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Witness : Roberts  
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**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the  
Pipeline Safety Enhancement Plan of  
Pacific Gas and Electric Company**

Pipeline Modernization Plan

**R.11-02-019**

San Francisco, California

January 31, 2012

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1 **1. SUMMARY OF TESTIMONY**

2 This testimony provides overall analysis of Pacific Gas and Electric  
3 Company's (PG&E's) Pipeline Safety Enhancement Plan Pipeline Modernization  
4 Plan (PSEP Pipeline Plan) and DRA's recommendations on this portion of  
5 PG&E's Pipeline Safety Enhancement Plan (PSEP). This testimony builds upon  
6 and incorporates the expert testimonies of the Division of Ratepayer Advocates  
7 (DRA) witnesses Rondinone, Delfino, and Scholz, which are provided in Exhibits  
8 DRA-4, DRA-5, and DRA-6 respectively. Those testimonies are summarized  
9 within this exhibit, and used to develop recommended cost adjustments and  
10 general recommendations aimed at improving the effectiveness, and cost-  
11 effectiveness, of the PESP.<sup>1</sup>

12 DRA analyzed the following key elements of the PSEP Pipeline Plan to  
13 evaluate the quality and cost effectiveness of the plan, and to support the  
14 recommendations herein:

15 Overall, DRA found that the PSEP Pipeline Plan provides a reasonable "study  
16 or feasibility" estimate, consistent with the Association for the Advancement of  
17 Cost Engineering (ACEC) International Class 4 estimate PG&E requested from its  
18 consultant, Gulf International.<sup>2</sup> However, this estimate should not be mistaken for  
19 a more detailed and accurate budget authority or bid estimate, provided by ACEC  
20 Class 3, 2, or 1 cost estimates. Fundamentally, cost recovery for a multi-billion  
21 dollar four-year project should not be based on a feasibility study cost estimate.  
22 Additionally, DRA found significant flaws within PG&E's decision tree, the  
23 project PSEP Pipeline Implementation Plan, project and cost models, and the  
24 application of these models. Key findings include:

25

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<sup>1</sup> In this testimony cost effectiveness refers to simultaneously maximizing safety while minimizing costs, rather than a rigorous analysis to determine whether program benefits exceed program costs.

<sup>2</sup> Pacific Gas and Electric Company Pipeline Safety Enhancement Plan Prepared Testimony dated August 26, 2011, as filed in R.11-02-019 (PG&E Testimony), p.7-25, Figure 7-3.

- 1 1. PG&E’s PSEP Pipeline Plan is based on preliminary and incomplete  
2 evaluation of PG&E’s records, and results from the Maximum Allowable  
3 Operating Pressure (MAOP) validation process. (Section 3)
- 4 2. The MAOP validation process should be completed by February 2012 for  
5 HCA pipelines, to support updates to the PSEP Pipeline Plan in 2012, but  
6 the impact of revised High consequence area (HCA) classifications are  
7 uncertain. (Section 3)
- 8 3. PG&E’s decision tree (DT) requires an excessive number of pipeline  
9 segments for replacement, when they should be hydrotested. (Section 4)
- 10 4. PG&E’s DT requires an excessive number of pipeline segments to be  
11 included in Phase 1, rather than later or subsequent Phases. (Section 4),
- 12 5. PG&E’s PSEP Pipeline Implementation Plan is not consistent with the DT:  
13 In Phase 1, it includes many unnecessary segments, and omits some which  
14 should be included. (Section 4)
- 15 6. Approximately two-thirds of PG&E’s Phase 1 costs are driven by  
16 engineering evaluation and safety needs; the balance are included for the  
17 sake of “efficiency”. (Section 4):
  - 18 ○ PG&E’s PSEP Pipeline Implementation Plan includes Phase 1  
19 replacement or hydrotesting for many segments which could be  
20 addressed in Phase 2 with less expensive mitigation measures,
  - 21 ○ Gulf ‘s rationale for including Phase 2 segments in Phase 1 is often  
22 flawed, based on a review of sample projects.
- 23 7. The PSEP Pipeline Plan includes capacity increases, and line re-routes  
24 which are not identified or justified in the testimony. (Section 4)
- 25 8. Based on a review of a limited number of sample projects, PG&E’s PSEP  
26 Pipeline Implementation Plan includes multiple flaws that tend to increase  
27 the cost of the PSEP Pipeline Plan. (Section 4)
- 28 9. Adding low priority segments to Phase 1 hydrotest projects will make sense in  
29 many cases, but this is not generally true for replacement projects. (Section 4)

- 1 10. PG&E's models include many deviations from those described in the
- 2 testimony which are not identified or justified in the testimony. (Section 5)
- 3 11. Unit costs for replacement and hydrotesting are high compared to industry
- 4 averages, and analysis provided by DRA Witness Delfino. (Section 5)
- 5 12. PG&E shareholders are not paying for the full cost of mitigation, such as
- 6 hydrotesting, caused by their lack of records. (Section 6)
- 7 13. PG&E's contingency request is excessive, and based on an incomplete
- 8 analysis. (Section 7)

