Proceeding: A.22-05-005

Witness: Ronn Gonzalez, Travis T. Sera, Rae Marie Yu

**PREPARED REBUTTAL TESTIMONY OF**

**RONN GONZALEZ, TRAVIS T. SERA, & RAE MARIE YU**

**ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY AND**

**SAN DIEGO GAS & ELECTRIC COMPANY**

**September 23, 2022**

**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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**PREPARED REBUTTAL TESTIMONY OF RONN GONZALEZ,**

**TRAVIS T. SERA, & RAE MARIE YU**

## I. PURPOSE

The purpose of this prepared rebuttal testimony on behalf of Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") (together, "Applicants") is to address intervenor testimony regarding the Application for Authority to Establish a Gas Rules and Regulations Memorandum Account ("GRRMA") ("Application"). This testimony will address the following testimony from other parties:

- Southern California Generation Coalition ("SCGC") as submitted by witness Catherine E. Yap, dated August 26, 2022.
- Public Advocates Office ("Cal Advocates") as submitted by witness Scott J. Logan, dated August 26, 2022.

The focus of this rebuttal will address why it is appropriate to establish a memorandum account, rather than apply Z-factor accounting treatment, to track the incremental costs to comply with the new and updated regulations from the Pipeline and Hazardous Materials Safety Administration ("PHMSA"), which were not in effect nor forecasted in Applicants' Test Year ("TY") 2019 General Rate Case ("GRC"). The testimony will also summarize Applicants' demonstrated evidence provided in Prepared and Supplemental Testimony regarding the incremental activities and forecasted costs to be incurred due to the amendments by PHMSA to Parts 191 and 192 of Title 49 of the Code of Federal Regulations ("C.F.R."), Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines ("GTGS Rulemaking"), and 49 C.F.R. Parts 192, 195, Pipeline Safety: Valve Installation and Minimum Rupture Detection Standards ("Valve Rule") (collectively, the "Program"). The following rebuttal testimony also addresses relevant information and determinations already made by the Commission, associated with these incremental activities. Although Applicants have not responded to every issue raised by parties, this should not be construed as agreement by the Applicants with the proposals or contentions made by other parties.

## II. RESPONSE TO SCGC'S TESTIMONY

### A. It is Appropriate to Establish a Memorandum Account to Track the Costs to Comply with the New and Updated PHMSA Regulations Because They Were Not in Effect Until After SoCalGas and SDG&E's TY 2019 GRC and as Such are Incremental (Witness: Rae Marie Yu)

SCGC argues that the revenue requirement associated with the Gas Transmission Safety ("GTS") Rule Parts 1 and 2 (also referenced as "GTSR Part 1" and "GTSR Part 2") and the Valve Rule should not be considered an exclusion to its Performance Based Ratemaking ("PBR") mechanism, citing decision ("D.") 97-07-054.[1] SCGC states these regulations "are clearly within the scope [of SoCalGas' GRC]"[2] because "PHMSA regulations are routinely addressed in general rate case proceedings".[3] SoCalGas agrees PHMSA regulations in effect, or reasonably foreseeable to be in effect, at the time of filing its TY 2024 GRC Application in May 2022 are within the scope of that GRC.

Furthermore, the GTS Rule Parts 1 and 2 and the Valve Rule were not effective until after Applicants' TY 2019 GRC Application was filed in October 2017,[4] which SCGC acknowledges: "Clearly both the GTS Rules Parts 1 and 2 and the Valve Rule were not part of the record for D.19-09-051 in the last SoCalGas GRC because they were issued as final rules

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[1] Direct Testimony of Catherine E. Yap on Behalf of SCGC (dated Aug. 26, 2022) ("SCGC Testimony") at 4 (quoting D.97-07-054, slip op. at 42-44).
[2] *Id*. at 4.
[3] *Id*.
[4] GTS Rule Part 1 was issued on Oct. 1, 2019, the same day that Applicants' TY 2019 GRC Application decision was issued. *See* D.19-09-051.

after the record was closed for the proceeding."[5] The Pipeline Integrity for Transmission and Distribution testimonies for Application ("A.") 17-10-008, SoCalGas' TY 2019 GRC, and A.17-10-008, SDG&E's TY 2019 GRC, explicitly stated that costs related to PHMSA's issuance of the Notice of Proposed Rulemaking for Natural Gas Transmission Pipelines were excluded from cost forecasts presented.[6] This is why SoCalGas and SDG&E filed A.21-05-010, followed by A.22-05-005, to request establishing the GRRMA. These new regulations are beyond Applicants' control and are incremental to their TY 2019 GRC, which is a reason cited above as to why these expenses are considered exclusions from Applicants' PBR.

SCGC also argues that, in general, PHMSA regulations are in scope of a utility's GRC. However, this has not precluded the Commission from considering new and/or increasing costs to a utility's normal operating costs as incremental and authorizing a memorandum account to track costs for possible future recovery. Below are some recent examples:

- D.18-06-029: The Commission approved Pacific Gas and Electric Company's ("PG&E's") Wildfire Expense Memorandum Account to track incremental liability costs related to future wildfire incidents.
- D.19-09-026: The Commission approved memorandum accounts of SoCalGas, SDG&E, Southern California Edison Company ("SCE"), and PG&E to track costs associated with the California Consumer Privacy Act ("CCPA").
- D.20-05-042: The Commission granted Golden State Water Company's memorandum account to track CCPA costs.
- D.21-04-015: The Commission established memorandum accounts to record costs associated with the disconnection moratorium for medium-large commercial and

[5] SCGC Testimony at 6.
[6] SoCalGas 2019 GRC App., Exh. SCG-14 at MTM-19 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf, and SDG&E 2019 GRC App., Exh. SDG&E-11 at MTM-15 to MTM-16 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.sdge.com/sites/default/files/SDG%2526E-11%2520Direct%2520Testimony%2520of%2520Maria%2520Martinez%2520-%2520TIMP-DIMP.pdf.

industrial electric and natural gas customers imposed from Dec. 30, 2020 to June 30, 2021.

