&SED Report on the PSEP Updated Filing, dated 5/22/2014). This is due to the differing purposes for the use of STPRs between MAOP Validation, and the PSEP Update. PG&E agrees that a strength test must meet the traceable, verifiable and complete (TVC) criteria adopted for validation of MAOP. However, for purposes of prioritizing work under the PSEP, pipeline segments with no documented strength test were prioritized before pipeline segments with at least some documentation of a strength test, even if the documentation did not meet the TVC standard required for MAOP Validation.

procedure should be provided to SED. This proceeding's time frame of 2015-2017 will target all HCA's without pressure testing records that met code at the time for testing in 2015, followed by non-HCA segments operating at or above 20 percent in class 3 and 4 locations and or class 1 and 2 locations with identified Integrity Management threats that require hydrotesting.

**Comment [A76]:** PG&E provided its response to what it considers a "verified record" in response to IS\_009-Q5 and the associated, IS\_009-Q5Atch01.

*"A strength test pressure report that is traceable, verifiable and complete must meet several criteria. The pressure test information must be traceable to source documents of sufficient quality, verifiable with complementary records, and contain complete information about the test. A quality rating is assigned based on evaluation of the document, with the highest quality documents associated with first person witness and certified (signed or as-built) documents. The pressure test records must contain complementary information. This typically involves design and actual test information, recorded pressures and charts. Complete strength test data must contain at least the required elements defined in the Federal code (49 Code of Federal Regulations) and additional information if applicable. Given this explanation, a quality code of Q1-Q7 is considered Traceable, Verifiable, and Complete. Anything greater than Q7 is not, and does not meet PG&E documentation requirements and therefore is not considered a valid test. PG&E's implementation of this requirement results in the Geographical Information System containing direct links to the electronic source documents."*

**Cyclic Fatigue Analysis.** A cyclic fatigue analysis is adequately proposed as an assessment tool for segments that have been tested to code at the time. If the analysis results in a re-test examination for an HCA segment, then it will be eligible for testing in this rate cycle. However, it is unclear whether all transmission pipeline meeting the "test met code" condition will be evaluated for cyclic fatigue, what the timeline is to perform all these analyses, and how PG&E will prioritize segments for evaluation.

**Comment [A77]:** PG&E completed MAOP validation in July 2013. These results were shared and reviewed by SED as a part of SED's Safety Review Report (April 25, 2014).

Details about the cyclic fatigue analysis components, results evaluation criteria, and

The objective of MAOP validation is an interim safety measure until all untested pipelines can be strength tested or replaced. As of early 2014, MAOP Validation and Class Location Change verification has identified 62.11 segment miles of untested Class 3&4 and HCA Class1&2 pipe that will not be tested within PSEP Phase 1. These untested pipeline segments are proposed to be addressed/strength tested within the 2015 GT&S Rate Case Period. Figure 4A-9 within PG&E's 2015 GT&S Rate Case Application (A.) 13-12-012 contains the proposed...

<sup>23</sup> Testimony p.4A-38.

procedures are also insufficient. PG&E must submit all evaluation, procedure, and implementation details, as mentioned above, to the CPUC for review.

Vintage Pipeline Replacement Program

This Vintage Pipeline Replacement Program, described under Chapter 4A of the testimony, is an integrity management program which seeks to replace transmission pipeline at a rate of 20 miles per year to mitigate the threat posed by fabrication/construction defects interacting with land movement. The historic fabrication and construction methods targeted by the program include:

- Wrinkle bends
- Mechanical/Compression couplings
- Miter bends
- Other non-standard fittings like orange peel reducers
- Chil ring welds
- Bell and spigot
- Acetylene girth welding process

As with PSEP, this program proposes to utilize a deterministic threat model in the form of a high-level decision tree. Prioritization of work within the program is proposed to be based on applying the concept of Average Occupancy Count (AOC) which PG&E developed. SED did not evaluate this method.

Below are some of SED's observations as they relate to this program's continuation of PSEP.

Focuses on a new threat not specifically targeted in PSEP.

