

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

Application of Pacific Gas and Electric  
Company Proposing Cost of Service and Rates  
for Gas Transmission and Storage Services for  
the Period 2015-2017.

(U 39 G)

Application 13-12-012  
(Filed December 19, 2013)

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And Related Matter.

Investigation 14-06-016

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 G) RESPONSE TO THE  
MOTION OF THE UTILITY REFORM NETWORK AND INDICATED  
SHIPPERS SEEKING SUPPLEMENTAL TESTIMONY FROM PG&E  
REGARDING "BEST PRACTICES" AND THE RISK REGISTER**

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REGARDING "BEST PRACTICES" AND THE RISK REGISTER**

Contrary to TURN's and Joint Shippers' (Moving Parties) assertions, PG&E has provided substantial evidence that more than satisfies its burden of proof in this case. There is no need for PG&E to provide supplemental testimony. That said, PG&E appreciates the Moving Parties' goal of providing as much relevant information to the Commission as reasonably possible. Therefore, so long as there are no changes to the adopted schedule, PG&E has no objection to providing supplemental testimony that: (1) puts into the record the information PG&E has already provided through discovery concerning how PG&E determined that particular practices are best practices; (2) identifies any best practices relevant to PG&E's forecast not already specifically called out in testimony as best practices; (3) puts into the record the information PG&E has already provided through discovery concerning the role of PG&E's Risk Register in its safety management program and decision-making; and (4) puts into the record the information PG&E has already provided through discovery concerning how PG&E developed and maintains the Risk Register. Because PG&E has already met its burden of proof and has already provided this information to parties through discovery, there is no basis upon which to order PG&E to provide supplemental testimony that also moves back the time for rebuttal testimony and/or evidentiary hearings.

To avoid any impacts on the schedule for testimony and hearings, PG&E is filing this response more than a week early and respectfully requests that the Commission issue an expedited ruling on this motion, recognizing that other parties may also be filing responses to the motion.

## **I. PG&E HAS SATISFIED ITS BURDEN OF PROOF**

PG&E has the burden of proving by a preponderance of the evidence that its requested revenue requirement increase is just and reasonable.<sup>1/</sup> This, in turn, involves forecasting the work PG&E expects to perform and demonstrating that the work is appropriate and the associated costs are reasonable. There are many ways PG&E could satisfy this burden. Work might, for example, be required by law, in which case the only needed additional evidence would be that PG&E's forecast for the cost of completing that work is reasonable. PG&E has chosen, where appropriate, to support its forecast by demonstrating that certain work is required to comply with industry best practices, and to support its forecast by explaining PG&E's risk and asset management process to demonstrate that PG&E has forecast the right scope and pace of work. PG&E has also provided hundreds of pages of testimony and workpapers explaining the specific work PG&E forecasts and why PG&E believes it is the right work to do. PG&E's testimony is more than sufficient to make a *prima facie* showing and, absent contrary evidence or evidence that calls into question the credibility of PG&E's witnesses, to meet PG&E's burden of proof.

### **A. Industry Best Practices**

PG&E's policy testimony provides PG&E's definition of "industry best practices," an overview of how PG&E benchmarked to identify industry best practices and an overview of PG&E's adoption of industry best practices.<sup>2/</sup> Where PG&E is asserting that its practices are consistent with industry best practices, PG&E has said so in its testimony, as evidenced by the following examples:

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1/ D.12-11-051, mimeo, p. 9; D.11-05-018, mimeo, pp. 68-69; D.09-03-025, mimeo, p. 8.

2/ PG&E Testimony, p. 2-8, line 13 to p. 2-10, line 15.