### B. The GRRMA is Justified Under the Policies Established in Previous Commission Decisions Approving Memorandum Accounts (Witness: Rae Marie Yu)

In contending that GRRMA is not justified, SCGC cited four factors from D.12-03-022 that the Commission considers in determining whether to authorize a memorandum account.[7] However, the same decision recognizes that "[t]he Commission has considered all these factors, considered only some of these factors or relied on other public considerations in determining whether to authorize a memorandum account."[8] In the last several years, the Commission has considered three factors: whether the compliance obligations are (1) incremental to the activities already funded by utilities' GRC or other ratemaking applications; (2) substantial; and (3) non-speculative.[9]

SCGC also claims that the GRRMA should be rejected because it purportedly does not meet the substantial costs factor.[10] However, Applicants' expected compliance costs are substantial. The Commission has approved memorandum accounts to track incremental costs related to new regulations becoming effective during a GRC cycle where the anticipated revenue requirement to be accumulated "could be up to millions of dollars."[11] SoCalGas and SDG&E have provided a forecast of revenue requirement for GTS Rule Parts 1 and 2 and the Valve Rule for the two-year period (2022-2023) of $4.1 million and $0.2 million, respectively.[12] These costs have no bearing to Applicants' TY 2024 GRC because they precede it and are not recoverable in

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[7] SCGC Testimony at 5.
[8] D.12-03-022 at 12.
[9] *See, e.g.,* D.22-02-011 at 6 (citing three factors in dismissing without prejudice Applicants' original A.21-05-010 seeking to establish GRRMA).
[10] SCGC Testimony at 5-6.
[11] D.19-09-026 at 9-10.
[12] *See* SCGC Testimony, Attachment F.

any GRC or other ratemaking proceeding.

Establishment of the GRRMA is further consistent with previous Commission decisions authorizing memorandum accounts to track incremental costs that are outside of utilities' control. Below are some examples of memorandum accounts that have been previously authorized by the Commission:

1. **Gas Statutes, Regulations, and Rules Memorandum Account** (**"GSRRMA")**
   D.19-09-025 authorized PG&E's proposal to establish the GSRRMA to track similar incremental costs to comply with new federal or state regulation or rules issued in between its Gas Transmission & Storage rate cases.[13] The costs requested to be tracked in SoCalGas and SDG&E's proposed GRRMA are essentially the same—GTS Rules Parts 1 and 2 and the Valve rule are new federal rules issued between their GRCs.

2. **California Consumer Privacy Act Memorandum Account ("CCPAMA")**
   D.19-09-026 authorized the CCPAMA for all utilities to track incremental costs to comply with consumer privacy obligations as required by Assembly Bill 375 which became effective during SoCalGas and SDG&E's 2016 GRC cycle. In discussing whether a memorandum account was an appropriate mechanism, the Commission emphasized that the intention is to record incremental costs in the memorandum account, in which SoCalGas must prove the costs were incremental through a reasonableness review in a future proceeding. The Commission also discussed the substantial nature of the costs to be recorded in CCPAMA and noted that absent a forecast in the proceeding, costs could be in the millions of dollars.[14] The cumulative forecasted revenue requirement for these GTS Rules for a two-year period are in the millions of dollars.

3. **Wildfire Expense Memo Account ("WEMA")**
   D.18-06-029 authorized PG&E's request to establish the WEMA to track incremental unreimbursed wildfire liability costs. The Commission acknowledged that liability costs are generally subject to ordinary ratemaking, but that this reason did not preclude the creation of a memorandum account if these costs recorded to the account are incremental. Further, PG&E would be required to prove costs recorded and requested for recovery in a future proceeding were not subject to regular ratemaking or otherwise recovered by PG&E.[15] The Commission also discussed at length the decision to authorize an effective date for the WEMA that is prior to issuance of a Decision. Ultimately, the Commission found that allowing WEMA to track costs as

[13] D.19-09-025 at 289-290.
[14] D.19-09-026 at 8-9.
[15] D.18-06-029 at 5.

of the date of PG&E's application was permissible given statutory authority and Commission precedent.[16]

4. **Grid Safety and Resiliency Program Memorandum Account ("GSRPMA")** D.19-01-019 authorized SCE to establish the GSRPMA to track incremental costs it would incur to comply with new wildfire legislation. This memorandum account only tracked costs in the interim while the Commission reviewed SCE's application to request a two-way balancing account in A.18-09-002, recognizing that SCE had already begun incurring costs related to its Grid Safety and Resiliency Program. The Commission acknowledged that a memorandum account with an effective date as of the filing date of A.18-09-002 was necessary to avoid retroactive ratemaking and that it was in the public's interest. The discussion in D.19-09-019 also made it clear that the establishment of the GSRPMA did not authorize recovery of the costs, but only preserved SCE's ability to request recovery in the future.[17] SoCalGas and SDG&E's request for GRRMA is no different because it would track the costs to comply with GTS Rules Parts 1 and 2 and the Valve rule that were being incurred as of July 1, 2021 and up until the start of their next GRC in 2024.[18] If the GRRMA is approved, SoCalGas and SDG&E would seek recovery of the costs recorded in the GRRMA in a future proceeding where SoCalGas and SDG&E would prove their incrementality and reasonableness without any retroactive ratemaking issues.