9 The combined impact of these errors is a gross inflation of the costs PG&E is  
10 requesting prior to its next General Rate Case (GRC). This exhibit summarizes  
11 DRA's recommendations to correct the PSEP Pipeline Plan, and to reduce  
12 PG&E's baseline request for \$1,336 million in ratepayer funding by more than  
13 \$850 million. In addition, PG&E's request for \$271 million for pipeline  
14 contingency would be reduced more than 75% due to the above reductions in  
15 baseline costs, and a reduction in the contingency rate. It is important to note that  
16 a significant portion of this reduction is due to shifting costs from Phase 1 to Phase  
17 2, rather than elimination of costs, or shifting them from ratepayers to PG&E  
18 shareholders.

19 DRA performed a thorough analysis of the PSEP Pipeline Plan which  
20 culminated in specific cost reduction recommendations, as though PG&E had  
21 submitted a detailed and final estimate. This analysis provided much needed  
22 insight into the PSEP Pipeline Plan, and required the development of specific  
23 knowledge and tools which can be rapidly applied to future evaluations. However,  
24 this exhibit includes detailed cost reduction recommendations to illustrate the  
25 results of a detailed analysis only, and should not be perceived as support for  
26 authorization of any cost recovery based on this plan. Rather, DRA recommends a  
27 process to replace PG&E's proposed PSEP Pipeline Plan, while continuing to  
28 mitigate high-priority safety threats:

- 1       1. **Reject PG&E’s current PSEP Pipeline Plan** - based on the findings  
2       above.
- 3       2. **Use DRA findings and recommendations defined in this testimony for**  
4       **future revisions of the PSEP Pipeline Plan.**
- 5       3. **Expedite a revised and vetted test plan for the first half of 2012** – use a  
6       streamlined CPUC process to vet projects to be initiated after the 2012  
7       winter heating season, but prior to the summer cooling season.
- 8       4. **Initiate work in 2012 required to develop a long term PSEP Pipeline Plan**  
9       – including proceeding with the order instituting ratemaking (OIR) process,  
10      MAOP validation, and the HCA order instituting investigation (OII).
- 11     5. **Redo the pipeline mitigation assignment process, and develop a long-**  
12     **term PSEP Pipeline Implementation Plan for all transmission** segments  
13     – incorporate the findings from 2012 work described in recommendation 3  
14     to ensure the resulting plan is robust, safe, and cost-effective.

## 16   2.    **INTRODUCTION**

### 17   2.1   *Definitions as used in this exhibit*

- 18       • PSEP – PG&E’s Pipeline Safety Enhancement Plan
- 19       • PSEP Pipeline Plan– The plan set forth in Chapter 3 of PG&E’s PSEP  
20       Pipeline Plan, and portions of Chapter 7 that address contingency for the  
21       PSEP Pipeline Plan
- 22       • Decision tree (DT) –the criteria established by PG&E to mitigate pipeline  
23       safety threats. A flow chart of this process which resembles a tree is  
24       provided in Attachment A to Chapter 3, and a revised version in  
25       Attachment C to Exhibit DRA-4
- 26       • PSEP Pipeline Implementation Plan – PG&E’s plan which assigns  
27       segments to one of approximately 350 Phase 1 projects to be performed  
28       before 2015

- 1 • PG&E Detailed PSEP Pipeline Implementation Plan - An August 13, 2011
- 2 MS Excel file which shows each of PG&E 's 25,076 transmission segments
- 3 assigned to one of approximately 350 Phase 1 projects PSEP Pipeline Plan
- 4 • Baseline cost – the costs estimated by Gulf International for PG&E and
- 5 discussed in Chapter 3 of the PSEP
- 6 • Contingency – the additional budget to account for uncertainty, estimated
- 7 by Price Waterhouse Cooper (PwC) for PG&E and discussed in Chapter 7
- 8 of the PSEP
- 9 • Threat –anything that could result in a pipeline failure
- 10 • Mitigation measure – any action that reduces the risk of failure
- 11 • Segment – a section of pipeline with different characteristics (material,
- 12 diameter) from adjacent sections
- 13 • Section – a group of adjacent segments that are subjected to the same
- 14 mitigation in the PSEP Pipeline Plan
- 15 • Project – a number of segments grouped together based on the mitigation
- 16 required, such as replacement or hydrotest
- 17 • Pipeline Replacement – generally requires installing a new pipeline in
- 18 parallel to the existing line, cutting and welding the new sections to the old
- 19 ones, and retiring the old line in place
- 20 • Hydrotest – isolating a section of pipe in place by excavating and capping
- 21 each end, filling the line with water, pressurizing the line, then returning the
- 22 line to service
- 23 • Pressure test – see hydrotest
- 24 • Strength test – see hydrotest
- 25 • Test – see hydrotest
- 26 • In Line Inspection (ILI) –running a robot known as a “pig” through the line
- 27 to inspect for flaws. This requires a launch and receiving port at both ends
- 28 for the pig