- “Going beyond the ASME threats individually to identify and manage interactive threats—such as land movement interacting with the presence of construction defects—is an industry best practice.”<sup>3/</sup>
- “As discussed later in this testimony, it has become a gas industry best practice to use ILI to conduct the baseline assessments as well as the re-assessments.”<sup>4/</sup>
- “Moving to ILI as the primary integrity assessment tool (where feasible) both in HCAs and non-HCAs not only aligns PG&E with industry best practices ....”<sup>5/</sup>
- “When a pipeline cannot be made piggable, the industry best practice is to use DA to look for external corrosion, internal corrosion and stress corrosion cracking. As an industry best practice, DA requires rigorous use of the four phases described above with clear adherence to the standards set forth in ASME B31.8S and National Association of Corrosion Engineers standard practice of direct assessment such as Pipeline External Corrosion Direct Assessment Methodology (SP0502-2008), Internal Corrosion Direct Assessment Methodology for Pipeline Carrying Normally Dry Natural Gas (SP0206-2006), and Stress Corrosion Cracking (SCC) Direct Assessment Methodology (SP0204-2008; formerly RP0204).”<sup>6/</sup>
- “Fourteen industry practices are included in the Well Integrity Management Program and are used collectively to assess these four threat categories to the storage wells and reservoirs. The Well Integrity Management Program is a product of PG&E’s continuous improvement process. This initiative adapts industry best practices into existing integrity and reliability asset management procedures, practices, and programs. These practices include well pressure monitoring, gas quality sampling,

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3/ *Id.*, p. 2-15, lines 13 to 16.

4/ *Id.*, p. 4A-7, fn. 3.

5/ *Id.*, p. 4A-10, lines 1 to 3.

6/ *Id.*, p. 4A-26, lines 5 to 15.

cement bond logging, field shut in testing, work procedures, storage protection boundary and third-party monitoring.”<sup>7/</sup>

- “Gas Quality Practices Assessment. This program combines new and existing PG&E activities in the area of gas quality into a single comprehensive program that incorporates industry best practices, ensures the quality of gas entering the PG&E system, and is consistent with proposed CPUC regulatory requirements relating to gas quality.”<sup>8/</sup>
- “Consistent with industry best practices which PG&E has identified through benchmarking with multiple operators, PG&E plans to perform the CIS program on a 15-year frequency.”<sup>9/</sup>
- “When ILI is not feasible, industry best practice relies on site specific plans (described further below).”<sup>10/</sup>
- “PG&E is in the process of strengthening atmospheric corrosion inspections in order to move this program closer to industry best practice. Informal benchmarking has shown that operators are going above and beyond compliance with their atmospheric corrosion programs by increasing the frequency and/or expanding the scope of the inspections.”<sup>11/</sup>
- “In order to stay consistent with industry best practices, and to continue the efficiency, transparency, and effectiveness gained by managing projects with a PMO, PG&E proposes to continue utilizing the PMO that was established under PSEP and extend the PMO’s processes, procedures, and controls to manage the implementation of all the major gas transmission projects and programs.”<sup>12/</sup>

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7/ *Id.*, p. 5-17, lines 25 to 33.

8/ *Id.*, p. 6-55, lines 5 to 10.

9/ *Id.*, p. 7-26, lines 26 to 28.

10/ *Id.*, p. 7-39, lines 32 to 33.

11/ *Id.*, p. 7-42, lines 21 to 26.

12/ *Id.*, p. 9-4, lines 10 to 15.

Contrary to the Moving Parties' assertions, this sworn testimony made by individuals with industry knowledge meets PG&E's burden of proving that the identified practices are consistent with industry best practices. There is no support for the Moving Parties' implicit suggestion that sworn testimony is somehow not evidence. To the extent that parties need additional information to test the credibility of PG&E's evidence, they can serve discovery, as the Moving Parties have done, and, to the extent relevant, move discovery responses into evidence.

### **B. Risk Management**

The "Risk Register" that is one of the subjects of this motion, is simply one element of PG&E's overall risk management process. PG&E provided eight pages of testimony on its enterprise and operational risk management practices and procedures.<sup>13/</sup> PG&E provided an additional more than 300 pages of testimony detailing the specific work PG&E forecasts as well as how that work fits into PG&E's overall risk management strategy, plus volumes of additional information in the supporting workpapers.<sup>14/</sup> This material is more than sufficient to meet PG&E's burden of proof with regard to risk management.

To the extent that parties need additional information to test the assertions in PG&E's testimony, they can obtain it through discovery, as the Moving parties have already done.