5. **Pipeline Safety and Reliability Memorandum Account ("PSRMA")** D.12-04-021 directed SoCalGas and SDG&E to establish a memorandum account to track incremental costs to implement their Pipeline Safety Enhancement Plans ("PSEP") and comply with Commission Resolution L-410, which ordered significant changes to pipeline regulations impacting all natural gas pipeline operators and outside the scope of SoCalGas and SDG&E's then-current GRC.

### C. It Would Be Inappropriate to Apply Z-Factor Treatment to the Compliance Costs of GTS Rule Parts 1 and 2 and the Valve Rule (Witness: Rae Marie Yu)

SCGC claims that the multiple Z-factor criteria identified in D.94-06-011 should not be considered because they were not listed in D.97-07-054. SCGC, however, does not acknowledge that the Commission has subsequently applied those same factors in subsequent decisions. In D.05-03-023, the Commission lists all nine criteria originally identified in D.94-06-011,[19] and the Settlement Agreement to D.05-03-023 reduced the factors from nine to eight. The

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[16] *Id.* at 11-15.
[17] D.19-01-019 at 2-3.
[18] A.22-05-015 includes a proposal to create a two-way balancing account, Gas Safety Enhancement Plan Balancing Account, to track these types of costs beginning January 1, 2024.
[19] D.05-03-023 at 30.

Commission noted, "There will be no change to the current Z-factor mechanisms, with the exception that Criterion #6 no longer applies."[20] In D.10-12-053, in granting SDG&E's request for Z-factor treatment for liability insurance premium and deductible expense increases, the Commission applied the eight Z-factors from D.94-06-011.[21] The eight criteria citing back to D.94-06-011 are also referenced in recent GRC Decisions.[22]

The standard for Z-factor treatment is proving by a preponderance of the evidence that the expenses are:

1. Caused by an event exogenous to the utility;
2. Caused by an event that occurred after the implementation of rates;
3. Costs that the utility cannot control;
4. Costs that are not a normal cost of doing business;
5. Caused by an event that affects the utility disproportionately;
6. Costs that have a major impact on the utility;
7. Costs that have a measurable impact on the utility; and
8. Costs that the utility has reasonably incurred.[23]

As demonstrated below, Applicants do not meet at least three of those factors based on the following:[24]

**4th Factor: Are the costs a normal part of doing business?**

The answer is yes. In D.94-06-011, the Commission reasoned that "to the extent that costs at issue are simply normal business costs, the mere fact that they are increasing does not make them eligible for Z factor treatment…Across the board changes in tax laws, etc. affect all companies as part of the normal cost of doing business, and therefore would not be considered Z factors."[25] PHMSA's amendments (referred to as GTS Rule Part 1, GTS Rule Part 2, and Valve

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[20] Appendix C of D.05-03-023 at 12.
[21] D.10-12-053 at 4, 6, 25, 27, 30, 33, 34, 36 (citing D.94-06-11).
[22] D.16-06-054 at 284 and D.19-09-051 at 711.
[23] D.10-12-053 at 27.
[24] *See* SCGC Testimony, Attachment D.
[25] 55 CPUC 2nd 1, 37.

Rule in A.22-05-005) apply to all natural gas pipeline operators and impact their normal cost of doing business.[26] As such, the incremental costs that are being incurred as a result of these amendments are not eligible for Z-factor treatment because they increase the normal cost of doing business.

The Commission further reasoned in D.19-09-051 that "[a] key element in a Z-Factor event is that the event is unpredictable and occurs after base rates have been set and there is nothing that differentiates the TY from the attrition years insofar as the possible occurrence of a Z-Factor event."[27] These new regulations were not unpredictable. As indicated in their TY 2019 GRC,[28] SoCalGas and SDG&E were aware of the plans to enact the new regulations. At the time of filing their 2019 GRC applications, these regulations were neither effective nor finalized. Thus, SoCalGas and SDG&E filed a separate application, i.e., A.22-05-005 (originally A.21-05-010), when the details of these new regulations were either finalized or being finalized[29] to request a cost recovery mechanism to have the opportunity to seek recovery of incremental costs incurred upon a reasonableness review. Therefore, because applicants do not meet the 4th factor, the Z-Factor Account would not be available for tracking costs.

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[26] *See also* D.10-12-053 at 34 (in holding that SDGE's increased insurance liability costs were not a normal part of business, the Commission reasoned that "[n]o other investor-owned-utility experienced such an increase in liability insurance costs, nor did this change affect all business on an economy-wide basis").

[27] D.19-09-051 at 712.

[28] SoCalGas 2019 GRC App., Exh. SCG-14 at MTM-19 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-14%20Martinez%20Prepared%20Direct%20Testimony.pdf, and SDG&E 2019 GRC App., Exh. SDG&E-11 at MTM-15 to MTM-16 (Direct Testimony of Maria T. Martinez dated Oct. 6, 2017); available at https://www.sdge.com/sites/default/files/SDG%2526E-11%2520Direct%2520Testimony%2520of%2520Maria%2520Martinez%2520-%2520TIMP-DIMP.pdf.

