Response of the California Public Utilities Commission
to Representative Speier's March 4, 2011 Inquiry

Representative Speier's Office:

"We need to know if PG&E's used all approved funding for its 1985 pipeline replacement program in San Bruno. Today's Mercury News reports that PG&E stopped replacing pipe 300 yards from the rupture site. Rep. Speier would like to know if PUC-approved funds for PG&E for this program were exhausted, given that the plan was for replacement of all pipes in San Bruno?"

CPUC Response:

<u>PG&E's Gas Pipeline Replacement Program: 1987-1999</u>

PG&E began developing the program designated as the Gas Pipeline Replacement Program (GPRP) in late 1984 and presented it to the CPUC in a rate case for the first time in PG&E's 1987 General Rate Case. The GPRP was envisioned by PG&E as a major program to replace all old lines constructed prior to the enactment of state and federal regulations governing the construction of pipeline systems over a 30 year time period. The program was described in a 1984 PG&E report entitled "Major Project Assessment – Gas Pipeline Replacement Program.

Three CPUC General Rate Case decisions, applying to the years 1987 through 1995, approved PG&E's proposed budgets for the GPRP. Before the GPRP was approved in 1987, funding for gas pipeline replacements was requested by PG&E and approved by the CPUC in General Rate Cases on an as needed basis, and the pace of replacements appears to have been much lower than under the approved GPRP.

We reviewed PG&E authorized and actual expenditures for the GPRP from the late 1980s through the 1990s. The CPUC granted PG&E $183 million more in funds as part of the GPRP between 1987 and 1999 than was actually spent. As the attached table comparing PG&E's actual vs. CPUC approved funding shows, almost all of this under-spending occurred prior to 1996. Consistent with ratemaking policy for expenditures between General Rate Case cycles, underspending in one area would have been used by the utility for other operational needs or kept for retained earnings.

In a 1995 GRC decision (D.95-12-055) for PG&E, the Commission noted that PG&E was consistently under-spending on its GPRP in previous years relative to CPUC-authorized amounts, and reduced authorized funding to more closely match actual spending. In the 1995 GRC decision, the Commission found that PG&E was consistently under-spending compared to CPUC-approved budgets, but was keeping the GPRP program on track despite the under-spending. That decision therefore reduced the GPRP budget from the amounts proposed by PG&E. After the budget was reduced, PG&E spending was close to the approved budgets for the 1996 through 1999 period.

PG&E's Transmission Pipeline Safety Work: 2000-2010

During 2000-2010, PG&E spending on its transmission pipeline safety-related work exceeded CPUC-authorized amounts, according to PG&E records. The CPUC approved PG&E gas transmission pipeline and storage revenue requirements during this time frame in PG&E Gas Transmission and Storage (GT&S) proceedings. As the attached table shows, PG&E's actual spending on transmission line safety related work exceeded CPUC authorized amounts.

The CPUC authorizes revenues for utilities based on a review of the need for spending presented by the utilities. Within the authorized budgets, the utilities have flexibility and discretion to re-prioritize spending according to the needs of their infrastructure and systems. As the attached table shows, sometimes the utility may under-spend while at other times their expenditures may exceed the CPUC authorized budgets. As part of the Commission's investigatory activities in response to the San Bruno rupture, we will be auditing PG&E's expenditures, activities, and staffing related to gas safety and considering what actions may be appropriate in light of our findings in the audit.

Transmission Pipeline Safety Post-San Bruno

In the wake of the San Bruno incident, the CPUC has also instituted additional ratemaking and reporting mechanisms to ensure that the funds authorized for certain budget categories are spent on those categories. In two recent decisions (D. 11-04-031 and D.11-05-018) the CPUC has instituted one-way balancing accounts to ensure that for certain categories of gas safety related projects and expenditures, any unspent monies are returned to ratepayers.

PG&E is now required to provide semi-annual Gas Transmission and Storage Safety Report (Safety Report). PG&E is now required to provide a semi-annual Safety Report providing details about the capital projects and maintenance activities that are being undertaken by PG&E related to pipelines and gas storage related safety, reliability, and integrity projects and to track the amounts spent on such projects and activities. The Safety Report will provide Commission staff with details of whether the gas transmission pipeline projects that PG&E has identified as "high risk" are actually carried out, whether other replacement projects have been undertaken instead, and the rationale for the reprioritization of these projects. The Safety Report will also allow the Commission to monitor the status of PG&E's compliance with federal pipeline requirements, such as recurring pipeline inspections and pipeline upgrades. Additionally, in the recent Gas Transmission and Storage rate proceeding (A. 09-09-013), PG&E made a commitment to spend the full amount that has been authorized by the CPUC for pipeline integrity activities, pipeline safety and reliability.