- 1 • Gulf Interstate Engineering (Gulf) –the consultant who assisted PG&E in
- 2 developing the PSEP Pipeline Implementation Plan , and also developed
- 3 cost models for replacement, hydrotest, and ILI
- 4 • Berkeley Engineering and Research (BEAR) – one of DRA’s consultants
- 5 • Delfino Engineering – one of DRA’s consultants
- 6 • “All-in” cost – a variable cost per foot used in Gulf’s cost estimation
- 7 models which include a portion of replacement and hydrotest costs. Since
- 8 this cost does not include fixed costs allocated per project, the name is a
- 9 misnomer since all costs are not “in”
- 10 • Move Around – the process of moving equipment from one part of a
- 11 hydrotest project to another
- 12 • Mob/Demob – mobilization/demobilization. The fixed costs to move
- 13 equipment between projects. Includes other fixed costs for hydrotests
- 14 • Road Bore - A road bore is an industry term for an Auger bore, which is an
- 15 earlier generation of boring method using an auger to pierce straight
- 16 through the ground<sup>3</sup>
- 17 • HDD – horizontal directional drilling for gas transmission piping is used
- 18 when trenching or excavating is not practical and the bore length exceeds
- 19 the length of an auger bore<sup>4</sup>
- 20 • ECA – Engineering Condition Assessment
- 21 • OD – Outside diameter: the size of a pipeline
- 22 • AACE - Association for the Advancement of Cost Engineering
- 23 International
- 24 • MAOP - Maximum Allowable Operating Pressure
- 25 • HCA – High Consequence Area

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<sup>3</sup> From PG&E response dated 12/8/2011 to data request DRA 30 Q9.

<sup>4</sup> Ibid.

- 1 • GIS – Geographic Information System. A computer program that links
- 2 data, such as pipeline features, to a map, globe, chart, etc.
- 3 • PLF – Pipeline Feature List
- 4 • TIMP - Transmission Integrity Management Program
- 5 • SYMS - Specified Minimum Yield Strength
- 6 • CIS - Close Interval Survey, a pipeline inspection technique
- 7 • DCVG - Direct Current Variance Gradient, a pipeline inspection technique
- 8 • INGAA - The Interstate Natural Gas Association of America
- 9 • AGA – American Gas Association
- 10 • QRA – Quantitative Risk Assessment

11

## 12 **2.2 *Scope of the testimony***

13 DRA's mission is to provide reasonable rates consistent with safe and reliable  
14 service.<sup>5</sup> The scope of this testimony is consistent with DRA's charter since it  
15 considers both the safety and costs for PG&E's plan. The testimony of DRA  
16 Expert Witness Rondinone (Exhibit DRA-4) reviews and critiques the criteria and  
17 processes in PG&E's Pipeline decision tree, which determines how and when  
18 pipeline threats are mitigated. This is the central safety element of PG&E's plan.

19 DRA also reviewed the cost estimating portion of the plan, identified the  
20 primary cost drivers, and performed detailed analysis the largest cost drivers:  
21 pipeline replacement and hydrotesting. These cost analyses are included in the  
22 Testimony of DRA Expert Witnesses Delfino (Exhibit DRA-5) and Scholz  
23 (Exhibit DRA-6), as well as in this exhibit. The remaining costs, which total 6.7%  
24 of PG&E's cost request, include:

- 25 • Emergency Pipe, Test Head, and Valves (\$63.6 million, Capex)
- 26 • Pipeline Upgrades for ILI (\$30.3 million, Capex)
- 27 • Pipeline ILI (\$9.6 million, expense)

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<sup>5</sup> Public Utilities Code, Section 309.5.

- 1       • Other Pipeline Expenses (\$4.9 million)<sup>6</sup>

2       For these costs, qualitative analysis is provided in Section 8, but alternative  
3 costs are neither quantified nor used to adjust costs in this exhibit, or those in  
4 Exhibit DRA-9. Findings derived from this analysis were used to formulate  
5 recommendations to reduce the risk and costs associated with the PSEP Pipeline  
6 Plan.

7       DRA’s analysis was focused on Phase 1 of the PSEP Pipeline Plan, and  
8 addressed Phase 2 only tangentially in that mitigations deferred from Phase 1 must  
9 be addressed later. Nothing should be implied about DRA’s evaluation of Phase 2  
10 issues, expect that DRA was focused on Phase 1 based on the assumption that the  
11 highest priority pipelines were included.<sup>7</sup>

12       This exhibit assumes prior knowledge of pipelines, pipeline threats, and threat  
13 mitigation measures like hydrotesting, based on information provided in Chapters  
14 2 and 3 of PG&E’s Testimony.