## **II. PG&E DOES NOT OBJECT TO PROVIDING RELEVANT SUPPLEMENTAL TESTIMONY**

PG&E does not object to providing relevant supplemental testimony, so long as doing so does not delay the procedural schedule, but the specific scope of supplemental testimony demanded by the Moving Parties is overbroad. PG&E notes at the outset that it is up to PG&E, not the Moving Parties, to determine the evidence it will rely upon to meet its burden of proof. Other parties are free to serve reasonable discovery to identify any additional facts they deem relevant.

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13/ *Id.*, p. 2-10, line 16 to p. 2-17, line 30.

14/ *Id.*, p. 4-1 to p. 12-17 and associated workpapers.

## **A. Industry Best Practices**

The Moving Parties ask the Commission to order PG&E to provide supplemental testimony that does the following:

- Identif[ies] the best practice(s) underlying each project or program for which it bases its claim that its proposal is reasonable.
- Describe[s] PG&E's practices for such projects and programs as they existed before the shift to the current best practice, and how the shift is expected to improve those pre-existing practices.
- Explain[s] how PG&E determined that the practice adopted was, in fact, the best practice.
- Identif[ies] options PG&E considered but rejected as alternative approaches for achieving best practices.
- Provide[s] all analysis PG&E has performed to date of the cost and benefit impact of the shift to best practices for the program or project<sup>15/</sup>.

PG&E addresses each of these elements below.

### **1. Identifying The Best Practices Underlying PG&E's Forecast**

To the extent PG&E intended to rely on the fact that a particular work activity or program is consistent with industry best practices to support its forecast, PG&E has already included this fact in its testimony, as shown in the examples quoted above.<sup>16/</sup> However, to the extent that additional elements of the work PG&E forecast are also consistent with industry best practices, PG&E does not object to providing supplemental testimony that identifies such industry best practices.

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15/ Motion, p. 8.

16/ The Moving Parties assert: "Even more, in [PG&E's response to] Indicated Producers' [Data Request] 002-16 PG&E failed to identify what the best practices are that PG&E claims to have adopted." PG&E notes that this data request did not ask PG&E to do so; rather, it asked PG&E to provide the benchmarking it used to identify industry best practices, which PG&E did. A copy of this data request is attached hereto as Exhibit 1. As discussed above, PG&E clearly identified the industry best practices it is relying on in the testimony it served on December 19, 2013.

**2. Describing Prior Practices And How The Shift To Best Practice Is Expected To Improve Pre-Existing Practices**

To the extent PG&E thought it to be relevant, PG&E has already provided this information in its testimony. For example, with regard to PG&E's corrosion control program, the testimony explains PG&E's historical practices, the best practice goals PG&E expects to achieve, and how achieving those goals will improve the safety of PG&E's system.<sup>17/</sup> There is, however, no legal requirement for PG&E to provide such information concerning its historical practices, and PG&E objects to being ordered to supplement testimony with such information. As shown above, PG&E clearly identified the industry best practices it forecasts implementing. To the extent that, in any of those areas, PG&E did not explain its prior practice, and the Moving Parties believed that such information was relevant, they have had more than six months to serve discovery to learn what they want to know.

**3. Explaining How PG&E Determined That The Practice Adopted Is, In Fact, The Best Practice**

PG&E has already provided the Moving Parties detailed information concerning the benchmarking PG&E performed to identify industry best practices. PG&E has no objection to reformatting this information as supplemental testimony so that it can be moved into the record.

**4. Identifying Options Considered But Rejected As Alternative Approaches For Achieving Best Practices**

PG&E objects to being ordered to prepare and serve supplemental testimony concerning this topic. First, it is not clear exactly what the Moving Parties are requesting here. If they are asking about alternatives to implementing industry best practices, since SB 705 mandates implementation of industry best practices, PG&E cannot be required to demonstrate what alternatives to complying with this law it considered and rejected. Alternatively, the request might be presuming that there could be more than one way to implement an industry best practice. Where, for example, PG&E considered multiple implementation timeframes, PG&E

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<sup>17/</sup> See PG&E Testimony, Chapter 7, p. 7-5, line 9 to p. 7-6, line 12; p. 7-13, line 1 to p. 7-15, line 28; and p. 7-16, line 9 to p. 7-45, line 19.



has already provided this information in its testimony or workpapers.<sup>18/</sup> There is no legal requirement that PG&E provide more information. To the extent that the Moving Parties would like more information regarding alternatives considered, they have had more than six months to serve discovery.

