

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

In The Matter of the Application of San Diego Gas
& Electric Company (U 902 G) and Southern California
Gas Company (U 904 G) for a Certificate of Public
Convenience and Necessity for the Pipeline Safety &
Reliability Project

Application 15-09-013
(Filed September 30, 2015)

**PREHEARING CONFERENCE STATEMENT OF
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) AND
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)**

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September 16, 2016

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Pursuant to the Administrative Law Judge’s Ruling on Providing Notice of Prehearing Conference (Ruling) issued on August 15, 2016 in the above-captioned proceeding, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (together, Applicants) hereby respectfully submit their prehearing conference (PHC) statement.

I. INTRODUCTION

Pursuant to California Public Utilities Code (P.U. Code) Section 958 and California Public Utilities Commission (Commission) Decision (D.) 11-06-017, Applicants must pressure test¹ or replace Line 1600, or remove it from transmission service. P.U. Code Section 958 and D.11-06-017 calls for such action “as soon as practicable.” This Application seeks a Certificate of Public Convenience and Necessity (CPCN) for the Pipeline Safety and Reliability Project (PSRP or Proposed Project), to replace existing Line 1600 with a larger diameter pipeline and de-rate Line 1600 to distribution service. In their Application, Amended Application, served prepared direct testimony and a comprehensive Cost-Effectiveness Analysis (CEA), Applicants have explained that PSRP will enhance safety, increase reliability, and provide operational flexibility to ensure continuous service.

Applicants respectfully request that the Commission bifurcate evidentiary hearings, consistent with prior Commission proceedings, so that the Commission can promptly address key issues that will inform the remainder of this proceeding. Because P.U. Code Section 958 and D.11-06-017 require Applicants to undertake a project with respect to Line 1600, this

¹ Pressure test and hydrotest are used interchangeably in this PHC Statement.

Application presents the Commission with the question of which project best serves the public convenience and necessity. Applicants believe the PSRP does so while intervenors disagree.² Evidentiary hearings will provide the Commission with evidence regarding the feasibility, reasonableness (cost-effectiveness), and prudence of the PSRP and alternative projects. Critically, the Commission will then be able to advise the parties whether the public convenience and necessity are best served by pressure testing Line 1600 to keep the 1949-era line in transmission services a while longer or by constructing a new state-of-the-art transmission pipeline. The Commission's determination may render future evidentiary hearings unnecessary; at the very least it will expedite and streamline this proceeding consistent with the "as soon as practicable" mandate.

While the parties move forward with evidentiary hearings on these critical issues, Energy Division should move forward with California Environmental Quality Act (CEQA) review on a parallel track. Energy Division has deemed the Proponents' Environmental Assessment (PEA) complete. Energy Division has indicated that, once it completes its Memorandum of Understanding (MOU) with the United States Marine Corps (USMC) and Caltrans, it can proceed with CEQA scoping meetings and developing information for a draft Environmental Impact Report (EIR). As in other CPCN proceedings, environmental impact issues should be addressed through Energy Division's CEQA process.

Applicants set forth below their proposals on issues within the scope of this proceeding, issues subject to evidentiary hearings, issues to be addressed in a first phase of evidentiary hearings, discovery, the Otay Mesa alternative cost estimate, and schedule.

II. PROPOSED ISSUES WITHIN THE SCOPE OF THIS PROCEEDING, AND WHETHER SUCH ISSUES ARE SUBJECT TO EVIDENTIARY HEARINGS

Based upon Commission decisions in other CPCN proceedings,³ Applicants propose that the following issues are within the scope of this proceeding:

² Intervenors' protests, and the Joint Assigned Commissioner and Administrative Law Judge's Ruling Requiring an Amended Application and Seeking Protests, Responses, and Replies (Joint Ruling), sought additional information and cost-effectiveness analysis comparing the PSRP to various alternatives. Applicants provided such information in the Application Amendment, served testimony and the CEA. Intervenors' protests of the Application Amendment proffer alternatives to the PSRP.

