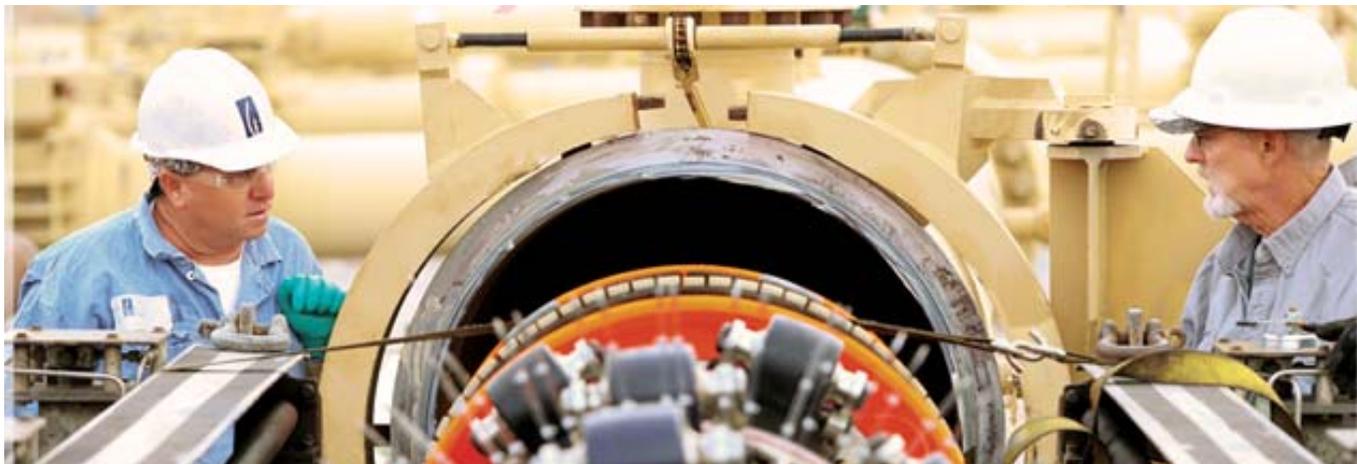




SoCalGas & SDG&E

Pipeline Safety Enhancement Plan (PSEP)

Natural Gas Working Group Meeting
December 1, 2011



PSEP – Background

-
- ❑ On January 3, 2011 CPUC ordered PG&E, SoCalGas, SDG&E and Southwest Gas to perform comprehensive records review of their transmission pipelines and identify those that have not had their MAOP's established by pressure testing.

 - ❑ SoCalGas and SDG&E initiated records search and categorized pipeline segments for further action:
 - Cat 1 – documented hydrotest test to establish MAOP
 - Cat 2 – documented pressure test other than using water to establish MAOP
 - Cat 3 – documented operating pressure at least 1.25x
 - Cat 4 – pipeline segments without adequate pressure test records



SoCalGas and SDG&E Records Search Results

	Demonstrated Safety Margin			Safety Margin to Be Verified	
	Category 1	Category 2	Category 3	Category 4	
	Hydro-Statically Tested (NTSB P-10-2)	Strength Tested with Nitrogen or Other Medium	In-Service Strength Tested with MAOP Reduction	Activities in Progress to Validate Safety Margin (NTSB P-10-4)	Total Miles
SoCalGas	817	248	23	322	1410
SDG&E	136	8	0	63	206



CPUC Safety Order Summary

June 16, 2011

Implementation plan is not limited to populated areas...

Plan requires that **all** in-service natural gas transmission pipelines in California have been pressure tested.

Plan must propose an aggressive schedule...

Plan...“must reflect a timeline for completion that is as soon as practicable, and include interim safety enhancement measures, including increased patrols and leak surveys, pressure reductions, prioritization of pressure testing for critical pipelines that must run at or near [MAOP]....”

Plan must explain decision-making criteria...

Plan...“must set forth criteria on which pipeline segments were identified for replacement instead of pressure testing.”

Rate impacts must be presented...

Plan must include a rate proposal including specific rate base and expense amounts.