[29] Although Part 2 was published on August 24, 2022, it was in the process of being finalized when Applicants filed the instant Application in May 2022.

**5th Factor: Does the event have a disproportionate impact on utility?**

The answer is no. The costs do not have a disproportionate impact on SoCalGas and SDG&E because PHMSA's amendments equally impact all natural gas pipeline operators. Therefore, because Applicants do not meet the 5th factor, the Z-Factor Account would also not be available for tracking costs.

**8th Factor: Are the costs proposed for Z-factor treatment reasonable?**

This factor is inapplicable because SoCalGas and SDG&E are only asking for a memorandum account to record these costs, and their reasonableness would only be determined after costs they have been incurred and presented to the Commission for review.

Therefore, because Applicants do not meet at least three of the above stated factors, they are not eligible to use the Z-Factor Account.

Furthermore, although SCGC also discusses the possible double recovery issues of using the Z-Factor Account and certain indices as addressed in D.97-07-054, it acknowledges this no longer applies to current GRCs,[30] and is therefore not applicable for consideration as to whether the Commission should authorize the establishment of the GRRMA.

## III. RESPONSE TO CAL ADVOCATES' TESTIMONY

### A. SoCalGas and SDG&E Have Met the Burden in Showing How the Program Is Incremental to Existing Activities Already Funded in Rates, as Acknowledged by the Commission (Witness: Travis T. Sera)

In its testimony, Cal Advocates claims that SoCalGas and SDG&E's Supplemental Testimony fails to show the Commission how the Program is incremental to existing activities already funded in rates, providing only a broad and general discussion of information that would

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[30] SCGC Testimony at 8.

seem to apply to every pipeline construction project in the utility portfolio.[31] Cal Advocates' claim should be rejected because it disregards the evidence that Applicants provided in its prepared testimony describing the incremental costs for activities to be recorded in the GRRMA, all while confusing the purpose of the Supplemental Testimony submitted as detailed in the May 26, 2022 Ruling that requested further information on the internal processes, management oversight, financial and internal controls, methodology that will be used to determine which costs are incremental beyond those already in rates.[32] Moreover, Cal Advocates did not provide evidence that rebutted the presumption in the May 26 Ruling that Applicants have preliminarily established a prima facie case for this Application to proceed[33] where the costs are (1) incremental to the utility's GRC or other ratemaking applications, (2) foreseeably substantial, and (3) not speculative.

In the Prepared Testimony of Travis T. Sera submitted with the Application, Applicants provided details on the estimated incremental costs for activities pertaining to GTS Rule Part 1, GTS Rule Part 2, and Valve Rule that would be recorded in the GRRMA,[34] noting particularly the following:

**GTS Rule Part 1**

- GTS Rule Part 1 currently expands beyond the Commission's approved PSEP Phase 1A, 1B, and 2A. PSEP Phase 1A specifically includes transmission segments in Class 3 and 4 location and Class 1 and 2 locations in high consequence areas ("HCAs") that do not have sufficient documentation of a pressure test to 1.25 MAOP; PSEP Phase 1B includes pipeline segments installed before 1946 and are not piggable; PSEP Phase 2A includes transmission pipelines that do not have sufficient documentation of a pressure test to at

[31] Report on SoCalGas and SDG&E Application to Establish a Gas Rules and Regulations Memorandum Account (GRRMA) (dated Aug. 26, 2022) ("Cal Advocates Testimony") at 3.
[32] Email Ruling Requiring Supplemental Testimony (A.22-05-005), dated May 26, 2022, at 3-4.
[33] *Id*. at 3, 5.
[34] Prepared Testimony of Travis T. Sera at 1-7.

least 1.25 MAOP and are located in Class 1, Class 2 and non-HCAs.[35] The GTS Rule Part 1 MAOP Reconfirmation requirements expand scope to include all transmission segments in Class 3, Class 4, and HCAs that do not have traceable, verifiable, and complete test records; this includes pipeline segments that were deferred to PSEP Phase 2B, for which applicants were ordered to propose an implementation plan in a future filing;[36]

- Where MAOP reconfirmation is required for segments outside the scope of PSEP, reconfirm MAOP in accordance with 49 C.F.R. § 192.624; current scope analysis has yielded approximately 150 miles of incremental pipeline segments to be initiated by 2023, with an overall incremental scope of approximately 570 miles.[37]

**GTS Rule Part 2**

- Proposed requirements under GTS Rule Part 2,[38] which Applicants would incur incremental costs include:[39]
    - Surveys to identify post-construction coating damage on transmission lines, as well as remediation of coating damage found by these surveys (49 C.F.R. §§ 192.319, 192.461);
    - Surveys to identify anomalies in cathodic protection, creating a timeframe for the remediation of these anomalies, and remediation of cathodic protection deficiencies (49 C.F.R. § 192.465); and
    - A periodic interference current survey program and remediation for transmission lines (49 C.F.R. § 192.473).