Although these fabrication/construction threats are two of the five threat categories it considered, PSEP did not specifically address land movement as a threat to be mitigated. At that time, PG&E considered other programs were addressing that threat<sup>24</sup>. However, these interactive threats ranked as the number one<sup>25</sup> risk coming out

**Comment [A78]:** For purposes of the 2015 GT&S Rate Case, PG&E provided sufficient information upon which to adopt a forecast for its hydrostatic testing program. The level of detail described here is not necessary for purposes of supporting a rate case request. However, PG&E welcomes SED's review of its programs and will provide the information SED requested.

<sup>24</sup> R.11-02-019, PSEP Implementation Plan, Testimony p. 3-8



of PG&E's first Risk and Compliance Session or "Session D"<sup>26</sup>. Session D was first added by PG&E to its integrative planning process in 2013 and is the vehicle by which Asset Family Owners communicate to PG&E leadership the largest risks to their assets through the enhanced risk management framework reviewed above.

Earth movement is recognized as a type of weather related/outside force (WROF) pipeline integrity threat under in ASME B31.8S, which is incorporated by reference in 49 CFR Part 192, Subpart O, as fabrication/construction threats. Consideration of these as interactive threats was driven by qualified subject-matter expert (SME) experience and what PG&E now qualifies as industry recognition of the significance of this threat. Spurred by the 2011 failure of a 36" transmission pipeline operated by Tennessee Gas Pipeline, LLC (TGP) in Morgan County, Ohio caused by and other incidents suspected to have been caused by this interactive threat. PG&E believes that industry recognition is relatively new; as a result, the industry lacks reliable data to analyze past incidents based on this interactive threat. PG&E is relying on its participation in the Joint Industry Project (JIP), which is evaluating and developing best practices for mitigation of this threat, and states this program was developed to be consistent with the JIP Committee's work. JIP recommendations and work were not made available to SED; SED staff was unable to confirm and evaluate the scope of the program in alignment with the JIP recommendations. Absent this confirmation, the implementation details of the proposed mitigation program remain unsupported.

By considering land movement, the proposed Vintage Pipeline Replacement program is targeting pipeline locations where potential longitudinal stress can result in circumferential pipeline failure. Land movement imparts longitudinal stress on pipelines and fabrication/construction threats are particularly susceptible to

**Comment [A79]:** There needs to be little stress imparted. Slow soil movement over time causes cumulative strains to build, imparting enough strain to cause sudden fracture.

<sup>25</sup> GTS-RateCase2015\_DR\_TURN\_001-Q01Atch04, p. 9 Session D analysis, April 2013.

<sup>26</sup> PG&E Testimony p. 2-15.

circumferential defects that may fail under longitudinal stress. Hydrotesting is not considered a suitable assessment methodology for this type of threat as it does not impart sufficiently high longitudinal stress on the pipeline to assess anomalous girth welds. This may result in defects not being detected through a hydrotest that would otherwise fail when outside forces such as land movement are applied to the pipeline.

In 2013, SED Staff became aware of an issue with PG&E girth weld Non-Destructive Examination (NDE) program. Specifically, one of the PG&E contractors was not performing NDE in accordance with the applicable codes and standards. As a result, SED issued a citation to PG&E for \$8.1 million and directed PG&E to develop and execute a comprehensive corrective action plan to systematically address the full extent of non-compliance of radiographic testing. PG&E has taken significant steps to address this issue, but the historical deficiencies in PG&E's NDE program potentially increase the risk of girth weld issues. PG&E should incorporate the findings from the NDE program evaluation into the Vintage Pipeline Replacement program, as practical. Pipeline Replacement will not be targeted to mitigate the pressure testing mandate for untested pipeline.

Replacement of pipeline<sup>27</sup> under the PSEP program was primarily carried out to address the state's pressure testing goals for untested segments. The PSEP Decision Tree further prioritized pipeline replacement based on specific integrity threats and

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<sup>27</sup> 49 CFR Part 192, Subpart J requires all new pipeline to be pressure tested before being placed into service.

prioritization criteria<sup>28</sup>. As of March 31, 2014, PG&E had replaced about 105 miles<sup>29</sup> as part of PSEP by targeting untested pipeline segments with manufacturing threats<sup>30</sup>.