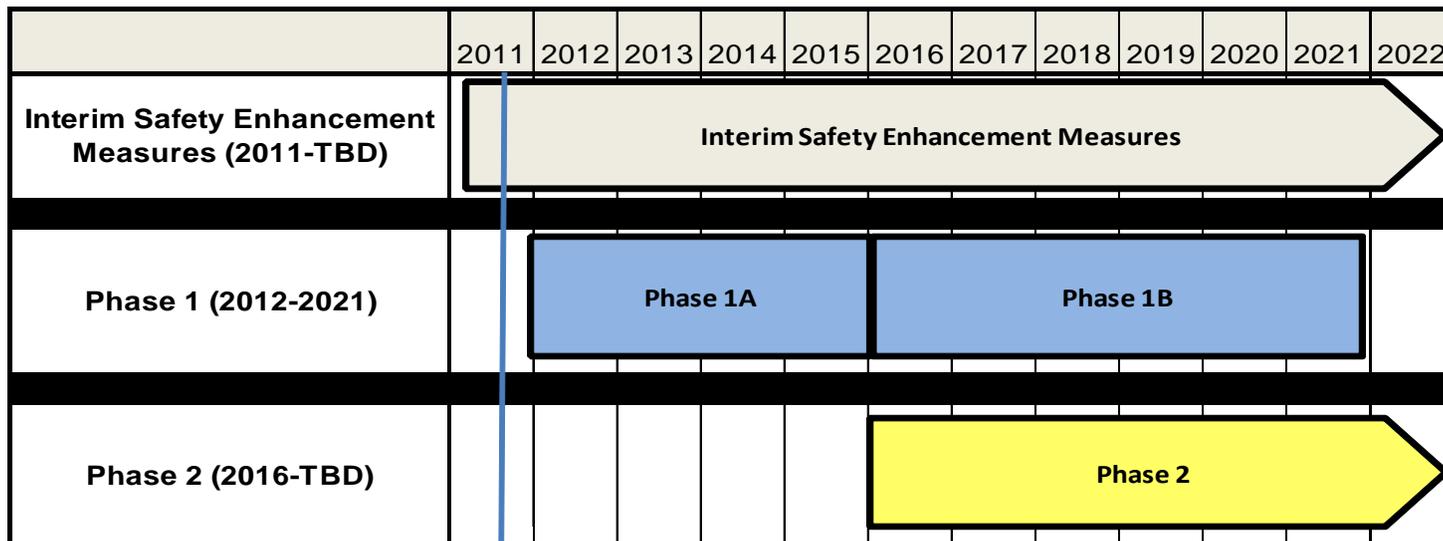
PSEP Accomplishes Four Overarching Objectives

- ❑ Enhances public safety
- ❑ Minimizes customer impacts
- ❑ Maximizes the cost effectiveness of infrastructure investments for the benefit of our customers
- ❑ Meets the requirements set forth in D.11-06-017 and sets forth a proposed process for meeting all of the Commission's directives

PSEP is Aggressive

- Includes all transmission pipelines (approximately 4,000 miles)
 - Phase 1 (2011-2021) addresses approximately 950 miles over 10 years
 - Phase 2 addresses pipelines w/o adequate pressure test data in unpopulated areas - remainder of system

- Phase 1 is divided into two parts
 - Phase 1A (2011-2015) addresses highest priority pipeline segments
 - Phase 1B (2016-2021) addresses replacement of pre-1946 pipelines and longer term replacement projects in populated areas



↑
Phase 1 Filing
8/26



Decision to Test or Replace Involves Numerous Factors

- ❑ Our proposed decision-making process takes into account:
 - 1) Whether line has been pressure tested
 - 2) The length of the pipeline segment
 - 3) Whether the segment can be removed from service to pressure test
 - 4) Whether the line is piggable
 - 5) Whether the line was constructed using pre-1946 construction techniques

