

Date of Hearing: March 21, 2011

ASSEMBLY COMMITTEE ON UTILITIES AND COMMERCE
Steven Bradford, Chair
AB 56 (Hill) – As Amended: March 16, 2011

SUBJECT: Public utilities: rate recovery and expenditure: intrastate pipeline safety.

SUMMARY: Implements a number of public safety measures with regard to natural gas pipeline facilities, including requiring the owner or operator of a gas pipeline to develop a public safety program and a facilities modernization program, and requiring the California Public Utilities Commission (CPUC) to track proposed repairs to gas facilities to determine if the repairs were made. Specifically, this bill:

- 1) Precludes a public utility from recovering any fine or penalty in any rate approved by the CPUC.
- 2) Requires a public utility to file quarterly reports with the CPUC and the Division of Ratepayer Advocates (DRA) describing how the utility is spending ratepayer funds.
- 3) Requires the CPUC to work in conjunction with the DRA to align ratemaking policies, practices, and incentives to better reflect safety concerns and ensure ongoing commitments to public safety.
- 4) Requires a public utility to return ratepayer funds approved for expenditure for public safety if those funds are not expended within a reasonable period of time.
- 5) Requires the CPUC to consider the safety record of the public utility when determining a reasonable rate of return.
- 6) Designates the CPUC as the state authority responsible for the development, submission, and administration of a state pipeline safety program certification for natural gas pipelines.
- 7) Requires the CPUC to adopt and enforce compatible safety standards for CPUC-regulated gas pipeline facilities that requires the owner or operator to:
 - a. Report annually on anomalies needing repair that are identified during assessments;
 - b. Evaluate the integrity of CPUC-regulated gas pipeline facilities;
 - c. Develop and implement by January 1, 2012, a continuing public education program, which includes emergency response plans and training;
 - d. Provide emergency contact information and accurate maps of facility locations to state and local emergency responders;

- e. Conduct outreach and public education relative to excavation dangers and the availability of the one-call notification program to reduce dangerous incidences caused by third-party excavations;
 - f. Prioritize pipeline facilities for the highest level of safety oversight based on their proximity to seismic active areas and develop protocols to ensure those pipelines located within a Class 3 or Class 4 high-consequence area receive the highest priority and are designed with the highest level of safety;
 - g. Comply with minimum standards established by the CPUC, in consultation with the independent review panel investigating the San Bruno natural gas pipeline explosion of 2010, to install automatic or remote shutoff valves, if feasible, by established timelines;
 - h. Maintain a record of tests on all pipelines to substantiate their current maximum allowable operating pressure, and reduce the maximum operating pressure and report the condition to the CPUC if complete records are not available.
 - i. By January 1, 2022, complete a modernization program to upgrade key facilities located in heavily populated and other critical areas.
- 8) Requires the CPUC to adopt and enforce a one-call notification program for the state consistent with the requirements adopted by the federal Department of Transportation.
- 9) Requires the CPUC to track proposed repairs for which the utility received rate recovery to determine whether the repairs are made.
- 10) Precludes a gas corporation from recovering in rates any uninsured expense resulting from a fire, explosion or other catastrophic event involving a CPUC-regulated gas pipeline facility that resulted from negligence by the utility.

EXISTING LAW:

- 1) Federal law requires the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) to adopt minimum safety standards for pipeline transportation and for pipeline facilities, including an interstate gas pipeline facility and intrastate gas pipeline facility.
- 2) Federal law authorizes the Secretary of Transportation to prescribe or enforce safety standards and practices for an intrastate pipeline facility or pipeline transportation under certain conditions.
- 3) Authorizes a state authority under specified conditions to adopt additional or more stringent safety standards for intrastate pipeline facilities and pipeline transportation only if those standards are compatible with the minimum standards prescribed by PHMSA.

FISCAL EFFECT: Unknown.