## 15   **2.3   Summary of PG&E filing – Pipeline Modernization**

### 16       **2.3.1 Overall request - \$1.6 billion based on a “conceptual” cost** 17       **estimate**

18       PG&E’s proposed Pipeline Modernization defines high priority mitigation  
19 projects including replacing 186 miles of pipeline,<sup>8</sup> 783 miles of hydrotesting,<sup>9</sup> and  
20 234 miles of inline inspection (ILI) runs.<sup>10</sup> PG&E requests \$1,606.5 million for  
21 the PSEP Pipeline Plan Pipeline Plan in its Testimony: \$1,335.8 million in  
22 baseline costs are requested in Chapter 3, and \$270.7 million in contingency is  
23 requested in Chapter 7. This includes 2011 costs that PG&E has stated will be

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<sup>6</sup> See page 3-6 of PG&E Testimony. These total \$108.4 million, out of a total request of \$1,606.5 billion, which includes contingency, or 6.7% of the pipeline costs.

<sup>7</sup> As discussed in Section 4.2, this is not universally true.

<sup>8</sup> PG&E Testimony at 3-22

<sup>9</sup> PG&E Testimony at 3-39

<sup>10</sup> PG&E Testimony at 3-26. This also includes 199 miles of retrofits to allow ILI.

1 absorbed by its shareholders, but does not include \$21.5 million in “post-70” costs  
 2 which PG&E has also stated will be absorbed by its shareholders.<sup>11</sup> A breakdown  
 3 of PG&E’s request per major cost categories is provided in Figure 1 and Table 1.

4

5 **Table 1 - PG&E cost request for pipeline modernization**  
 6 **program, including contingency**

	<b>Cost Category/Heading</b>	<b>Baseline Request</b>	<b>Contingency Request</b>	<b>Total</b>
		\$ Millions	\$ Millions	\$ Millions
	<b>Capital Expenditures</b>			
1	Pipeline Replacement	\$ 833.6	\$ 167.7	\$1,001.3
2	IP OIR StanPac Capital – Pipe	\$ 0.6	\$ 0.1	\$ 0.7
3	Strength Test Driven Replacements: Cut-Outs	\$ 8.0	\$ 1.9	\$ 9.9
	Strength Test Driven Replacements:			
4	Emergency Replacements	\$ 37.5	\$ 3.8	\$ 41.3
5	ILI Upgrades	\$ 30.3	\$ 6.4	\$ 36.7
6	Strength Test Capital Equipment	\$ 18.1	\$ 4.6	\$ 22.7
	<b>Capital Sub-total</b>	<b>\$ 928.1</b>	<b>\$ 184.5</b>	<b>\$ 1,112.6</b>
	<b>Expenses</b>			
7	Engineering Condition Assessment	\$ 3.1	\$ 0.8	\$ 3.9
8	Fatigue Analysis	\$ 0.3	\$ 0.1	\$ 0.4
9	Strength Testing	\$ 389.1	\$ 82.5	\$ 471.6
10	IP OIR StanPac Expense – Pipe	\$ 4.1	\$ 0.8	\$ 4.9
11	In-Line Inspections	\$ 9.6	\$ 2.0	\$ 11.6
12	Initial Planning and Rate Case Development – Pipe	\$ 1.5	\$ -	\$ 1.5
	<b>Expense Sub-total</b>	<b>\$ 407.7</b>	<b>\$ 86.2</b>	<b>\$ 493.9</b>
	<b>Total</b>	<b>\$ 1,335.8</b>	<b>\$ 270.7</b>	<b>\$ 1,606.5</b>

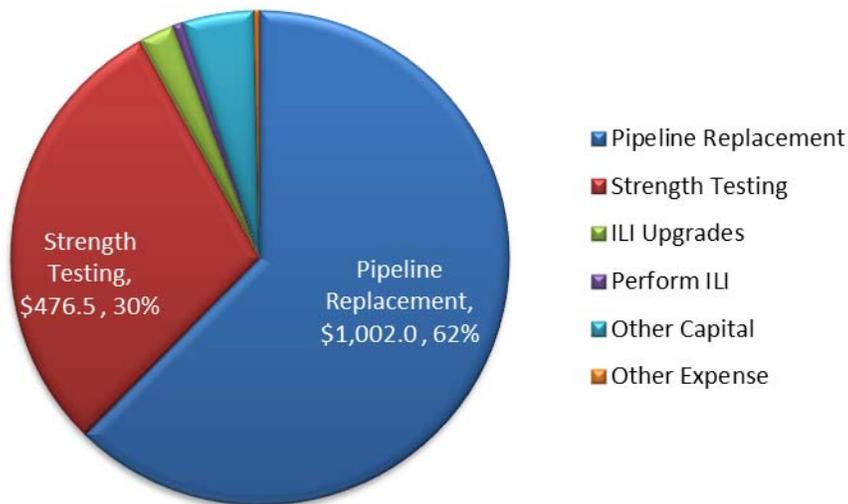
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8

9

<sup>11</sup> See Sections 6.2 and 6.3 of this testimony.