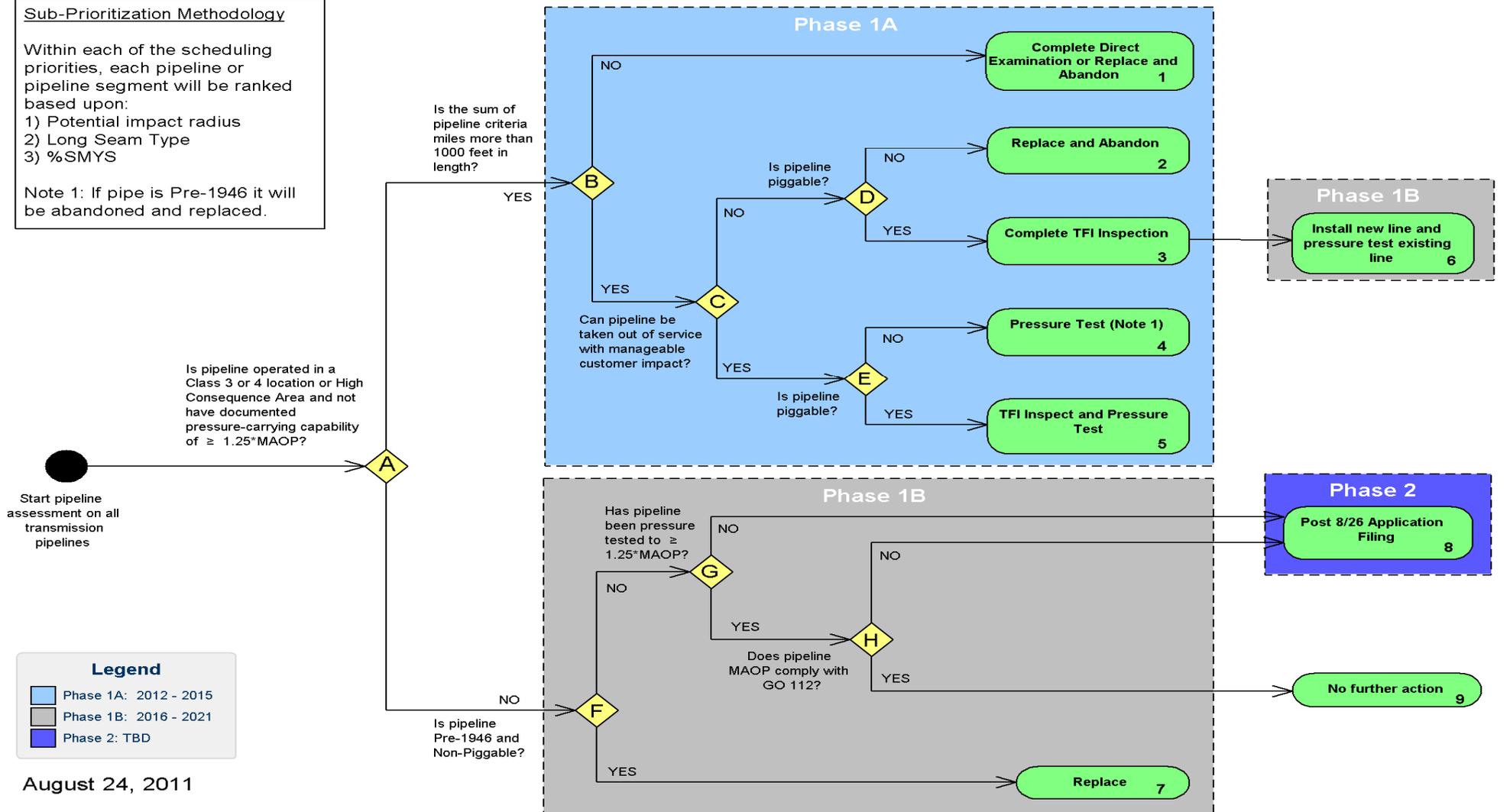
Proposed Decision Tree

Sub-Prioritization Methodology

Within each of the scheduling priorities, each pipeline or pipeline segment will be ranked based upon:

- 1) Potential impact radius
- 2) Long Seam Type
- 3) %SMYS

Note 1: If pipe is Pre-1946 it will be abandoned and replaced.