COMMENTS: According to the author, the purpose of this bill is to ensure that California develops new regulations and standards for the safe and reliable operation of natural gas pipelines in the state. The author notes that on September 9, 2010, a 30-inch PG&E natural gas transmission pipeline in San Bruno exploded. The explosion claimed 8 lives and devastated a neighborhood. Nothing can replace the loss of a loved one or repair the trauma of a life-changing tragedy like San Bruno. The author states, "As lawmakers, we have the opportunity and the obligation to take every step possible to ensure that the lessons of this tragedy are well learned and that the circumstances are not repeated."

The author states, "Federal and state hearings and investigations have revealed serious flaws in existing regulations and in how the state oversees the owner and operators of natural gas pipelines in California." On December 7, 2010, Assemblymember Hill held a Town Hall in San Bruno to elicit information from the CPUC, PG&E, and utility experts to shed light on the cause of the explosion, and to try to discern whether the integrity of the natural gas transmission pipeline infrastructure is compromised due to age, ineffective inspection techniques, seismic activity, or other factors, or whether this was an unfortunate and isolated event. The Town Hall also provided members of the public an opportunity to ask questions of those tasked with ensuring their safety. Assemblymembers Bradford, Ma, Ammiano, and Fong participated in the Town Hall and visited the site. The author states that this bill seeks to address some of the deficiencies discovered in the ensuing meetings and informational investigations. "AB 56 seeks to ensure that the CPUC is regulating the industry adequately; that utilities companies are operating safely and that there is increased accountability and transparency in how California manages its pipeline infrastructure."

1) Horrorific tragedy: On September 9, 2010, a natural gas transmission pipeline exploded in San Bruno. The explosion killed 8 people, injured numerous others, and leveled 37 homes. The exact cause of the explosion is still unknown; however, there are many circumstances that may have contributed. The CPUC immediately had an inspector onsite in San Bruno, and has since been working closely with the National Transportation Safety Board (NTSB) to investigate the cause of the San Bruno explosion.

2) The CPUC's actions: The CPUC is the agency with primary state jurisdiction over all matters pertaining to safety and reliability matters for investor-owned gas utilities, mobile home parks, and propane systems. The CPUC has made numerous directives to PG&E as part of its investigation and to ensure public safety. The CPUC ordered PG&E to immediately reduce pressure in the affected pipeline, inspect its natural gas system, preserve all records, report on authorized versus actual levels of spending on pipeline maintenance, and evaluate customer leak complaint records. In addition, the CPUC hired four additional gas pipeline inspectors in its Consumer Protection and Safety Division, ordered PG&E to provide a list of its top 100 long-range transmission planning projects, automatic valve information, and comprehensive data used to determine operating pressures on all segments of pipes in its system.

On September 23, 2010, the CPUC established an expert Independent Review Panel to conduct a comprehensive study and investigation of the explosion, including examining the root causes and making recommendations for action by the CPUC to best ensure such an accident is not repeated elsewhere. The Panel's recommendations may include changes to design, construction, operation, maintenance, and replacement of natural gas facilities; management practices at PG&E in the areas of pipeline integrity and public safety; regulatory changes by the CPUC itself; statutory changes to be recommended by the CPUC on the state and national level; whether there

may be systemic management problems at PG&E and whether greater resources are needed to achieve fundamental infrastructure improvements; and other recommendations deemed appropriate by the Panel.

On January 3, 2011, the NTSB discovered that PG&E may have misidentified natural gas pipes. Some have suggested that may have led to the pipeline being operated at a higher pressure than it otherwise should have. While federal law does not recognize a clear difference in how such pipelines should be operated, the CPUC responded and ordered PG&E to reduce pressure on all other pipelines that were of the same size and age as the pipeline in San Bruno where verifiable records had not been reviewed to determine the appropriate operating pressure. The CPUC also directed the state's other natural gas pipeline operators - Southern California Gas Company, San Diego Gas & Electric Company, and Southwest Gas Corporation - to report on the steps they were taking in response to the NTSB's recommendations.

