

Company: San Diego Gas & Electric Company (U902M)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-003  
Exhibit: SDG&E-207

**SDG&E**

**REBUTTAL TESTIMONY OF MARIA T. MARTINEZ**

**(PIPELINE INTEGRITY)**

June 2015

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





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**SDG&E REBUTTAL TESTIMONY OF MARIA T. MARTINEZ  
(PIPELINE INTEGRITY)**

**I. SUMMARY OF DIFFERENCES**

<b>TOTAL O&amp;M - Constant 2013 (\$000)</b>			
	<b>Base Year 2013</b>	<b>Test Year 2016</b>	<b>Change</b>
SDG&E	7,409	11,484	4,075
ORA	7,409	9,298	1,889

<b>TOTAL CAPITAL - Constant 2013 (\$000)</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
SDG&E	7,957	6,790	24,215
ORA	9,969	6,790	24,215
CCUE	7,957	6,790	44,434

**II. INTRODUCTION**

**A. Office of Ratepayer Advocates (ORA)**

ORA issued its report on Pipeline Integrity on April 24, 2015.<sup>1</sup> ORA reduces my 2016 forecasts for costs for Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP) by a combined \$2.186 million, using a four-year (2011-2014) average.

**B. Coalition of California Utility Employees (CCUE)**

CCUE submitted testimony on May 15, 2015.<sup>2</sup> CUR argues that SDG&E proposes insufficient preventative infrastructure replacements of Aldyl-A pipe, and should double the rate of replacement. CCUE recommends an increase to SDG&E's capital forecast of \$20.219 million.

**C. Utility Consumers' Action Network (UCAN)**

UCAN submitted testimony on May 15, 2015.<sup>3</sup> UCAN recommends that the TIMP and Post-2011 DIMP costs no longer be subject to a two-way balancing account, but instead a one-way balancing account. If the Commission adopts two-way balancing, UCAN objects to

<sup>1</sup> Exhibit ORA-9 (G. Ezekwo), Report on Pipeline Integrity (full title truncated) (ORA-9).

<sup>2</sup> Prepared Testimony of David Marcus on Behalf of CCUE (full title truncated) (CCUE/Marcus).

<sup>3</sup> Testimony of Briana Kobor, Laura Norin, and Mark Fulmer on behalf of UCAN (full title truncated) (UCAN/Fulmer).

1 SoCalGas' proposal that undercollections be recoverable through a tier 2 advice letter instead of  
2 a tier 3 advice letter.

3 **III. REBUTTAL TO PARTIES' O&M PROPOSALS**

<b>NON-SHARED O&amp;M - Constant 2013 (\$000)</b>			
	<b>SDG&amp;E 2016</b>	<b>ORA 2016</b>	<b>Diff.</b>
TIMP	5,451	4,490	(961)
DIMP	6,033	4,808	(1,225)

4 All TIMP and DIMP O&M costs are non-shared. ORA asserts that a four-year (2011-  
5 2014) average produces a more reliable test year forecast than SDG&E's methodology. A zero-  
6 based methodology more reasonably factors for the specific workload outlined in SDG&E-07-  
7 WP (pages 15-16) driven by TIMP regulation deadlines and the need to mitigate issues as they  
8 emerge within DIMP. In addition each year within TIMP a different set of assessment projects  
9 are due that have the potential to create additional pipeline remediation that's unique in nature.

10 My direct testimony describes the cost drivers that form the basis of my zero-based  
11 forecast.<sup>4</sup> The Integrity Verification Process which addresses many of the recommendations and  
12 mandates outlined by the National Transportation Safety Board and the Pipeline Safety,  
13 Regulatory Certainty and Job Creation Act of 2011,<sup>5</sup> is still in the draft phases and could impact  
14 SDG&E's TIMP and DIMP activities, depending on the Pipeline and Hazardous Materials  
15 Safety Administration's (PHMSA) final requirements once its implemented. PHMSA recently  
16 submitted to the Office of Management and Budget (OMB) a proposal to address "Pipeline  
17 Safety: Gas Transmission," which will address repair criteria for both high-consequence areas  
18 (HCAs) and non-HCAs, assessment methods, validating & integrating pipeline data, risk  
19 assessments, knowledge gained through the IM program, corrosion control, management of  
20 change, gathering lines, and safety features on launchers and receivers. The Integrity  
21 Verification Process is within the scope of the OMB.<sup>6</sup> As the proposal submitted to OMB is not  
22 publically available at this time the extent of changes and impacts is unknown but may require  
23 implementation during the 2016 GRC cycle. In addition the Commission issued draft changes to  
24 General Order (G.O.) 112-E that restricts the use of Method 2 in 49 CFR 192.903, in determining

<sup>4</sup> Ex. SDG&E-07 at MTM-12 to MTM-13.