## **5. Providing Cost-Benefit Analyses**

Implementing industry best practices is required by law, so it is not clear how a cost-benefit analysis of implementing industry best practices would be relevant. Cycla Corporation, the gas operations risk experts retained by the Commission to analyze PG&E's gas distribution programs in PG&E's 2014 General Rate Case, suggested that there is little value in cost-benefit analyses when it comes to safety-investments, and that they may even be harmful: "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."<sup>19/</sup> In any event, such cost benefit analyses are not a required element of PG&E's rate application and testimony. PG&E objects to any requirement to provide supplemental testimony concerning cost benefit analyses of the industry best practices described in its testimony. Once again, to the extent that the Moving Parties are interested in whatever information PG&E may have in this regard, they have had more than six months to serve discovery.

### **B. PG&E's Risk Register**

The Moving Parties ask for an order that PG&E provide supplemental testimony that "[e]xplain[s] in detail the role of the Risk Register in PG&E's safety management program and decisionmaking" and "[d]escribes how the Risk Register is developed and maintained by PG&E, providing specific examples from the Risk Register provided to parties in discovery."<sup>20/</sup> As the Moving Parties acknowledge, PG&E has already provided detailed information concerning the Risk Register in discovery responses and in workshops that PG&E conducted. Indeed, as PG&E

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18/ *E.g.*, Testimony P. 7-26, lines 27-33.

19/ Evaluation of PG&E's 2014 Gas Distribution GRC Filing, May 16, 2013, Attachment 4, p. 5.

20/ Motion, p. 10.

discussed at the prehearing conference, PG&E already planned to supplement the record with the information provided to parties in discovery in response to Question 1 from TURN's first set of data requests.<sup>21/</sup>

**C. PG&E Has Notified Parties of its Intention to Rely on Best Practices and Its Risk Management Processes from the Inception of this Proceeding**

The fact that PG&E is relying on industry best practices to support its case was evident from PG&E's testimony, served on December 19, 2013,<sup>22/</sup> and indeed is required by SB 705. PG&E's risk register was also discussed in its December 19, 2013 testimony.<sup>23/</sup> ORA raised the issue of support for PG&E risk management process in its protest filed in January 2014. PG&E put parties on notice at the March 12, 2014 prehearing conference that it would be supplementing the record with the voluminous documents provided in response to TURN's first data request, which included not only the risk register, but many document describing the entire risk management process used in developing PG&E's forecasts in this case. PG&E has held four risk assessment and mitigation workshops to date with parties to discuss the risk-informed process PG&E used to forecast its costs in this proceeding. Both TURN and Indicated Shippers participated in these workshops. This motion ignores these developments.

**III. THE COMMISSION SHOULD NOT MODIFY THE PROCEDURAL SCHEDULE**

Notably absent from the Motion is any discussion of the impact of the Moving Parties' request on the procedural schedule. PG&E served its testimony on December 19, 2013. As demonstrated by the excerpts quoted above, PG&E's testimony put all parties on notice that PG&E was relying on compliance with industry best practices to support parts of its forecast. Indeed, "best practices" is mentioned over 50 times in PG&E's testimony, including six times in headings (and thus the Tables of Contents). As the Moving Parties acknowledge, PG&E's testimony also discusses its Risk Register. The Moving Parties have had ample time to serve

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21/ See Prehearing Conference Transcript, March 12, 2014, pp. 47-48.

22/ "Best practices" are discussed over fifty times in PG&E's testimony, including very first heading in PG&E's policy testimony. PG&E Testimony, Chapter 1, p. 1-1, lines 4 to 6.