1 **Figure 1 – PG&E cost request for pipeline modernization program, including**  
2 **contingency<sup>12</sup>**



3

4

5 This request only includes “Phase 1” which includes costs expected in  
6 2011-2014 and about one-sixth of PG&E’s transmission pipelines. The PSEP  
7 Pipeline Plan provides neither a detailed mitigation plan, nor cost estimates for the  
8 remaining pipelines, to be assessed in 2015 or later.<sup>13</sup> PG&E has stated that they  
9 currently plan to file a Phase 2 PSEP once the MAOP validation process is  
10 completed “mid to late 2013.”<sup>14</sup>

11 PG&E’s cost estimate is an AACE Class 4 estimate which PG&E described  
12 as “conceptual in nature.”<sup>15</sup> The contingency request is a “P90” estimate, which  
13 means there is a 90% probability this request will cover all actual projects costs,  
14 based on PG&E’s risk analysis.

---

<sup>12</sup> In this figure, Pipeline Replacement includes lines 1 and 2 from Table 1. Strength Testing includes lines 9 and 10. Lines 2 and 10 are for replacement and strength testing respectively on StanPac pipeline. See PG&E Testimony, p.2-2 for a discussion of StanPac.

<sup>13</sup> Phase 2 scope is provided in PG&E Testimony at 3-66.

<sup>14</sup> PG&E response dated 1/6/2012 to data request DRA 45 Q2(c).

<sup>15</sup> PG&E Testimony at 7-23.

1 The scope, in terms of miles of mitigation, and costs per mile are both  
2 provided by PG&E in testimony:<sup>16</sup>

3  
4 **Table 2 – Scope and cost of PG&E’s pipeline mitigation measures**

	<b>Miles</b>	<b>PG&amp;E Provided Cost</b>
		Average \$/mile
<b>Replacement</b>	186	\$4,514
<b>Strength Tests</b>	783	\$502
<b>Retrofit for ILI</b>	199	\$152
<b>Pipeline ILI</b>	234	\$40
<b>Total*</b>	1,203	

5 \* Doesn't count Retrofit for ILI

6  
7 There is a hundred-fold variation in the cost per mile for the various  
8 mitigation measures: replacement averaged 10 times more than hydrotests, which  
9 are 10 times more than ILI.

10 **2.3.2 Overview of Pipeline Modernization project definition and cost**  
11 **estimate**

12 PG&E’s PSEP Pipeline Plan was created in four major steps:

- 13 1. Develop mitigation DT
- 14 2. Assign DT outcomes to each pipeline segment
- 15 3. Assign each segment requiring Phase 1 mitigation into a project
- 16 4. Provide a cost estimate for each project
- 17 5. Allocate costs between ratepayers and PG&E shareholders
- 18 6. Estimate a contingency budget