³ This proposal is a slight adaptation of the issues set forth in the Assigned Commissioner's Scoping Memo and Ruling at 3-4 (August 25, 2014) in Application (A.) 14-04-011, *In Re: Application of SDG&E for a CPCN for the Sycamore- Peñasquitos 230 Kilovolt Transmission Line Project* (SXPQ Scoping Memo). *See also*, e.g., D.10-12-052 at 7-8 (December 16, 2010); A.13-10-020, *In Re: Application of*

1. Does the Proposed Project serve a present or future public convenience and necessity? This issue, along with issue no. 2, encompasses consideration of whether the Proposed Project is a cost-effective means of providing that service. It also encompasses consideration of whether the Proposed Project is needed to ensure the safe and reliable function of SDG&E's gas transmission system.
2. What is the maximum prudent and reasonable cost of the project (if approved)?
3. What are the significant adverse environmental impacts of the Proposed Project? This issue encompasses consideration of recreational and park areas (P.U. Code § 1002(a) (2)), historical and aesthetic value (P.U. Code § 1002(a)(3)), and influence of the environment (P.U. Code § 1002(a)(4)).
4. Are there potentially feasible mitigation measures or project alternatives that will avoid or lessen the significant adverse environmental impacts? This issue encompasses consideration of how to design the Proposed Project in a manner that ensures its safe and reliable operations.
5. As between the Proposed Project and the project alternatives, which is environmentally superior?
6. Are the mitigation measures or project alternatives infeasible? This issue encompasses consideration of impacts on community values. (P.U. Code § 1002(a)(1).)
7. To the extent that the Proposed Project and/or project alternatives result in significant and unavoidable adverse environmental impacts, are there overriding considerations that nevertheless merit Commission approval of the Proposed Project or project alternative?
8. Was the EIR completed in compliance with CEQA, did the Commission review and consider the EIR prior to approving the project or a project alternative, and does the EIR reflect the Commission's independent judgment?
9. Does the project design comport with Commission rules and regulations and other applicable standards governing safe and reliable operations?

The Commission previously has indicated that certain issues should be addressed through the CEQA process. As stated in the SXPQ Scoping Memo: "Issues no. 3, 4 and 5 (environmental impacts, mitigation measures and alternatives, and environmentally superior

Southern California Edison for a CPCN for the West of Devers Upgrade Project Assigned Commissioner's Scoping Memo at 4-5 (August 24, 2015) (WODUP Scoping Memo); A.12-05-020, In Re: Application of SDG&E for a CPCN for the South Orange County Reliability Enhancement Project, Scoping Memo and Ruling of Assigned Commissioner at 7-9 (Feb. 23, 2015) and Assigned Commissioner's Ruling Identifying Issues Requiring Evidentiary Hearing at 3-4 (March 30, 2015). Although these Commission decisions address CPCN applications for electric transmission projects, the relevant issues are the same other than whether the project complies with the Commission's policy on electric and magnetic fields (EMF).

alternative) are material factual issues. However, they are properly addressed in the course of the CEQA environmental review process and preparation of the EIR. To the extent any party or member of the public wishes to present evidence on these issues, they should do so in the course of that environmental review process. ... No formal evidentiary hearings or further evidence are needed on these issues.”⁴ The Commission also found that Issue 7 is a policy decision and Issue 8 is a legal issue on which further evidence and hearings were not needed.⁵

III. PROPOSED ISSUES FOR “PHASE 1” EVIDENTIARY HEARINGS

As noted above, P.U. Code Section 958 and Commission D.11-06-017 require Applicants to pressure test or replace Line 1600, or remove it from transmission service. Applicants submit that replacing Line 1600’s transmission function with a new, larger diameter pipeline and de-rating Line 1600 to distribution service best serves the public convenience and necessity.