August 24, 2011

Proposed PSEP Phase 1A

□ Phase 1A Scope (2012-2015)

- Pressure test and replace pipelines primarily in populated areas that do not have sufficient documentation of strength tested.
- Upgrade existing valves and install new valves to expand remote control and automatic shut off capabilities (10 year timeframe).
- Begin installation of fiber optic cable and add methane detection devices at approximately 2,100 locations to allow for enhanced incident detection and damage avoidance.
- Develop “blueprint” of a comprehensive asset management system.



Proposed PSEP Phase 1A Scope Summary

SoCalGas	<i>Phase 1A</i>				
	2012	2013	2014	2015	2012 - 2015
Pipeline Replacement (miles)	25	74	74	74	246
Hydro testing (miles)	72	96	96	96	361
Valves	30	40	52	52	173
ILI (miles)	133	178	178	178	667

SDG&E	<i>Phase 1A</i>				
	2012	2013	2014	2015	2012 - 2015
Pipeline Replacement (miles)	5	15	15	15	49
Hydro testing (miles)	0	0	0	0	1
Valves	7	7	8	8	30
ILI (miles)	-	-	54	-	54



Proposed PSEP - Phase 1A

Estimated Direct Cost Summary

(\$ Millions)

	2011	Phase 1A (2012-2015)		Total
	O&M	Capital	O&M	
SoCalGas	6	1,184	256	1,446
SDG&E	1	229	7	237
Total	7	1,413	263	1,683

Proposed PSEP Phase 1B

□ Phase 1B Scope (2015-2021)

- Replace high priority pipelines addressed in Phase 1A that require long lead times to design and obtain necessary permits.
- Replace Pipelines segments that were installed before 1946 and are not “piggable.”
- Continue to upgrade existing valves and install new valves to expand remote control and automatic shut off capabilities.
- Continue installing fiber optic cable and add methane detection devices at approximately 2,100 locations to allow for enhanced incident detection and damage avoidance.
- Estimated direct costs for Phase 1B are \$1,459 million.