Unlike PSEP, the proposed Vintage Pipeline Replacement Program is no longer intended to address the mandate to replace or pressure test all untested transmission pipeline. The program is instead focused at mitigating risk posed by vintage pipeline fabrication/construction defects interacting with land movement; very little weight, if at all, will be placed on whether a pressure test has been performed in order to prioritize pipeline replacement. This also means it is possible that pipeline that was hydrotested in PSEP Phase 1 may now be replaced under this program.

The new replacement decision tree does, however, provide a decision point applicable to pipeline without the presence of vintage/construction or land movement threats, in the event PG&E determines it is “impractical” to hydrotest a segment, and prioritizes for replacement instead of pressure testing. PG&E expects these changes to include circumstances when additional engineering analysis at the time of planning a hydrotest determines hydrotest failure is likely, among other scenarios. Although SED agrees with maintaining the ability to replace certain segments instead of testing, from both a safety and efficiency standpoint, all analyses and decision rationales should be complete, well documented, and determinations must follow a robust management of change controls. PG&E’s proposal fails to provide sufficient detail on the safety and efficiency criteria that would be considered in the engineering analyses that could result in a replacement instead of testing determination. These analyses should be developed, if not done already, and provided to SED for review.

**Comment [A80]:** Yes, this is true. However to clarify, PG&E does not view hydrotesting as the best way to mitigate this threat.

**Comment [A81]:** PG&E has provided a list of the considerations of when a pipeline replacement would be a better option on page 4A-34 of PG&E’s 2015 GT&S Rate Case Testimony. Each project has its unique characteristics and as a result, engineering analysis must be done to make the best decision in each project.

Also, for purposes of the 2015 GT&S Rate Case, PG&E provided sufficient information upon which to adopt a forecast for its Vintage Pipeline Replacement program. The level of detail suggested here is not necessary for purposes of supporting a rate case request.

<sup>28</sup> Action Boxes M2, M3, F2, F3, and C2 of the PSEP Decision Tree.

<sup>29</sup> PSEP Compliance Report No. 2014-01, Table 22-1. Mileage includes pipeline that was retired and downgraded.

<sup>30</sup> Although the PEP Decision Tree reflects that PG&E would also be replacing pipeline characterized with specific fabrication/construction threats, operating at or greater than 30 percent SMYS, and located in high population areas, PG&E did fully develop and implement that process in Phase 1.

PSEP mitigation of Fabrication and Construction threats not addressed in Phase 1 will be partially addressed by the Vintage Pipeline Replacement Program.

In its review of the PSEP Update,<sup>31</sup> SED learned that with the exception of some targeted removal of dresser couplings, PG&E did not develop and implement PSEP projects targeted at mitigating threats posed by unique pipe joining features<sup>32</sup> on pre-1960's pipeline as was indicated would be done by the fabrication/construction threat process contained in the approved PSEP decision tree. That process shows mitigation projects would be undertaken in Phase 1 and 2.

PG&E explains that it did not have sufficient information to identify the locations of these fittings at time of filing the PSEP<sup>33</sup>, but that with the completion of the MAOP Validation Project last year, it has gathered the information necessary to identify the locations.

The Vintage Pipeline Replacement Program proposed in the GT&S proceeding addresses most of the same PSEP fabrication/construction threats by replacing pipeline characterized for vintage fabrication threats in areas prone land movement threats. The proposed program is essentially replacing the fabrication/construction threat process that was minimally implemented in PSEP Phase 1, with the following exceptions:

- 1) The program targets areas susceptible to outside forces such as land movement.
- 2) Pipeline conditions with excessive pups<sup>34</sup> do not appear to be considered for mitigation under fabrication/construction threats for the program, unlike the approved PSEP decision tree.
- 3) The new decision tree does not specify whether an "engineering condition assessment" will be performed.