Applicants contend that the public convenience and necessity are not best served by hydrotesting Line 1600, which would cost an estimated \$112.9 million in direct costs,⁶ leave a 1949 era pipeline with known hook cracks and manufacturing anomalies in transmission service in high consequence areas until future replacement, and not improve the reliability and resiliency of SDG&E’s gas transmission system. Certain intervenors seem to propose this approach.⁷ Other intervenors suggest simply de-rating Line 1600, without replacing its transmission capacity or arranging for firm pipeline capacity to the Otay Mesa receipt point, despite the reduction in reliability and resiliency for SDG&E gas service.⁸ Intervenors also suggest de-rating Line 1600 and arranging for firm pipeline capacity to the Otay Mesa receipt point in an

⁴ SXPQ Scoping Memo at 4; *accord, e.g.*, WODUP Scoping Memo at 5; A.12-05-020, *In Re: Application of SDG&E for a CPCN for the South Orange County Reliability Enhancement Project*, Assigned Commissioner’s Ruling Identifying Issues Requiring Evidentiary Hearing at 3-4 (March 30, 2015); D.10-12-052 at 8-9 (December 16, 2010).

⁵ SXPQ Scoping Memo at 4-5; *accord, e.g.*, WODUP Scoping Memo at 6; A.12-05-020, *In Re: Application of SDG&E for a CPCN for the South Orange County Reliability Enhancement Project*, Assigned Commissioner’s Ruling Identifying Issues Requiring Evidentiary Hearing at 3-4 (March 30, 2015).

⁶ Prepared Direct Testimony of Neil Navin at 29, served March 21, 2016.

⁷ Southern California Generation Coalition Protest off Amended Application (SCGC Protest) at 11-12; Protest of Utility Consumers’ Action Network (UCAN) to the Amended Application (UCAN Protest) at 4-5; Protest of The Utility Reform Network to Amended Application (TURN Protest) at 4-5; Protest of Sierra Club to Amended Application at 13-14.

⁸ SCGC Protest at 4-7; TURN Protest at 3.

effort to maintain reliability and resiliency.⁹ Assuming a new pipeline is the best solution, intervenors may opine on the appropriate size.¹⁰

Applicants propose “Phase 1” evidentiary hearings to address which type of project best serves the public convenience and necessity: pressure testing Line 1600; constructing a replacement pipeline; de-rating Line 1600 alone; de-rating Line 1600 plus contracting for firm pipeline capacity to Otay Mesa; de-rating or pressure testing Line 1600 plus some level of battery storage; or de-rating or pressure testing Line 1600 plus Liquefied Natural Gas (LNG) storage. Commission approval of a specific project would await completion of Energy Division’s CEQA process to allow the Commission to assess the environmental impacts of the PSRP and feasible project alternatives, including routing alternatives for any pipeline project.

Applicants propose the following issues for resolution in Phase 1:

1. Is it feasible, reasonable/cost-effective, and prudent to de-rate Line 1600 to distribution pressure without any other changes to the SDG&E gas transmission system or contracting for firm pipeline capacity to SDG&E’s Otay Mesa receipt point?
2. Is it feasible, reasonable/cost-effective and prudent to pressure test Line 1600 and return it to transmission service without any other changes to the SDG&E gas transmission system?
3. Is it feasible, reasonable/cost-effective and prudent to de-rate Line 1600 to distribution pressure, and contract for firm pipeline capacity to Otay Mesa to meet any needs of the SDG&E gas system?
4. Is it feasible, reasonable/cost-effective and prudent to (a) de-rate Line 1600 to distribution pressure or pressure test Line 1600, and (b) install battery storage to provide electric reliability for SDG&E customers in the event of gas curtailment to electric generation customers?
5. Is it feasible, reasonable/cost-effective and prudent to (a) de-rate Line 1600 to distribution pressure or pressure test Line 1600, and (b) install LNG storage facilities to serve (i) SDG&E electric generation customers to provide electric reliability for all SDG&E customers in the event of gas curtailment to such electric generation customers and (ii) all SDG&E customers in the event of gas curtailment—including core and non-core.
6. Is it feasible, reasonable/cost-effective and prudent to de-rate Line 1600 to distribution pressure and construct a new pipeline to meet any needs of the SDG&E gas transmission system? If so, what is the appropriate diameter for such a pipeline?