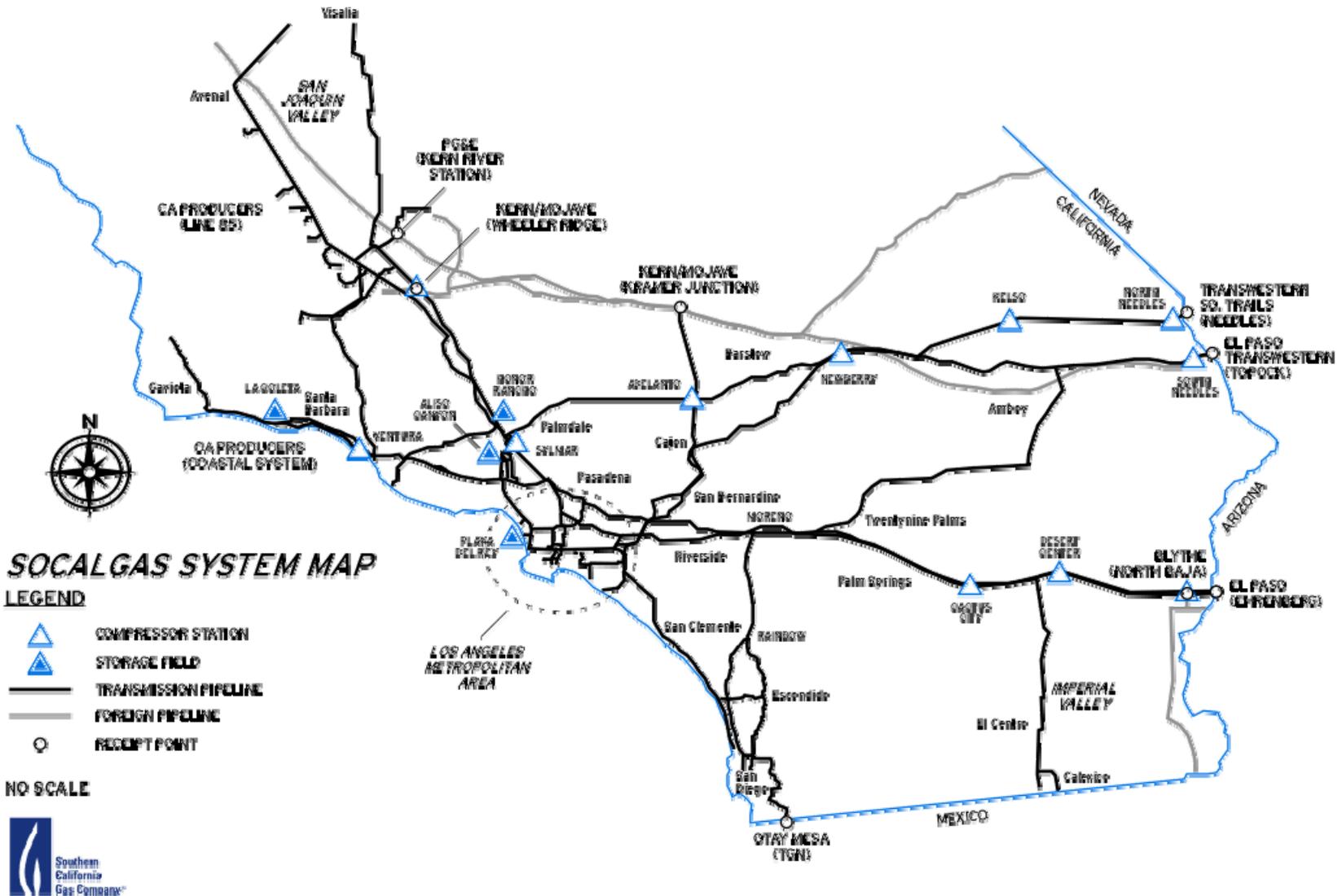


Proposed PSEP Phase 2

□ Phase 2 Scope (2015 and beyond)

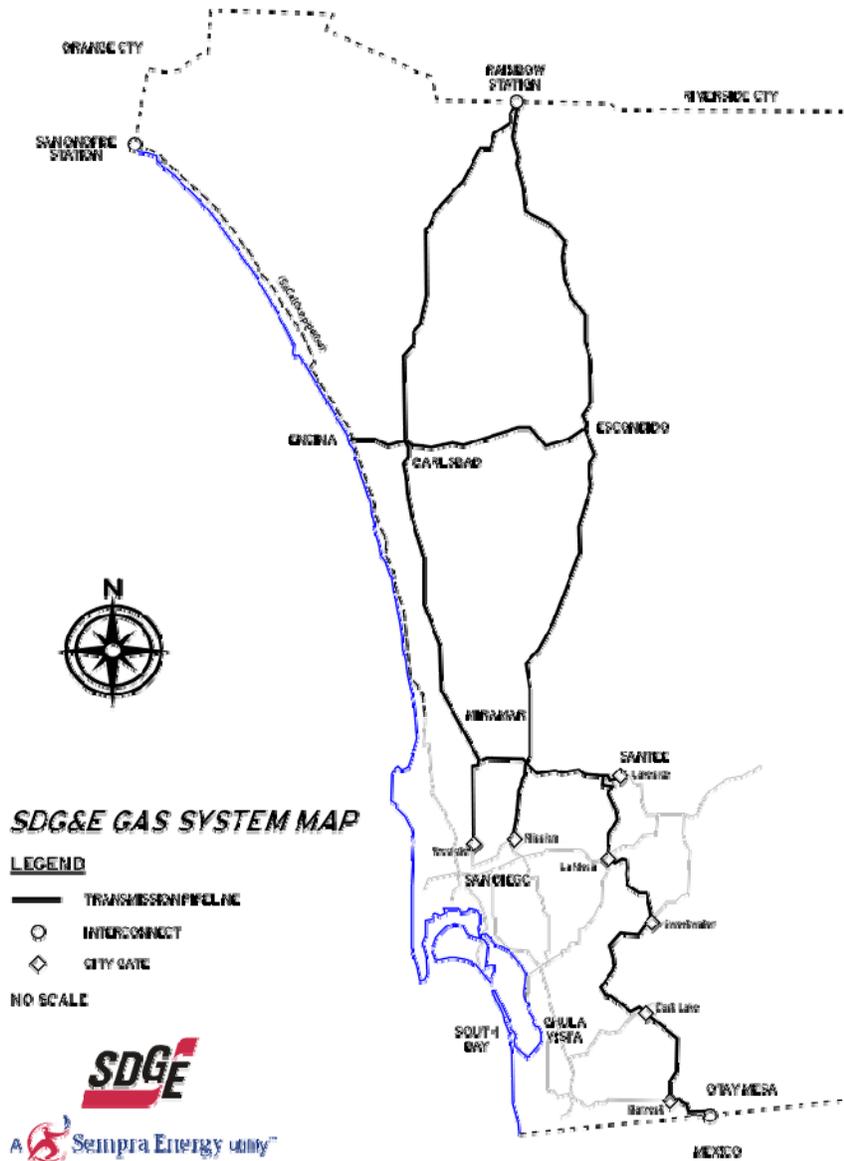
- Pressure test and/or replace pipelines primarily in unpopulated areas that do not have sufficient documentation of strength tested.
- Potential to apply new technologies in lieu of pressure testing.
- Scope to be defined.