**Valve Rule**

- The Valve Rule differs from the existing PSEP Valve Enhancement Plan ("VEP") program in three areas:[40]
    - The Valve Rule requires automatic shutoff valves ("ASV")/ remote-control valves ("RCV") (collectively referred to a Rupture Mitigation Valve "RMV") starting at a smaller diameter transmission line. For instance, PSEP VEP focuses on adding RMV on replacements that are either 12- or 20-inches, depending on the specified

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[35] Cost recovery for PSEP Phase 1A projects occurs through reasonableness reviews (*See* A.14-12-016, A.16-09-005, A.18-11-010, and A.22-05-015/016) as originally authorized in D.14-06-007; Phase 1B and 2A projects were initially presented for review and recovery in SoCalGas' 2017 Forecast Application (A.17-03-021) and, as authorized in D.16-08-003, have been/will be forecasted in SoCalGas' 2019 GRC (A.17-10-008), 2024 GRC (A.22-05-015), and future GRCs.

[36] Prepared Testimony of Travis T. Sera at 2:22-3:9; *see also* Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at 12:12-17.

[37] Prepared Testimony of Travis T. Sera at 2:1-5.

[38] The final rule for GTS Rule Part 2 was published to the Federal Register on August 24, 2022, with an effective date of May 24, 2023. *See* Pipeline Safety: Safety of Gas Transmission Pipelines: Repair Criteria, Integrity Management Improvements, Cathodic Protection, Management of Change, and Other Related Amendments; available at https://www.federalregister.gov/documents/2022/08/24/2022-17031/pipeline-safety-safety-of-gas-transmission-pipelines-repair-criteria-integrity-management.

[39] Prepared Testimony of Travis T. Sera at 3:16-4:2.

[40] *Id*. at 5:9-6:5.

minimum yield strength ("SMYS") value of the line. As part of the PSEP VEP, consideration is given to lines that are either (1) 12 inches or greater that operate in excess of 30% SMYS or (2) 20 inches or greater, operating in excess of 20% SMYS. The Valve Rule, on the other hand, simply considers all on shore transmission lines that are 6 inches or greater.
    - The Valve Rule considers both new construction as well as entirely replaced transmission pipeline segments. The PSEP VEP primarily adds RMV to replaced lines, whereas the Valve Rule requires the installation of RMV for newly constructed lines and entirely replaced transmission pipeline segments (see 49 C.F.R. §§ 192.179, 192.634). While both require the installation of RMV for line replacements, the Valve Rule extends the requirements to newly constructed pipelines and pipeline replacement projects outside of PSEP.
    - The Valve Rule requires updates to business processes that (1) require greater coordination with emergency agencies (2) requires more comprehensive procedures for investigations into failures and incidents, and (3) establishes criteria around identifying pipeline ruptures.
- Applicants anticipate expenses to implement the following activities required by the Valve Rule:[41]
    - Development and updating of procedures emergency response (49 C.F.R. § 192.615), investigation of failures and incidents (49 C.F.R. § 192.617), notification of potential ruptures (49 C.F.R. § 192.635), and reviews of risk analysis for ruptures in HCAs (49 C.F.R. § 192.935); and
    - Installation of RMV on newly installed, or entirely replaced onshore transmission pipeline segments that are 6 inches or greater diameter in Class 3 and 4 locations or HCAs (49 C.F.R. §§ 192.179, 192.610, 192.634, 192.636, 192.745).

Additional details were also provided in Applicants' Supplemental Testimony regarding the methodology to determine how compliance costs for the new PHMSA regulations are incremental to those activities (and their associated costs) that are already incorporated in rates. Incremental activities include GTS Rule Part 1 when compared against PSEP as well as the Valve Rule when compared against the PSEP VEP.[42]

Cal Advocates also confuses the purpose of the flowcharts provided in Applicants' Prepared and Supplemental Testimony, claiming that they provide no specific information as to what is incremental to existing activities nor are linked to costs presented in Tables 1 and 2 of the

[41] *Id*. at 7:1-8.
[42] Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at 12-15.

Prepared Testimony of Travis T. Sera.[43] The flowcharts, utilized in the scoping process of GTS Rule Part 1, illustrate how projects in their initial stage of planning will be assigned the appropriate cost treatment, through the GRRMA or other programs already approved or funded in rates (e.g., PSEP or the Transmission Integrity Management Program ("TIMP")).[44] As a result, incremental costs forecasted for GTS Rule Part 1 in this Application are linked to the flowchart, to be charged to the GRRMA. The Workpapers Supporting Supplemental Testimony of Travis T. Sera provide further details on the forecasted incremental costs of projects that together make up the GTS Rule Part 1 incremental mileage required to start by 2023; the forecasted incremental costs for the activities related to the remediation of non-HCA pipeline segments to comply with GTS Rule Part 2; and the forecasted incremental cost of required valve installation projects to start by 2023 that are impacted by the Valve Rule.

Since the filing of this Application, the Final Rule for GTS Rule Part 2 was published on August 24, 2022, establishing an effective date of May 24, 2023. The Final Rule for GTS Rule Part 2 requires incremental activities related to corrosion control, repair criteria, inspection requirements after weather events, an update to overall inspection requirements, and updates to the business processes and overall Management of Change ("MOC"). GTS Rule Part 2 mandates incremental Closed Interval Surveys ("CIS") as part of the Corrosion Control requirements in Subpart I, mandatory interference surveys near locations of suspected stray current sources, identification of potentially corrosive constituents in the gas received and delivered, and post-construction surveys to check the integrity of the pipe protective coating.[45] GTS Rule Part 2 mandates repairs previously not required in non- HCA transmission pipeline, expands the

[43] Cal Advocates Testimony at 3.
[44] Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at 4:10-14.
[45] Sections of 49 C.F.R. applicable to incremental scope due to GTS Rule Part 2 requirements: 192.465 (d), (f); 192.473 (c); 192.478; 192.319 (d), (e), (f), and (g); and 192.461 (a)(4), (f), (g), (h), (i).

requirement for field repairs on HCA pipeline, and includes new requirements for evaluating cracks and crack-like defects.[46] The table below lists the sections of the Code of Federal Regulations that have been added with the implementation of GTS Rule Part 2 and the impacts of those added sections. The costs associated with meeting these new requirements of GTS Rule Part 2 are incremental to the scope of existing programs presented in Applicants TY 2019 GRC.