⁹ SCGC Protest at 8-10; *see also* Joint Ruling at 13.

¹⁰ TURN Protest at 2; *see also* Joint Ruling at 13.

7. Of the feasible, reasonable/cost-effective and prudent potential projects, which best serves the public convenience and necessity?

Applicants believe that Commission resolution of these issues may eliminate the need for subsequent evidentiary hearings, depending upon the outcome of the CEQA process. In all events, it would narrow any future testimony and hearings on the feasibility of alternatives identified in the Final Environmental Impact Report (Final EIR). Any remaining issues, such as the cost of an alternative pipeline route, might be resolved by stipulation.

IV. DISCOVERY AND POTENTIAL STIPULATIONS

To facilitate moving forward with evidentiary hearings, Applicants propose that the Commission: (a) instruct the parties to meet to discuss proposed stipulations of fact, and (b) impose a stay on discovery during each side's preparation of testimony for the Phase 1 hearings.

Based upon Intervenors' protests and robust discovery thus far, it seems that the parties may be able to stipulate to a number of facts. If so, that should streamline testimony and cross-examination. Obviously, no party is required to stipulate to any fact and Applicants do not suggest an exhaustive process seeking such agreement. That said, a face to face meeting to discuss proposed stipulated facts would provide an opportunity for agreement. If the parties found it useful, they could continue discussions.

Under the proposed schedule below, Applicants would submit supplemental testimony once the Scoping Memo identifies specific issues for evidentiary hearings, followed by Intervenor testimony, and then Applicants' rebuttal testimony. Applicants propose a stay on discovery against the parties during the period when a party is preparing testimony—in other words, discovery against Applicants would be stayed while Applicants are preparing supplemental testimony, discovery against Intervenors would be stayed while Intervenors are preparing testimony, and discovery against Applicants would be stayed while Applicants are preparing rebuttal testimony.

Applicants served their CEA and the prepared testimony of eleven witnesses on March 21, 2016, now six months ago. As of September 15, 2016, Applicants have received 41 data requests from the Office of Ratepayer Advocates (constituting approximately 769 separate questions including subparts), as well as 5 data requests from Sierra Club, 2 data requests from UCAN, 5 data requests from TURN and 6 data requests from SCGC. Applicants also have received and responded to numerous data request questions from Energy Division.

While Applicants are willing to respond to relevant data requests from Intervenors, Applicants' witnesses cannot research and prepare testimony while they are responding to a new deluge of data requests each week. Moreover, Intervenors' questions may be answered by Applicants' supplemental or rebuttal testimony, just as Applicants' questions may be answered by Intervenors' testimony. Therefore, Applicants propose the discovery stays set forth above.

V. ESTIMATED COST OF OTAY MESA CONTRACTING ALTERNATIVES

The Joint Ruling requested information about a contractual alternative, which Applicants understand to be de-rating Line 1600 and contracting for firm pipeline capacity to the Otay Mesa receipt point. The cost of incremental firm transportation on the North Baja Pipeline Systems is comprised of capacity across three pipelines: North Baja Pipeline, Gasoducto Rosarito and Transportadora de Gas Natural de Baja California (TGN). For the CEA, Applicants estimated the cost of firm capacity of 400 MMcfd to Otay Mesa based on an estimated cost of constructing new pipeline facilities to expand the Mexico pipeline system, as it did not appear that 400 MMcfd of capacity would exist without such expansion.