23/ Id., Chapter 1, p. 1-7, lines 25 to 26 ("as well as a risk register that would document Gas Operations' risks"); Chapter 2, p. 2-15, lines 24 to 25 ("We document this ranking in a Risk Register, which is updated and refined as additional information is obtained and evaluated.").

discovery concerning PG&E's best practices efforts and Risk Register. Indeed, PG&E has provided parties with ample opportunity to explore its risk management processes and best practices through informal workshops offered to all interested parties. To date, PG&E has held four risk assessment and mitigation workshops. In addition, PG&E has responded to over 2,700 data requests to date, and continues to provide information to parties as requested.

The Moving Parties waited over six months to serve this motion, with the time for the Moving Parties (and other parties) to serve their rebuttal testimony just six weeks away. It would be unreasonable to modify the procedural schedule at this time based on the Moving Parties' eleventh hour motion for an order that PG&E supplement the record.

Moreover, as discussed above, and for the most part conceded in the Motion, while the supplemental testimony would provide additional information for the record, it will almost all be information that has already been provided to the Moving Parties through discovery. PG&E will endeavor to serve the supplemental testimony on or about July 15, giving parties almost four weeks to review.

Any delay in the schedule would prevent the Commission from issuing a timely decision. The decision in this case will not only inform PG&E as to how much it should be spending in 2015, but it will inform PG&E as to how the Commission wants PG&E to spend that money. Delay in the schedule will prevent PG&E from obtaining that guidance before it is too late to plan the work. If serving supplemental testimony would mean a delay in the schedule, then the Commission should let the record stand and not order supplemental testimony.

#### **IV. CONCLUSION**

PG&E's testimony is more than sufficient to make a *prima facie* showing and to put parties on notice as to the support for PG&E's forecast. Parties have had ample opportunity to conduct discovery to test the credibility of PG&E's claims and to better understand PG&E's risk management processes and best practices efforts. There is thus no basis upon which to order PG&E to serve supplemental testimony. However, in the interest of providing the Commission with as much relevant information as reasonably possible, PG&E does not object to serving



# **EXHIBIT 1**

## **Indicated Producers Data Request Set No. 2, Question 16**

## EXHIBIT 1

### Indicated Producers Data Request Set No. 2, Question 16

#### QUESTION 16

On Page 1-10, Lines 21 to 25, PG&E mentioned it “used industry benchmarking to identify [the] best [safety] practices, performed a comprehensive risk assessment of its gas transmission and storage assets and operations, listened to stakeholders ... to identify the appropriate level of residual risk and the appropriate pace to achieve the desired level of risk reduction.”

- a. What is the industry benchmark(s) PG&E used to identify the best safety practices?
  - i. Please provide all documents, models, methodologies, or any other related source used to understand the industry benchmark.
  - ii. If the industry benchmark that PG&E used is published, please provide in electronic format the published copy of that industry benchmark. If the published copy is only available through purchase, please provide the name of the publication, the person or company who publishes the publication, and a location that sells the publication.
- b. In what way did PG&E apply the industry benchmark “to identify [the] best [safety] practices” of PG&E’s gas transmission and storage assets and operations?
  - i. Please provide in electronic format all documents, models, methodologies, or any other related source discussing or illustrating the application of the industry benchmark(s).
- c. In what way did PG&E perform its “comprehensive risk assessment of its gas transmission and storage assets and operations”?
  - i. Please provide in electronic format all documents, models, methodologies, or any other related source used to perform this comprehensive risk assessment.
- d. In what way did PG&E “identify the appropriate level of residual risk” of PG&E’s gas transmission and storage assets and operations?
  - i. Please provide in electronic format all documents, models, methodologies, or any other related source used to identify the appropriate level of residual risk.
- e. In what way did PG&E “identify ... the appropriate pace to achieve the desired level of risk reduction” of PG&E’s gas transmission and storage assets and operations?
  - i. Please provide in electronic format all documents, models, methodologies, or any other related source used to identify the appropriate pace to achieve the desired level of risk reduction.