**Table 1 – Summary of Changes for GTS Rule Part 2**

| 49 C.F.R. Sections | Impacts - Summary of Changes |
|---|---|
| 192.319 (d), (e), (f), (g); 192.461 (a)(4), (f), (g), (h), and (i) | Require post-construction surveys to identify coating damage for placing pipeline in service or following repair or replacement no later than six months after backfilling of an onshore transmission pipeline with remedial actions |
| §192.465 (d), (f) | Use of a Closed Interval Survey ("CIS") as part of the monitoring, and remediation/ mitigation program to identify and correct deficiencies associated with cathodic protection under Subpart I. CIS must be done at a maximum of 5ft intervals. Remedial action must be completed within: No later than the next monitoring interval, 1 year, or 6 months after obtaining any permits, whichever is less. |
| §192.473 (c) | Interference current surveys must be conducted periodically on all pipeline segments near sources of stray current that could reduce the effectiveness of cathodic protection ("CP"). Remedial actions need to be taken within six months of the survey with complete remediation not to exceed 15 months. |
| 192.478 | Implement a new program to identify potentially corrosive constituents and evaluate effectiveness of the program once each calendar year, not to exceed 15 months. |
| 192.613 (c) | In the event of extreme weather events, operators must inspect facilities to detect conditions that could adversely affect the safe operation of the pipeline. Inspections must be conducted within 72 hours after areas can be safely accessed. Operator must take appropriate remedial action based on the information collected during the inspections. If an operator is unable to commence the inspection due to the unavailability of personnel or equipment, the operator must notify the appropriate PHMSA Region Director as soon as practicable. |

[46] Sections of 49 C.F.R. applicable to incremental scope due to GTS Rule Part 2 requirements: 192.714; 193.933.

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|---|---|
| 192.714 | Require permanent field repairs on segments in non-HCA. The timeline for repairs is based on the type of anomalies found, and includes making [1] immediate repairs, [2] repairs on a two-year timeframe, or [3] on no specified scheduled; however, monitoring of the condition is required as part of ongoing risk and integrity assessments. |
| 192.933 | Require permanent field repairs on segments in HCA. The timeline for repairs is based on the type of anomalies found, and includes making [1] immediate repairs, [2] repairs on a one-year timeframe, or [3] on no specified scheduled (monitor) This section will also prescribe more explicit requirements for evaluation of cracks and crack-like defects when required, such as during inline inspection ("ILI"), stress corrosion cracking direct assessment ("SCCDA"), pressure test failure, or other assessment. |

Given the information provided previously in Applicants Prepared and Supplemental Testimony, as reiterated above, determinations made by the Commission both in the May 26th Ruling, as well as information regarding the incremental requirements posed by the Final Rule published for GTS Rule Part 2, Applicants have met their burden to show how the Program is incremental to existing activities already funded in rates. Cal Advocates claim that Applicants have not explained this should be rejected.

Additionally, the Commission has already determined that GTS Rule Part 1 is incremental to PSEP.[47] In its 2022 Senate Bill ("SB") 695 Report, the Commission acknowledged that the GTS Rule Part 1 "will require California utilities to make additional expenditures on pipeline safety beyond what they have made, or planned to make, on PSEP."[48] To illustrate these differences, the Commission prepared the following table:[49]

[47] CPUC, 2022 Senate Bill 695 Report at 119-121 (May 2022), available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2022-sb-695-report.pdf. The report references GTS Rule Part 1 as the "Mega Rule."
[48] *Id*. at 120.
[49] *Id*. at 121, Table 27.

**Table 2 – Comparison of GTS Rule Part 1 (Mega Rule) and PSEP**

| | Mega Rule | PSEP |
|---|---|---|
| MAOP Reconfirmation Required | Transmission lines operating at 30% SMYS and above without verifiable records | All transmission lines without record of post-construction pressure test |
| MAOP Reconfirmation methods Allowed | Various, listed above | Pressure test or replace |
| Verification of Pipeline Materials and Properties? | Yes | No |
| Assessment in MCAs? | Yes | No |
| Requires Installation of Automatic and/or Remote Shut-off valves? | No[50] | Yes |
| Requires Replacement Pipeline to Be Piggable? | No | Yes |

Because GTS Rule Part 1 costs are incremental to the work in PSEP, they must be treated separate from any of the forecasted costs in the TY 2019 GRC.