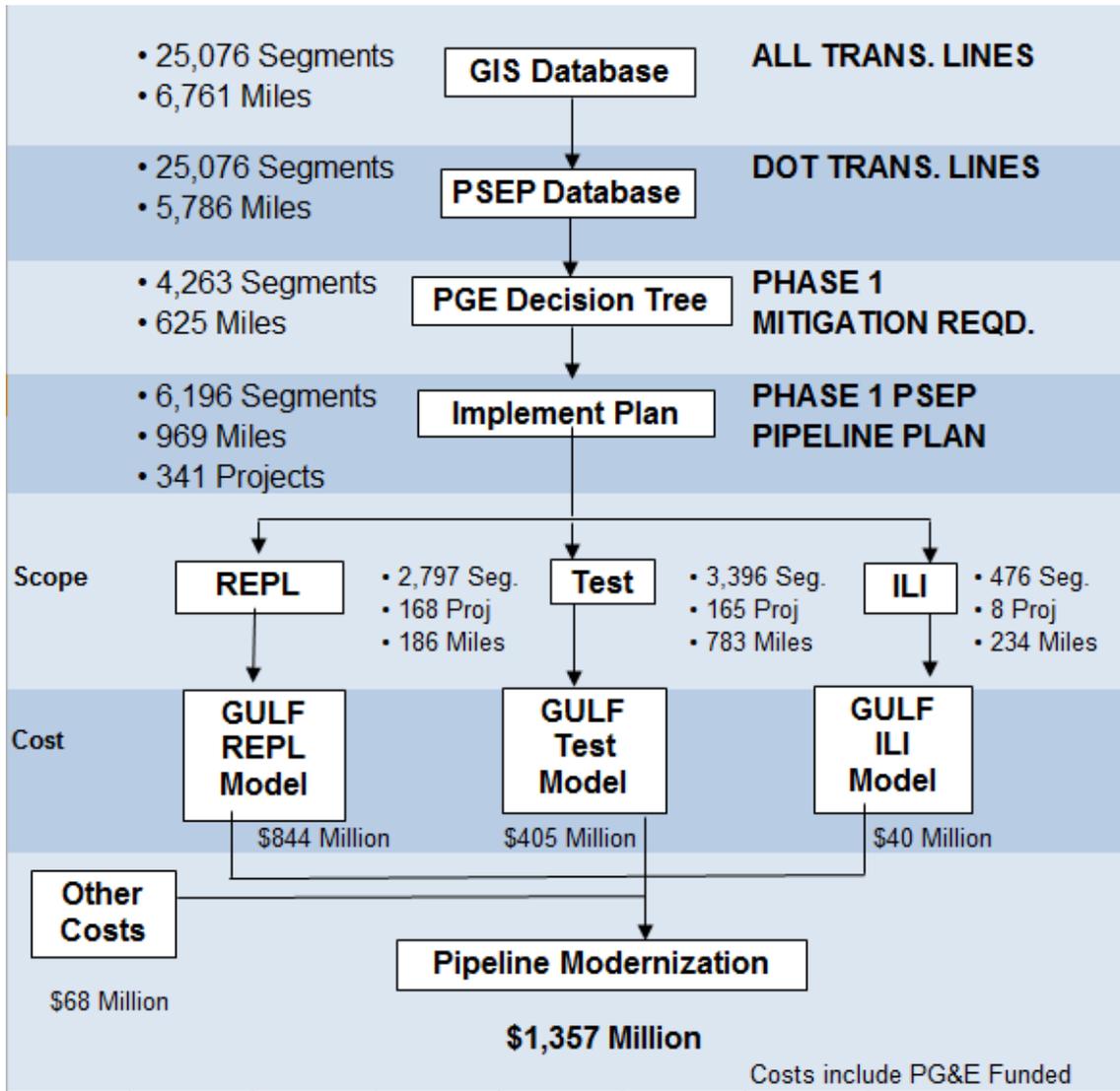
19 Steps 2 and 3 above lead to the PSEP Pipeline Implementation Plan, which  
20 drives the PSEP Pipeline Plan schedule; Steps 4 and 5 drive the baseline cost  
21 estimate; and Step 6 leads to a specific contingency budget request. Each is  
22 described in more detail in Section 4 and 7 of this exhibit. A road-map of this  
23 process is shown in Figure 2:

24  

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<sup>16</sup> Costs provided in PG&E Testimony at 3-40 to 3-42.

1 **Figure 2 – Roadmap of PG&E’s process for estimating pipeline**  
 2 **modernization baseline costs**



3

4

5 **2.4 Analyses performed**

6 Sections 3, 6, and 7 of this exhibit contain all analysis used to develop  
 7 DRA’s findings and recommendations provided in Section 10. Sections 4 and 5  
 8 summarize findings from Witnesses Rondinone (Exhibit DRA-4), Delfino (Exhibit  
 9 DRA-5), and Scholz (Exhibit DRA-6), add additional analysis, and discuss how  
 10 their findings and recommendations are used in DRA’s overall recommendations  
 11 for the Pipeline Modernization Plan.

1 DRA performed several separate analyses, each of which is defined in greater  
2 detail in Section 3 through 7:

- 3 • Reviewed data used to create the PSEP Pipeline Plan
- 4 • Reviewed decision tree logic, the resulting PSEP Pipeline Implementation  
5 Plan , and how well the former is reflected in the later. A revised decision  
6 tree was developed based on this analysis
- 7 • Analyzed Gulf ‘s cost models and unit costs for replacement and hydrotest  
8 projects. This analysis resulted in revised unit costs for use within Gulf’s  
9 cost models
- 10 • Reviewed the cost allocations between ratepayers and shareholders under a  
11 variety of assumptions. This analysis yielded revised allocation criteria
- 12 • Reviewed sample projects – seven projects were selected for detailed  
13 review of how the decision tree results were implemented, and whether  
14 assumptions in the cost model were both reasonable and correctly applied.  
15 This analysis yielded general findings applicable to the entire plan, and  
16 overarching recommendations about the PSEP Pipeline Plan
- 17 • Reviewed of contingency cost model, and the assumptions used in the  
18 contingency analysis regarding baseline costs

19 The cumulative results of all these analyses resulted in two products. First, the  
20 resulting costs adjustments summarized in Section 9 were provided to Witness  
21 Sabino and used to derive an alternative revenue requirement (Exhibit DRA-9)  
22 Second, modifications to the overall structure of the PSEP Pipeline Plan Pipeline  
23 Plan specifically, and the PSEP Pipeline Plan generally, are provided in Section 10.