<sup>31</sup> SED Safety Review Report of PG&E's PSEP Update Application, A.13-10-017, p.30.

<sup>32</sup> Wrinkle Bends, Miter > 3 degrees, Dresser Couplings, Expansion Joints, Non-Standard Fittings, Excessive Pups.

<sup>33</sup> PG&E response to SED's Safety Review of PG&E's PSEP Update Application,

<sup>34</sup> "A short piece of pipe can be called a pup or a can; these are often used in fabricated pipe assemblies for wall thickness transitions, tie-in pieces, and pipe fitting."

**Comment [A82]:** PG&E does not believe that "engineering condition assessment" is appropriate at these land movement sites. PG&E considers removal of the stress concentrator (the fabrication/construction threat) as the best option.

SED contends that PG&E’s application and testimony lacks supporting justification to warrant the exclusion of excessive pups under this program. PG&E should explain why the program excludes that fabrication condition, demonstrate how its GT&S proposal would address it, if at all, and justify why its intended approach is reasonable considering the potential risks posed by the condition.

Vintage Pipeline Replacement Program Lacks Sufficient Prioritization Details

The decision tree presented under Fig 4A-11 depicts a very high level approach to the determinations that will be made in the program. However, the prioritization of work is insufficiently specified for evaluation.

The decision tree abruptly ends with an action box called out as “prioritize to replace” after it is determined that a segment either 1) contains vintage fabrication/construction interacting with land movement threat, or 2) is “infeasible” to pressure test. The testimony emphasized use of the AOC/TOC concept to prioritize the work. However, use of AOC/TOCs concept by itself is an insufficient means of prioritizing absent a complementary risk evaluation. Actual implementation requires further prioritization that should be based, if possible, on a full-scale risk analysis.

PG&E states that it will replace the “riskiest” locations first<sup>35</sup>, but there is no indication of what methodology or criteria will be used to evaluate the relative risk and establish work priorities beyond use of the AOC/TOC. In order to provide the needed level of transparency, PG&E should explain the risk methodology and address questions such as:

- How will the difference between replacement based on fabrication/land movement threat interaction be weighed against replacement based on infeasibility of a pressure test?
- How will additional interactive threats be considered?

<sup>35</sup> Testimony p.4A-59.

**Comment [A83]:** While not stated in PG&E’s 2015 GT&S Rate Case Testimony, PG&E will address excessive pups under the In Line Inspection (ILI) Program. PG&E will address any threats associated with pups replace excessive pups identified within pipelines sections when they are located either through ILI runs, a review of construction as-builts or discovered during pipeline excavations.

**Comment [A84]:** In the planning stages of the program, the AOC/TOCC concept was used to determine what volume of work to do. However, for actual implementation, PG&E is performing full segment risk analysis using its risk analysis process in RMP-01.

**Comment [A85]:** PG&E does not agree that more transparency is required in a GT&S Rate Case setting. Given that PG&E is forecasting work at least two years in advance of it being performed, SED’s expectation for more transparency is not realistic.

**Comment [A86]:** The difference between replacement based on fabrication/land movement threat interaction will be weighed against replacement based on infeasibility of a pressure test by applying RMP-01 risk analysis.

**Comment [A87]:** To clarify, PG&E already applies interactive threats using RMP-16, Section 8.1, and includes in its interactive threat considerations all other interactive threats in its overarching Integrity Management program assessments. This program specifically focuses on the fabrication/construction threats interacting with land movement. It was intentional to not include all interactive threats as they are addressed in the broader Integrity Management program and other assessment methods; this interactive threat is also the largest potential unmitigated interactive threat risk. As it relates to interactive threats, the second highest potential risk is fatigue (manufacturing threat interacting with normal, cyclic operations), which is addressed in PG&E’s strength testing program.

- Does one type of fitting or type of land movement <sup>36</sup>present a higher risk than others?
- Will there be sufficient information available to adequately evaluate the severity of the threat at a particular location and determine the risk?

PG&E will focus the program on wrinkle bends, miter bends, and mechanical/compression couplings. These are potentially riskier fittings as they are less conducive to earth movement than the others, and PG&E is also able to more readily identify these than the remaining non-standard fittings.