### B. A Memorandum Account is Necessary to Track Costs of Program Activities to Comply with New Regulations that are Enacted Between GRC Cycles (Witness: Travis T. Sera)

Cal Advocates argues that Applicants make no showing as to why GTSR costs may be necessarily incurred prior to the TY 2024 GRC cycle,[51] noting the request Applicants have made in the TY 2024 GRC for a new balancing account for the same activities and costs that will be recorded in the GRRMA.[52] Again, such claim should be ignored because Cal Advocates did not recognize the timeframes Applicants have disclosed regarding the effective dates of the new PHMSA regulations,[53] all of which occur prior to the 2024 test year of the TY 2024 GRC cycle,

[50] PHMSA released the Valve Rule mandating the installation of remote control and/or automatic shut-off valves on newly constructed or entirely replaced pipelines that are six inches in diameter or greater.
[51] Cal Advocates Testimony at 4.
[52] *Id*. at 3.
[53] Prepared Testimony of Travis T. Sera at 1:11-15, 3:11-12, and 4:15-17.

as well as the time-sensitive milestone of GTS Rule Part 1 to complete at least 50% of certain integrity enhancements to pipelines.[54] To further illustrate, the table below identifies the publication and effective dates of these new regulations, where Applicants understand these dates to mean required compliance work must begin prior to 2024 and the TY 2024 GRC Cycle.

**Table 3 – Effective Dates of PHMSA Regulations**

| Rule | Publication Date | Effective Date |
|---|---|---|
| GTS Rule Part 1 | October 1, 2019 | July 1, 2020[55] |
| GTS Rule Part 2 | August 24, 2022 | May 24, 2023 |
| Valve Rule | April 8, 2022 | October 5, 2022 or April 10, 2023 (depending on specific requirements imposed) |

Applicants have provided incremental cost forecasts considering the effective dates of GTS Rule Part 1 and the Valve Rule, as well as on a projected 2023 effective date of GTS Rule Part 2, which was not final at the time the Application was submitted. Considering these incremental costs that have been incurred in 2021, as well as those forecasted to be incurred in 2022 and 2023 in the TY 2024 GRC, as Cal Advocates may be suggesting with the denial of the establishment of a GRRMA, would amount to retroactive ratemaking. The purpose of establishing the GRRMA is to track expenses that are incremental to Applicants' GRC or other ratemaking applications. Applicants have made clear that the GRRMA would serve as a bridge until the TY 2024 GRC becomes effective, allowing Applicants to record these incremental costs for the years 2021, 2022, and 2023.[56] Applicants are taking the appropriate steps to seek Commission approval to establish the GRRMA, where any expenses recorded under this account would be subject to reasonableness review in a subsequent proceeding.

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[54] *Id*. at 1:16-19.
[55] The GTS Rule Part 1 imposes significant new safety and integrity requirements to gas transmission pipelines under PHMSA's jurisdiction. These changes took effect July 1, 2020, and mandate certain compliance obligations commencing July 1, 2021.
[56] Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, and Rae Marie Yu at 3:4-7.

### C. The GRRMA is Necessary to Track Incremental Costs Incurred Prior to the TY 2024 GRC Cycle as Applicants Work Toward Meeting the GTS Rule Part 1 50% Pipeline Milage Mandate by 2028 (Witness: Ronn Gonzalez)

Cal Advocates posits that SoCalGas and SDG&E has not established "why the GRRMA is necessary to meet [the July 2028 50 percent deadline] given that the next GRC cycle will be effective beginning in 2024".[57] As noted in Section III.B. above, Cal Advocates opines that SoCalGas and SDG&E "make no showing as to why GTSR costs may be necessarily incurred prior to the TY 2024 GRC cycle".[58] Implicit in these statements is the notion that SoCalGas and SDG&E will be able to meet the 50 percent mandate within the TY 2024 GRC cycle, and additionally do not need to commence project development and execution prior to a final decision in that proceeding. In making this assumption, Cal Advocates drastically underestimates the amount of time it takes to execute a large portfolio of transmission pipeline projects.

Perhaps most concerning, Cal Advocates' statements also appear to minimize the criticality of expeditiously moving forward with the implementation of federally mandated safety work that PHMSA has stated will "modernize federal pipeline safety standards by expanding risk-based integrity management requirements, enhancing procedures to protect infrastructure from extreme weather events, and requiring greater oversight of pipelines beyond current safety requirements."[59]

As stated in the Supplemental Testimony, execution of the GTS Rule Part 1 portfolio will be carried out according to the Capital Delivery Model implemented by SoCalGas's

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[57] Cal Advocates Testimony at 4.
[58] *Id.*
[59] PHMSA, U.S. Secretary of Transportation Elaine L. Chao Announces Issuance of Major Pipeline Safety Rules (Sep. 24, 2019) (emphasis added), https://www.phmsa.dot.gov/news/us-secretarytransportation-elaine-l-chao-announces-issuance-major-pipeline-safety-rules.

Construction organization for the PSEP program.[60] Like PSEP, GTS Rule Part 1 is a system-wide mandated safety program comprising similar activities (e.g., pressure tests, replacements, etc.) that will require years to complete. For example, SoCalGas and SDG&E have been implementing PSEP projects since 2012. During this time, approximately 330 pipeline and valve projects have been completed and placed in service across the companies' combined ~28,000 square-mile service territories. In doing so, the PSEP program has accumulated a great deal of experience about the challenges of coordinating the planning and construction of such a large portfolio.