PSEP Implementation Project Planning and Scheduling





PSEP Implementation Project Planning and Scheduling



PSEP Implementation Challenges and Risks

Potential Execution Challenges and Risks May Increase Costs or Delay Implementation.

- Continuity of gas service to customers
 - Pressure testing takes pipelines out of service; construction of secondary feeds may be necessary in some cases
 - Operational windows for pressure testing due to winter and summer capacity requirements
- Potential community issues
- Potential permitting delays
 - Environmental: CEQA, land use, water quality
 - Local government permitting and construction requirements
- Availability of material and human resources



PSEP Funding Gas Safety Surcharge to Implement Plan

□ Funding Proposal

- Requesting funding in Gas Safety OIR for Phase 1A (2011 - 2015).
- Phase 1B funding and Phase 2 scope, schedule, and funding would be addressed in conjunction with next General Rate Case.

□ Cost Recovery Proposal

- Capital expenditures are rate based.
- Revenue requirement and O&M are collected in rates via a gas safety surcharge.

Estimated PSEP Surcharge for Phase 1A

- ❑ Illustrative impacts based on the following direct costs:
 - 2011: \$7 million O&M
 - Phase 1A (2012 – 2015): \$1,413 million capital and \$263 million O&M
- ❑ Propose to allocate costs to customer classes based on an Equal Percentage of Authorized Margin (EPAM)

	Current Rates		Incremental Impact of PSEP in 2015			
			Proposed Surcharges		Proposed % Impact	
	SCG A	SDG&E B	SCG G	SDG&E H	SCG I	SDG&E J
Monthly PSEP Surcharge (\$/mo)						
Avg Residential Bill	\$39.08	\$38.76	\$2.82	\$2.83	7.2%	7.3%
Avg Res Bill w/out G-CP	\$21.98	\$23.91	\$2.82	\$2.82	12.8%	11.8%
Volumetric PSEP Surcharge (\$/th)						
Core C&I	\$0.315	\$0.249	\$0.035	\$0.035	11.0%	14.0%
NGV	\$0.089	\$0.087	\$0.010	\$0.010	11.6%	11.8%
Noncore C&I-D	\$0.074	\$0.140	\$0.010	\$0.010	13.1%	7.0%
EG-D	\$0.039	\$0.042	\$0.004	\$0.004	11.2%	10.3%
TLS	\$0.025	\$0.025	\$0.003	\$0.003	11.3%	11.4%



PSEP New Regulatory Direction

November 2, 2011

- ❑ Bifurcates and addresses PG&E and SoCalGas/SDG&E on separate tracks.
- ❑ Defers SoCalGas/SDG&E PSEP schedule to a later date.
- ❑ Considers transferring ratemaking issues to GRCs.
- ❑ Requires supplemental testimony on rate impacts of SoCalGas/SDG&E PSEPs in accordance with currently adopted cost allocation methodologies – December 2, 2011.
- ❑ Directs CPSD to prepare reports on the technical aspects of SoCalGas/SDG&E PSEP – January 3, 2012.
- ❑ Requires supplement to memo account request and comments on feasibility of addressing SoCalGas/SDG&E PSEP in Rate Case – January 13, 2012.



QUESTIONS