Although the program's infancy and possible lack of data could be responsible for the absence of adequate implementation prioritization criteria, this deficiency must be properly addressed before the program can be adequately implemented.

Replace to Test and Acceptance Criteria

With respect to PG&E's proposed vintage pipeline program in the GT&S application, it does not appear that PG&E is proposing or building any flexibility into the program for circumstances where pipeline that meets the decision tree conditions for replacement may not actually be replaced but instead hydrotested or mitigated otherwise. However, PG&E does describe under its hydrostatic testing program that it may add "higher priority strength tests" to the program such as when "circumstances or new information determine that a strength test is a better alternative than potential planned replacement."<sup>37</sup> It is unclear if PG&E expects that these circumstances would include vintage pipeline replacements, which could be problematic due to hydrostatic testing not being the most appropriate assessment tool for that program's threats.

Additionally, SED could not find details about the characterization of the conditions to be addressed by the program, nor evidence of any acceptance/rejection

**Comment [A88]:** To clarify, the fabrication/construction threats that have been identified are of equal threat if they interact with land movement because they all create stress concentrations or are prone to failure if moved.

The "land movement" that is referenced, represents all land movement possibilities, so the type of land movement is not as important as the magnitude of the land movement. The Geo-Hazard Threat Identification program will also better classify site specific land movement risk based on the degree and speed of the land movement.

**Comment [A89]:** Yes, there will be sufficient information available to adequately evaluate the severity of the threat at a particular location and determine the risk. In addition, the Geohazard Threat Identification program and the increased use of ILI to further locate fabrication/construction threats will only improve the information available to adequately evaluate the severity of the threat at a particular location and determine the risk.

**Comment [A90]:** In addition to focusing on wrinkle bends, miter bends, and mechanical/compression couplings, PG&E also focuses on bell/bell chill rings and orange peel fittings in the features included in the PG&E's GT&S Rate Case Workpapers for Chapter 4A, pages WP 4A-711 through WP 4A-721.

**Comment [A91]:** PG&E disagrees. PG&E's forecast for its Vintage Pipeline Replacement program is supported by a thorough risk showing. Given that the forecast must be developed years in advance of performing the work, SED's expected level of detail is not realistic for rate case purposes.

Also, the prioritization was intended to "put people first" through the use of AOC/TOC. The Likelihood of Failure (LOF) will be further used (and is already being used) as we further prioritize the work list.

**Comment [A92]:** PG&E would like to clarify that it does not view hydrotesting as an appropriate mitigation option for the interactive threat targeted by the Vintage Pipe Replacement program.

**Comment [A93]:** PG&E would like to clarify that this would only happen if a fabrication/construction threat is determined not to be present during pipe replacement project analysis and the segment is also a planned hydrostatic test segment or a required TIMP hydrotest.

<sup>36</sup>Testimony p.4A-54 lists as "landslides, soil creep, subsidence, and ground movement generated by earthquakes or large rainfalls".

<sup>37</sup> Testimony p.4A-34.

criteria that has been developed or applied. PG&E should clarify if this means that every pipeline with a wrinkle bend or miter bend in an area susceptible to any land movement will be replaced.

SED recommends that implementation details for this program must be further developed and shared.

#### PSEP Deferrals

Approximately 30 miles<sup>38</sup> of transmission pipeline qualified for PSEP Phase 1 action but was not addressed and deferred to beyond Phase 1. This mileage includes:

- Non-PSEP Phase 1: Pipeline segments not filed by PG&E as part of the original PSEP. These segments were found to have met Phase 1 criteria after the records integration effort was conducted.
- PSEP Deferred Beyond Phase 1: Pipeline segments that were part of the original PSEP filing, met Phase 1 Criteria, but were intentionally deferred beyond Phase 1 based on engineering judgment.

PG&E explains these will be addressed, from a risk-based perspective, in this Application. This could make the priority higher or lower than it would have been in PSEP. Some may be addressed in this Application while others may be deprioritized for future mitigation. Both of these deferral types will be included in the data set to be run through the decision trees to analyze what action to take.