<sup>5</sup> Signed by President Obama on January 3, 2012. Accessible at: <http://www.gpo.gov/fdsys/pkg/PLAW-112publ90/pdf/PLAW-112publ90.pdf>.

<sup>6</sup> Popular Title: Gas Transmission, RIN 2137-AE72.

1 HCAs to pipeline segments of 12-inches or less.<sup>7</sup> This restriction may increase the miles of  
2 HCAs requiring assessment for the first time once implemented. These are incremental cost  
3 pressures that are not embedded in historical O&M cost levels.

4 ORA does not oppose SoCalGas' TIMP and DIMP cost forecasts,<sup>8</sup> even though they  
5 were likewise developed under the same zero-based methodology, and based on the same cost  
6 drivers that support SDG&E's forecasts.<sup>9</sup> There is no factual distinction that demonstrates that  
7 SDG&E's forecasts are any less reasonable than SoCalGas' forecasts.

#### 8 **IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS**

##### 9 **A. ORA**

10 ORA recommends SDG&E's 2014 recorded capital cost for TIMP and DIMP of \$9.969  
11 million as its 2014 forecast.<sup>10</sup> SDG&E does not oppose ORA's recommendation. ORA does not  
12 oppose the 2015 and 2016 capital forecasts.

##### 13 **B. CCUE**

14 CCUE takes issue with the capital forecast for the Distribution Risk Evaluation and  
15 Monitoring System (DREAMS). CCUE states that the requested spending level is too low and  
16 should be doubled to replace 34 miles per year to remove Aldyl-A from the system.<sup>11</sup> CCUE  
17 recommends a capital 2016 funding level of \$44.434 million compared to SDG&E's requested  
18 \$24.215 million. SDG&E's replacement approach is based on a risk methodology that looks at  
19 the system in a holistic manner and takes into consideration a variety of key factors in identifying  
20 and prioritizing pipelines for replacement.<sup>12</sup> A fundamental part of DIMP is measuring  
21 performance, monitoring results and evaluating effectiveness of programs implemented.  
22 SDG&E will measure, monitor and evaluate the effectiveness of the DREAMS program in  
23 consideration with other threats on the system to determine if changes to the replacement levels  
24 are needed. Notwithstanding, SDG&E maintains that its capital forecasts are reasonable and  
25 developed based on sound methodology in comparison to CCUE's approach of simply doubling  
26 SDG&E's forecast.

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<sup>7</sup> <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M144/K896/144896671.PDF>, p. 3.

<sup>8</sup> ORA-9, p. 37 line(s) 11-17.

<sup>9</sup> Ex. SCG-08 at MTM-13 to MTM-14.

<sup>10</sup> ORA-9, p. 37 Table 9-30.

<sup>11</sup> CCUE/Marcus, p. 20.

<sup>12</sup> Southern California Gas Company and San Diego Gas & Electric Company, Comments on Hazard Analysis and Mitigation Report Aldyl A Polyethylene Gas Pipelines, August 11, 2014, p. 1.