Energy Division requested information regarding whether contracting for firm capacity of other quantities of gas at Otay Mesa could be less expensive. Applicants noted that they do not own or operate the pipeline infrastructure, much of which is located in Mexico, required to deliver gas at Otay Mesa. Applicants also pointed out that some of the Mexican pipelines are operated by non-utility affiliates, and therefore Applicants are constrained by Affiliate Compliance Rules from seeking offers from such affiliates. Further, Applicants have indicated that under the current gas industry market structure, customers are responsible for nominating their own gas supplies to any of the SoCalGas/SDG&E receipt points, so that the guarantee of gas supply at a particular receipt point cannot be assured by the utilities. Finally, Applicants stated that, if Energy Division wished Applicants to seek offers from the operators of the North Baja Pipeline Systems, the Commission should ask Applicants to make such a request due to the Affiliate Compliance Rules and to avoid possible misinterpretation by Intervenors. At Energy Division's request, on July 15, 2016 Applicants provided a confidential draft Request for Proposals (RFP) for Commission review, both to ensure that it solicits the information that Energy Division seeks to obtain and that Commission management agrees Applicants should seek offers from an affiliate. To date, Applicants have not heard back.

If the Commission wishes Applicants to pursue an RFP for multi-year firm capacity to the Otay Mesa receipt point, then Applicants request that the Scoping Memo direct Applicants to do so. Applicants will then work with Energy Division to finalize the RFP.

VI. PROPOSED SCHEDULE

Applicants submit that an expedited schedule for this proceeding is warranted and practicable. Line 1600 is a 1949 era pipeline with known hook cracks and manufacturing anomalies. Due to its location in populated areas, Line 1600 is categorized as a priority, “Phase 1” pipeline safety project under Applicants’ Pipeline Safety Enhancement Plan (PSEP), which was approved by the Commission in D.14-06-007. On August 18, 2016, the Commission adopted Resolution SED-1 ratifying “Emergency Mandates” issued by the Commission’s Executive Director on July 8, 2016 to increase the safety margin of Line 1600. In doing so, the Commission found that the safety data concerning Line 1600 “does not show conclusively that Line 1600 is unsafe for any purpose, nor does it show conclusively that it is safe as it is currently being used.”

For these reasons, Applicants propose an expedited schedule that preserves the opportunity for the Commission to render a final decision on Line 1600 as early as December 2017, which would in turn allow for Line 1600 to be de-rated to distribution service and brought into compliance with P.U. Code Section 958 and D.11-06-017.

Applicants propose the following schedule to complete the Phase 1 evidentiary hearings and the CEQA process. Applicants suggest that a further Prehearing Conference be set following issuance of the Final EIR, and a schedule for events thereafter be determined then. If the Commission directs Applicants to issue an RFP for firm delivery of capacity to the Otay Mesa receipt point, then the dates should be adjusted to ensure Applicants have at least 30 days following the RFP response deadline to analyze any offers and include the relevant information in its Supplemental Prepared Testimony.

Table 1 – Applicants’ Proposed Schedule

Date	Action
September 22, 2016	Prehearing Conference
October 7, 2016	Scoping Memo Issued
October-December, 2016	CPUC MOU with USMC and Caltrans Finalized; CEQA Scoping Meetings Noticed and Held
30 days after Scoping Memo	Applicants Supplemental Opening Testimony on Phase 1 Issues served
60 days after Scoping Memo	Intervenors’ Testimony on Phase 1 Issues served
90 days after Scoping Memo (plus additional days equivalent to any days falling between December 17 to January 2)	Applicants’ Rebuttal Testimony on Phase 1 issues served
10 days after Rebuttal Testimony served	Evidentiary Hearings on Phase 1 Issues
21 days after close of Evidentiary Hearings	Concurrent Opening Briefs filed
14 days after Opening Briefs	Concurrent Reply Briefs filed
May 2017	Proposed Decision on Phase 1 Issued
May 2017	Comments on Proposed Decision
May 2017	Reply Comments on Proposed Decision
June 2017	Commission Decision on Phase 1 Issues
June 2017	Draft EIR Issued for Public Comment
July 2017	Close of Public Comment Period on DEIR
August 2017	Final EIR Issued