About 20 miles<sup>39</sup> or two thirds of the deferred mileage would have qualified for replacement<sup>40</sup> in Phase 1. Based on the new approach in this Application, these would be pressure tested in 2015-17 instead if untested or test failed to meet code at the time. The remaining 10 miles would have been hydrotested in Phase 1, and would also be

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<sup>38</sup> PG&E data response to SED March 31, 2014

<sup>39</sup> GTS-RateCase2015\_DR\_ORA\_089-Q01\_308014Atch02\_308016

<sup>40</sup> PSEP decision tree action box M2 "Reduce Pressure and Replace Phase 1" and F2

tested in 2015-17 if untested or test failed to meet code at the time. However, these segments may be further prioritized or deprioritized based on AOC or pushed to future rate case periods if tested to code at the time.

Final Observations on GT&S and PSEP

From SED’s limited review, PG&E’s modified approach in this GT&S application is not exactly “improved” or more “conservative” as it relates to continuation of the PSEP-specific pressure testing mandates. The approach is more focused and refined from what was presented in PSEP. The result is a reduction of PSEP specific scope targeted at complying with the State’s pressure testing mandates, while simultaneously expanding the scope of programs previously targeted only for PSEP purposes to now address the integrity of the entire transmission system as a whole. This shifts the focus from just addressing untested segments of pipeline targeted by PSEP to mitigating other potential pipeline threats.

This means that the appropriate balance between regulatory compliance activities and the need for enhanced integrity management must be achieved. This is particularly significant when considering that some safety regulatory compliance activities, such as California’s pressure testing mandates, have established a completion date that is “as soon as practicable”. Such balance demands thorough consideration of a multitude of factors, and a robust risk-based assessment should be one such tool used to help determine that balance.

**Comment [A94]:** To clarify, for PG&E’s hydrotesting program, the decision tree does not use AOC as a prioritization until segments of Class 1 and Class 2 pipe are ready for testing. Segments that meet PSEP Phase 1 decision tree criteria, HCA segments, and Class 3 segments all take priority over Class 1 and Class 2 segments. AOC was a means to prioritize the hundreds of miles of class 1 and Class 2 segments. The PSEP Phase 1 decision tree does not address how to prioritize Class 1 and Class 2 segments.

**Comment [A95]:** PG&E disagrees with this statement. Any untested pipeline segment that meets the PSEP Phase 1 decision tree criteria will be tested in this rate case period.



## CONCLUSION AND NEXT STEPS

In this report, SED Staff provides a review of the risk identification, risk evaluation and risk ranking methodology used by PG&E in preparing its GT&S Application. Additionally, this report evaluates the proposed pipeline integrity management projects against the scope of projects identified in PG&E's PSEP.

Staff recognizes that in its Application, PG&E is employing new methods to confront risk trade-offs across different lines of business. PG&E's Application makes strong use of qualitative risk assessments. Staff recommends that PG&E inject additional quantitative rigor into its risk evaluation process. PG&E should improve its risk models to adjust for different scopes and pace of implementation. Additional use of quantitative methods, such as linear programming techniques, could complement its risk decision-making process. In the future, PG&E should consider integrating techniques such as "As Low As Reasonably Practicable" (ALARP), and should provide additional transparency about its enterprise risk tolerance in its overall risk assessment and risk mitigation decision-making process.

PG&E shifts its focus from primarily addressing untested segments of pipeline (as targeted by PSEP) to other potential pipeline threats. Overall, the proposals in this Application are more focused and refined. PG&E's proposal views its system more holistically, combining PSEP work with existing "base work."

As a next step, SED Staff will host a workshop on this preliminary report. At the workshop, we anticipate a discussion including technical questions, corrections and clarifications. After the workshop, SED Staff will prepare a final version of this report, informed by parties' comments made during the workshop. Staff anticipates that the Final SED report will be submitted into the record of A.13-12-012.