#### 24 **2.4.1 DRA Segment based models**

25 PG&E provided excel versions of its Replacement, Hydro, and ILI cost  
26 models in response to DRA data request 16. These models were slow to  
27 recalculate based on changes in input parameters, and did not provide output  
28 options desired by DRA. DRA therefore created streamlined spreadsheets which

1 allow rapid calculations for a wide range of scenarios.<sup>17</sup> DRA’s models perform  
2 cost calculations primarily at the segment level, rather than at the project level as  
3 in PG&E’s models, which allows costs to be calculated even if PG&E’s project  
4 groupings are not used. This format also provides insight into cost impacts at the  
5 segment, project, and aggregate (e.g. replacement or hydro) level.

6 The process of calibrating DRA’s spreadsheets yielded information about  
7 how PG&E’s models *actually* work relative to the narrative description of how  
8 they are *supposed* to work according to PG&E’s Testimony.<sup>18</sup> This process  
9 highlighted a number of instances where PG&E implemented exceptions to its  
10 cost models, as described in detail below.

11 Combining the calibrations of both DRA’s replacement and hydrotest  
12 spreadsheets, DRA’s baseline calculation is approximately \$23 million lower than  
13 PG&E’s request, as shown in Table 5.1, or less than .2% of the total cost request  
14 of \$1.25 billion.<sup>19</sup> This is not an error, but rather a variation due to known  
15 differences in the calculations made by DRA and PG&E, discussed in detail in  
16 Section 4 and above. Generally, DRA’s model implements PG&E’s logic  
17 formulaically, without the segment or project exceptions added by PG&E.<sup>20</sup> All

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<sup>17</sup> DRA only created models for Replacement and Hydrotest projects, not for ILI.

<sup>18</sup> Calibration involved ensuring these spreadsheets produce the same results as PG&E’s calculations for the same inputs. DRA’s hydrotest spreadsheet produced a calibration error of \$1,000 for the aggregate of all hydro projects, using results rounded to the nearest \$1,000. DRA’s Replacement spreadsheet similarly produced a calibration error of \$4,000 for the aggregate of all replacement projects. Project level deviations are discussed later in this testimony.

<sup>19</sup> DRA’s replacement costs are \$29 million lower than PG&E’s model, but hydrotest costs are \$6 million higher. Most of this is due to the “Peninsula adder” in PG&E’s calculations. See Section 4.2.

<sup>20</sup> For hydrotest projects, aggregate deviations are greater than annual deviations since DRA’s calculated costs are always greater than PG&E’s. However the opposite is true for replacement projects since DRA’s calculation are higher for some projects and lower for others, and thus offset in the aggregate calculations. The best example of this is for replacement projects L-111A and L-118A, which are scheduled in 2012 and 2013 respectively. Combined, they produce a variance of approximately -\$5 million, as discussed above. However since they occur in different years, L-111A causes a -\$13.7 million variance for 2012, and L-118A causes a +\$8.7 million variance in 2013, both figures compared to PG&E’s calculations.

1 the adjustments proposed in this exhibit were calculated using DRA’s  
2 spreadsheets, which provides annual results for 2011-2014. Annual costs were  
3 allocated to backbone, local transmission, or storage based on the UCC codes in  
4 PG&E’s Results of Operations (RO) model, as further described in Exhibit  
5 DRA-9.

6 **2.4.2 Specific anomalies in PG&E’s implementation of Gulf’s**  
7 **Replacement model**

8 The process of calibrating DRA’s spreadsheets highlighted a number of ways  
9 PG&E’s models inflate costs generally, and also a number of instances where  
10 PG&E implemented exceptions to their cost models for specific segments and  
11 projects. Overall issues with PG&E’s replacement model include the following:

- 12 • All costs are based on PG&E’s proposed pipeline outside diameter (OD),  
13 not the OD of the pipeline being replaced. Since in many instances, PG&E  
14 is proposing large size increases, and unit costs in PG&E’s model are a  
15 function of OD, this increases the project costs wherever upgrades are  
16 made.<sup>21</sup>
- 17 • Mob/Demob charges are automatically assigned based on the largest  
18 proposed OD segment in the project, regardless of whether this segment  
19 represents a majority of the segments in the project, or if it is a single 5 foot  
20 segment in a 5 mile project. Mod/Demob costs increase from \$45,000 to  
21 \$95,000 as the proposed OD increases, so this anomaly tends to increase  
22 the Mod/Demob portion of project costs.<sup>22</sup>

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<sup>21</sup> See Section 4.5 of this exhibit.