Most recently, there is ample evidence in SoCalGas and SDG&E's 2019, 2020, and 2021 Risk Spending Accountability Reports that demonstrates these challenges,[61] as there are a variety of unforeseen events that can delay a project, adding time to the overall schedule for completion of the portfolio. This is particularly true for projects located on large-diameter transmission lines, which support the overall reliability of SoCalGas and SDG&E's natural gas pipeline systems, to be delayed due to capacity constraints on the gas systems. In these instances, previously planned projects that require shut-ins are postponed, which often occurs after detailed design has been completed and a project is ready to begin construction. Even in the absence of such delays, the myriad of documents and milestones that need to be compiled and executed before placing a completed project in service require substantial amounts of time. These items include, but are not limited to: various project planning documents, engineering drawings, cost estimates, material selection and procurement, municipal and environmental permits, right-of-way easement

[60] Prepared Supplemental Testimony of Ronn Gonzalez, Travis T. Sera, & Rae Marie Yu at 6:6-18.

[61] *See* PSEP sections of SoCalGas and SDG&E's Revised 2019 Risk Spending Accountability Report ("RSAR") (p. B-55-B-59), 2020 RSAR (p. B-87-B-91), and 2021 RSAR (p. B-78-B-83), available at https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/risk-spending-accountability-reports.

agreements, and of course construction of the project itself.

Using historical data as a reference, the inherent complexity of PSEP projects—which is expected to apply in similar measure to GTS Rule Part 1—is best represented by project durations. Using project initiation (Stage 1) as the beginning point and the Notice of Operation (NOP) submittal as the point at which the asset has become "used and useful" and therefore eligible to be deducted from mileage targets, the following data was extracted from PSEP projects completed as a part of SoCalGas and SDG&E's 2016 Reasonableness Review[62] and 2018 Reasonableness Reviews.[63] It is reasonable to assume these average durations will be applicable to GTS Rule Part 1 projects. This data represents a subset of the overall PSEP project portfolio and accounts for 142 distinct replacement, pressure test, and valve enhancement projects:

**Table 4 – Average durations of selected PSEP projects**

| Project Type | # of Projects | Average Duration (Calendar days/years) |
|---|---|---|
| Replacement[64] | 62 | 928 / 2.5 |
| Pressure Test | 24 | 913 / 2.5 |
| Valve | 56 | 766 / 2.1 |

The table shows that average durations for pipeline projects average 2.5 years, and valve projects 2.1 years. While these figures represent averages, it is also worth noting that some project timelines can exceed these timelines by a significant margin. Based on the same dataset,

[62] A.16-09-005, Prepared Direct Testimony of Rick Phillips at 13-15 and Prepared Direct Testimony of Hugo Mejia at 4-5, available at https://www.socalgas.com/regulatory/documents/a-16-09-005/Chapter_3_Pipeline_Projects_and_Other_Costs_Phillips.pdf and https://www.socalgas.com/regulatory/documents/a-16-09-005/Chapter_5_Valve_Projects_Mejia.pdf, respectively.
[63] A.18-11-010, Amended Direct Testimony of Rick Phillips at 3-4 and Prepared Direct Testimony of Hugo Mejia at 5-6, available at https://www.socalgas.com/regulatory/documents/a-18-11-010/Chapter%203%20-%20Pipeline%20Projects%20and%20Other%20Costs%20(Phillips)%20Amended%202%2010-21-19_clean.pdf and https://www.socalgas.com/regulatory/documents/a-18-11-010/Chapter_4_Valves_Mejia.pdf, respectively.
[64] Also includes a small number of abandonment projects.

the maximum number of years needed to place certain projects into service exceeded five years for pressure tests, six years for replacements, and as many as three years for valves. Therefore, it is reasonable to conclude that waiting until the issuance of a final decision in the 2024 GRC would create a difficult situation where SoCalGas and SDG&E would be expected to deliver half the remaining mileage in the GTS Rule Part 1 portfolio in a matter of only a few years.

In SoCalGas's and SDG&E's experience managing the PSEP portfolio, the volume of project work has been levelized over time, such that resources remained available, including internal staff, contractors (both engineering and construction), and materials to reliably complete the effort at a reasonable pace in a cost-effective manner. Unlike PSEP, which the Commission mandated be completed "as soon as practicable,"[65] the GTS Rule Part 1 mileage targets are required to be met by specific dates. Thus, any delay to the implementation of the projects needed to effectuate these targets effectively compresses the amount of work needed to be done in a prescribed amount of time. As discussed in prior filings,[66] since its inception the PSEP program has thoughtfully approached the sequencing of its projects to maintain steady utilization of experienced and qualified personnel, both internal and external, for the benefit of customers. A multi-year delay to the Program would lead to increased risks of resourcing issues, such as retaining and scaling subject matter experts and rapid ramping of contractor resources needed to perform critical safety work, risks system reliability, and may likely increase overall project costs as a result.

In summary, it is prudent for SoCalGas and SDG&E to implement GTS Rule Part 1 with urgency, to execute on a strategic plan for all of the segments in the GTS Rule Part 1 portfolio,

[65] D.11-06-107 at 19, 20, Conclusion of Law 5, and Ordering Paragraph 5.
[66] A.16-09-005, Rebuttal testimony of Rick Phillips at 2-4, available at https://www.socalgas.com/regulatory/documents/a-16-09-005/PSEP_2016_RR_Rebuttal_Testimony_Phillips_Final-10-20-17.pdf.

of which Applicants have already started, such that the required work can be completed timely while working to be cost-effective, risk-conscious and mindful of retaining and utilizing Applicants' current expert personnel as much as possible. Establishment of the GRRMA as proposed by SoCalGas and SDG&E would provide Applicants with adequate means for rate relief at a later date as deemed appropriate by the Commission.

## IV. CONCLUSION

This concludes our prepared rebuttal testimony.