**ATTACHMENT 1****The Principle of ALARP and its Application**

One way operators and regulators outside the US have agreed upon to determine the right balance between safety improvement and resource expenditure is the "As Low as Reasonably Practicable" (ALARP) principle. This principle is fundamental to the regulation of hazardous facilities in the UK and other European countries. In essence, it involves weighing a change in level of risk against the trouble, expressed in time and money, needed to control it.

At the core of ALARP is the concept of "reasonably practicable" which, once defined, allows regulators to establish the basis for operator decisions without the need for excessively prescriptive regulation. One principle means in Europe for evaluating whether a safety improvement is "reasonably practicable" has been cost-benefit analysis, supported by a quantitative risk assessment (QRA) to evaluate the benefits. In practice, application of the cost-benefit analysis has evolved to be based on the premise that a safety improvement is reasonably practicable unless its costs are *grossly disproportionate* to the benefits realized. Formalized risk-based cost benefit analysis requires not only performance of a QRA, but also that benefits expected from a safety improvement be monetized (i.e., expressed in terms of dollars or euros). Monetizing benefits usually requires expressing the value of a human life in monetary terms, then deciding what multiple on the value of a human life is judged to be *grossly disproportionate* to the costs incurred. In the offshore petroleum drilling and production industry in the North Sea, the value of a human life has been set at one million pounds, and decision making on whether the cost of a safety improvement is *grossly*

*disproportionate* is typically based on a value of human life of six million pounds (i.e., a factor of six greater).

Even if it were possible to rigorously quantify risk in support of cost-benefit analysis, the resultant answer on how much is enough to spend on safety risk reduction may not be acceptable to safety regulators, to the public, or even to utilities. As an example, over the past 26½ years PG&E has experienced 51 incidents on its gas distribution system with injuries or fatalities leading to a total of 60 injuries (2.26/yr.) and 17 fatalities (0.64/yr.). These consequences exclude the San Bruno tragedy since that incident resulted from the rupture of a gas transmission line. The monetized cost of these fatalities and injuries (assuming injuries ~ 20% of monetized fatality cost; 1.6 \$/£ x £6 million per fatality<sup>41</sup>) is \$278.4 million or \$10.5 million per year. The ratio of property damage costs reported for gas distribution incidents over the past five years (2008-2012) to total monetized fatality and injury costs is 0.0414. Using this figure to adjust the monetized fatality and injury costs from PG&E experience yields a justifiable annual expenditure on an ALARP cost-benefit basis of \$10.9 million. So analyses based purely on the monetization of past public safety and economic consequences often seriously underestimate the social and economic consequences of pipeline accidents, and therefore lead to a grossly inadequate safety budget. The other indirect consequences (e.g., loss of shareholder value, fines, liability settlements, loss of near-by property value), and intangible societal consequences (e.g., loss of confidence, degraded customer relations, regulatory uncertainty) of accidents, as well as all of the other economic consequences to the pipeline operator, are very difficult to identify, much less to accurately quantify, with any confidence.

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<sup>41</sup> This value of a life of £6 million is the figure typically used in the UK in making ALARP cost-benefit decisions.

Since deciding whether a risk control measure is ALARP based on cost-benefit analysis can be challenging, requiring operators and regulators alike to exercise judgment, the British regulator (The Health and Safety Executive - HSE) often decides by referring to industry best practices, which are established by a process of discussion with stakeholders to arrive at a consensus on what is ALARP. An alternate way to establish a total budget is to look to the risk control practices currently used by the top industry performers as a proxy for "acceptable level of risk" and "reasonably practicable". The rationale for this approach is that the current best industry practices represent the outcome of a well-accepted legal and technical process that is based on a foundation of safety practices established in existing regulation, supported by national consensus technical standards, and then strengthened by operators making deliberate decisions, considering costs and benefits, to exceed these minimum requirements and standards. By the mere fact that they have been selected, funded, and implemented at public-regulated facilities, industry best practices are *de facto* judgments made by both regulators and industry that these activities are reasonable and practicable. As discussed above, in many European countries the level of risk that results from implementation of the best industry practices is considered to be as low as reasonably practicable.