DRA
DIVISION OF RATEPAYER ADVOCATES

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# DRA Recommends SoCalGas Shareholders, Not Customers, Should Bear Majority Of Gas Pipeline Safety Upgrade Costs

SAN FRANCISCO, June 20, 2012 – The Division of Ratepayer Advocates (DRA), the independent consumer advocacy division within the California Public Utilities Commission (CPUC), on Tuesday recommended that shareholders of Southern California Gas Company (SoCalGas), *not ratepayers*, should fund the vast majority of the utility's natural gas pipeline safety upgrade costs, due to the company's failure to maintain its pipeline system as required under state and federal rules.

In August 2011, SoCalGas's parent company, Sempra, submitted a plan for safety upgrade measures that it estimates will cost $1.4 billion for high-priority pipeline testing, repairs, and renovations to be implemented from 2012 to 2015. SoCalGas has asked the CPUC for the authority to charge its customers for $587 million of those costs during the years 2012-2015. The remaining costs will be collected from ratepayers over a longer period of time. DRA found that SoCalGas offered no engineering or cost-benefit analysis, or any other studies, to support the level of work it proposes to undertake. While SoCalGas should continue testing its pipelines and replacing them where necessary, SoCalGas should provide a long-term Modernization Plan based on up-to-date and complete data for work needed beyond this initial phase.

On June 19, DRA submitted testimony to the CPUC concluding that much of the work that SoCalGas was planning to perform, at ratepayer expense, goes beyond the CPUC's directives, which were aimed at addressing high-priority safety measures. DRA recommends that SoCalGas focus on testing the safety of its highest priority pipelines.

"SoCalGas needs to concentrate on insuring the pipeline system is safe and not on using this occasion to add to their bottom line with unsupported and possibly unnecessary system enhancements" said Joe Como DRA's acting director. "It's wrong to ask customers to pay for upgrades that SoCalGas cannot demonstrate are needed."

DRA specifically recommends:

- Ratepayers should only pay for hydrostatic pressure testing of natural gas transmission pipelines installed before 1935.
- SoCalGas shareholders should pay all expenses for hydrostatic testing of natural gas transmission pipelines installed from 1935 onwards and for which a reliable record of a pressure test cannot be located.
- Shareholders should pay for the replacement of pipelines installed since 1955 for which a reliable record of a pressure test cannot be located.

SoCalGas's rate of return on equity on the replacement of pipelines installed between 1935 and 1955, for which a reliable record of a pressure test cannot be located, should be set significantly lower than its currently authorized rate of return. DRA's recommendations are based on the fact that the gas utilities have been responsible for complying with various safety laws and industry guidelines in existence over the past 70+ years. Customers have been paying SoCalGas to provide safe and reliable service according to those laws and guidelines.

As for the proposed upgrades, "SoCalGas customers need to be protected from the significant uncertainties of the utility's pipeline upgrade proposal," said Como. "To ensure that funds are spent prudently and only for their intended purpose, the CPUC should require that unspent funds are returned to customers."

You can find additional summaries and access DRA's testimony on DRA's Natural Gas Pipeline Safety webpage.

For more information on DRA, please visit www.dra.ca.gov.