On February 24, 2011, the CPUC opened a proceeding to set new rules for the safe and reliable operation of natural gas pipelines in California, provide the public with the Independent Review Panel's expert recommendations, develop and adopt safety related changes to the CPUC's regulation of natural gas transmission pipelines, including requirements for construction, especially shut-off valves, maintenance, inspections, operation, record retention, ratemaking, and the application of penalties, and perform other elements included in this bill.

3) NTSB's actions: The NTSB commenced its investigation and discovered that the ruptured pipeline segment was installed circa 1956. The specified maximum operating pressure for the ruptured pipeline was 375 pounds per square inch gauge (psig). According to PG&E, the maximum allowable operating pressure for the line was 400 psig. According to NTSB, just before the accident, PG&E was working on their uninterruptable power supply (UPS) system at the Milpitas Terminal, which is located about 39 miles southeast of the accident site. During the course of this work, the power supply from the UPS system to the supervisory control and data acquisition system malfunctioned so that instead of supplying a predetermined output of 24 volts of direct current, the UPS system supplied approximately 7 volts of direct current or less to the data system. Because of this anomaly, the electronic signal to the regulating valve was lost. The loss of the electrical signal resulted in the regulating valve moving from partially open to the full open position as designed. The pressure then increased to 386 psig. The over-protection valve, which was pneumatically activated and did not require electronic input, maintained the pressure at 386 psig.

The NTSB also discovered that the PG&E survey sheets and charts for the rupture location indicate that the pipeline was constructed of 30-inch-diameter seamless steel pipe (API5L Grade X42) with a 0.375-inch thick wall. Actual inspection indicated the pipeline in the area of the rupture was constructed, at least in part, with seam-welded pipe. This led to the January 3, 2011, safety recommendations, which directed PG&E to conduct an intensive records search to identify and validate a safe operating pressure for the pipelines.

On March 1-3, 2011, the NTSB held a 3-day public hearing to gather additional factual information for the ongoing investigation into the natural gas pipeline rupture and explosion that occurred in San Bruno. The goal of the hearing was for the NTSB to learn more about the issues identified in the San Bruno pipeline rupture accident. The NTSB did not provide a date by which it expects to have its investigation complete. Instead, it states, "Analysis of the accident, along with conclusions and a determination of probable cause, will come at a later date when the

final report on the investigation is completed." This investigation may not be complete until September 2011.

4) PG&E's actions: In October 2010, PG&E announced Pipeline 2020 Program, a program with five areas of focus to strengthen the utility's natural gas transmission system. The program has five areas of focus, including: (1) modernizing critical pipeline infrastructure, expanding the use of automatic or remotely operated shut-off valves; (3) spurring the development of next-generation inspection technologies; (4) developing industry-leading best practices; and (5) enhancing public safety partnerships. Some of the requirements in this bill will facilitate the goals of the Pipeline 2020 Program, in particular, the compatible safety standards.

5) Do you get what you pay for: Shortly after the San Bruno explosion, The Utility Reform Network (TURN) released workpapers that PG&E submitted to the CPUC in 2007 indicating that the cost of repairs for a section of natural gas pipeline within miles of the San Bruno explosion were included in rates as of 2009, although the work has not yet been done. The section of pipe in South San Francisco, just north of San Bruno, had been identified as high risk. The CPUC responded that it authorizes the recovery of expenditures for deferred maintenance; however, it does not follow up with each project to ensure that the project for which it authorized actually gets completed. The CPUC provides PG&E the flexibility to use maintenance funds on the projects PG&E deems highest priority at the time. This bill would require the CPUC to track the repairs to ensure the repairs either get completed, or the funds are returned to ratepayers.

REGISTERED SUPPORT / OPPOSITION:

Support

Pacific Gas and Electric Company (PG&E) (if amended)

Opposition

San Diego Gas & Electric (SDG&E) (unless amended)

Southern California Gas Company (SoCalGas) (unless amended)

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