1 **V. REBUTTAL TO UCAN**

2 UCAN objects to the continued two-way balancing of TIMP and Post-2011 DIMP costs,  
3 arguing that those costs should be one-way balanced.<sup>13</sup> UCAN asserts that SoCalGas is able to  
4 develop more reliable cost estimates for TIMP and DIMP, which eliminates the uncertainty  
5 necessitating a two-way balancing account.<sup>14</sup> Further, UCAN implies that two-way balancing  
6 shifts forecast risk and risk of poor management decisions to ratepayers.<sup>15</sup>

7 SDG&E disagrees on both counts. UCAN's perceives "that major regulatory uncertainty  
8 following the September 2010 San Bruno explosion has abated given that both federal and state  
9 responses to the incident have been adopted."<sup>16</sup> However, the Commission, Congress, and  
10 PHMSA have pending proposals that will potentially drive changes to the integrity management  
11 rules. For example, the Commission issued draft changes to G.O. 112-E that restricts the use of  
12 Method 2 in 49 CFR 192.903, in determining HCAs to pipeline segments of 12-inches or less.<sup>17</sup>  
13 This restriction may increase the miles of HCA requiring assessment for the first time once  
14 implemented. In addition, SDG&E expects that the Pipeline Safety, Regulatory Certainty and  
15 Job Creation Act of 2011, which is set to expire in 2015, will likely be re-authorized by Congress  
16 and contain additional requirements since many of the sections have not been addressed,  
17 specifically Section 5 of the Pipeline Safety Act which included the expansion of Integrity  
18 Management beyond HCA has not been addressed. The Pipeline and Hazardous Materials  
19 Safety Administration also recently submitted to the OMB a proposal to address "Pipeline  
20 Safety: Gas Transmission" which will address "repair criteria for both HCA and non-HCA  
21 areas, assessment methods, validating & integrating pipeline data, risk assessments, knowledge  
22 gained through the IM program, corrosion control, management of change, gathering lines, and  
23 safety features on launchers and receivers."<sup>18</sup> As the proposal submitted to OMB is in the pre-  
24 rule stage<sup>19</sup> and not publically available at this time, the extent of changes and impacts is  
25 unknown but may require implementation during the 2016 GRC cycle.

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<sup>13</sup> UCAN/Fulmer, p. 62.

<sup>14</sup> UCAN/Fulmer, p. 63.

<sup>15</sup> UCAN/Fulmer, p. 62.

<sup>16</sup> UCAN/Fulmer, p. 62.

<sup>17</sup> <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M144/K896/144896671.PDF>, page 3

<sup>18</sup> Popular Title: Gas Transmission, RIN 2137-AE72

<sup>19</sup> See <http://www.reginfo.gov/public/do/eAgendaViewRule?pubId=201104&RIN=2137-AE72>

1 In addition to the pending regulatory changes, TIMP continues to complete assessments  
2 of new pipeline segments as HCAs are extended or newly created due to changes in population  
3 densities or changes in the regulatory requirements such as those proposed by the Commission  
4 (in G.O. 112-E) that will continue to add a layer of cost uncertainty. A two-way balancing of  
5 costs is therefore justified for the TIMPBA and Post-2011 DIMPBA given these facts  
6 demonstrating that the regulatory response to San Bruno is still evolving and expanding.

7 Addressing UCAN's argument that two-way balancing shifts risks associated with  
8 forecasting and mismanagement to ratepayers, SDG&E should be allowed to seek full recovery  
9 of its costs associated with these mandated, integral programs. Moreover, UCAN presents no  
10 evidence of mismanagement of TIMP or DIMP. SDG&E's proposal to recover undercollections  
11 in the TIMPBA and Post-2011 DIMPBA are addressed in the rebuttal testimony of Norma Jasso  
12 (Ex. SDG&E-235).

## 13 **VI. CONCLUSION**

14 SDG&E's O&M forecasts are reasonable, as they are developed based on a full  
15 evaluation of the expected cost drivers, which include a number of regulatory changes to the  
16 requirements for pipeline integrity. ORA's four-year average does not result in a more proper  
17 weighing of these cost drivers. Upon reviewing ORA's analysis on capital forecasts, SDG&E  
18 does not oppose ORA's 2014 forecast, and there is no disagreement on the 2015 and 2016  
19 forecasts. CCUE's recommended doubling of its 2016 capital forecast does not represent a more  
20 reasonable forecast than the one developed by SDG&E. On SDG&E's proposal to continue two-  
21 way balancing of TIMP and DIMP costs, UCAN's argument that costs are less subject to  
22 uncertainty is not supported by the facts demonstrate that rules and regulations continue to  
23 evolve and perpetuate uncertainty of scope of work and related costs.

24 This concludes my prepared rebuttal testimony.