<sup>22</sup> First, note that PG&E includes pipeline 12.75” in diameter in the smallest size group they label as “12” & Under” in their workpapers. See PG&E response dated 12/5/2011 to DRA 26 Q11. Then, referring to PG&E workpapers at WP 3-218, Line 220 segments included in project L-220 REPL are currently 6.625” to 12.75” in diameter, all of which are included in the “12” & Under” category. PG&E Testimony at 3E-13 shows the unit Mob/Demob cost for this size range is \$45,000. However, going back to the workpapers at WP 3-217, the Mob/Demob charge is assigned for the “22” to 28” size range at \$65,000. This is because PG&E plans to enlarge multiple miles of this line from 6.625” or 8.625” to 24”, as shown at WP-3-218, segment 157 for example. This \$20,000 increase is applied automatically in PG&E’s model, and is not documented in the PG&E Testimony or workpapers.

- 1 • Move Around costs are automatically assigned based on the Mob/Demob  
2 cost, rather than the segment to which the move is assigned in the PSEP  
3 Pipeline Implementation Plan . Since Move Around costs increase from  
4 \$25,000 to \$50,000 as a function of OD, this tends to increase the Move  
5 Around portion of project costs.<sup>23</sup>
- 6 • PG&E rounds to the nearest \$1,000 very early in their cost model. This  
7 results in \$1,000 or 2,000 variances for many individual projects. However  
8 the variances are both plus and minus, and net to an insignificant \$4,000  
9 error for the aggregate replacement cost.
- 10 • Escalation was tied to completion date of a project, and misses the 10%  
11 shifted into the prior year<sup>24</sup>
- 12 • Other issues which relate to the allocation of costs between ratepayers and  
13 PG&E shareholders are discussed in Section 6.

14 In addition to these general issues, DRA’s calibration runs highlight specific  
15 instances where PG&E’s calculations deviated from its model. For replacement  
16 projects there were significant variances for six projects:

- 17 • DFM-603-01: Segment 101.2 was split between non, and semi congested  
18 costs. PG&E manually adjusted the “all-in” cost calculation which  
19 produced a \$123,000 deviation<sup>25</sup>
- 20 • L-220: PG&E calculated four Move Around costs at \$35,000 each for 14-  
21 20” OD pipe, when PG&E’s model indicates the cost should be \$25,000  
22 each. This resulted in a variance of approximately \$45,000<sup>26</sup>

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<sup>23</sup> Use the same references for Line 220 above, and that the unit Move Around cost is in the “22” to 28” size range at \$35,000, vs. the \$25,000 unit cost for “12” & Under” from the PG&E Testimony at 3E-13. Note that four moves are included for this project, which compounds the incremental cost difference. Also note, referring to the MP1 and MP2 columns, that the discontinuities that lead to a move are as follows: two in 10.75” sections, one moving from a 8.625” to a proposed 24”, and one between two proposed 24” sections. At least two of these moves should clearly be assigned at the smaller unit cost.

<sup>24</sup> See PG&E response dated 12/6/2011 to data request DRA 26 Q13(a).

<sup>25</sup> As shown in PG&E workpaper at WP 3-284, the “post-70” cost PG&E will pay is also \$123,000, but this is for other segments and appears to be coincidental.

- 1 • L-191: PG&E calculated four Move Around costs at \$50,000 each for 30-  
2 42”OD pipe, when PG&E’s model indicates the cost should be \$35,000  
3 each. This resulted in a variance of approximately \$66,000.
- 4 • L-21F: PG&E calculated 1 of 4 Move Around costs at \$30,000 each for 14-  
5 20” OD pipe, when PG&E’s model indicates the cost should be \$35,000  
6 each. This resulted in a variance of approximately \$6,000.
- 7 • L-111: 15,000 feet of pipeline is added in the workpaper calculation to  
8 account for PG&E moving the line.<sup>27</sup> This resulted in a variance of  
9 approximately \$13.7 million.
- 10 • L-118: 15,000 feet of pipeline was removed, as part of the combined  
11 relocation of L-111 and L-118. This resulted in a variance of approximately  
12 \$8.7 million. Issues with L-118 and L-111 are discussed in detail in section  
13 4.5.4.<sup>28</sup>

14 The result is that the aggregate cost for replacement projects is increased by  
15 approximately \$5 million compared to strict application of PG&E’s model,  
16 without these exceptions.

17 PG&E also includes a “Peninsula adder” of \$200 per foot for six replacement  
18 projects on lines 101 and 109, which increases costs by \$22.6 million. This adder  
19 is not discussed in PG&E’s Testimony, but is discussed in Section 4.5.2 of this  
20 exhibit.

### 21 **2.4.3 Specific anomalies in PG&E’s implementation of Gulf’s** 22 **hydrotest model**

23 As with replacement projects, the process of calibrating DRA’s hydrotest  
24 spreadsheet highlighted a number of ways PG&E’s model inflate costs generally,  
25 and also a number of instances where PG&E implemented exceptions to its cost

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<sup>26</sup> All variances described in this section are the gross variance. The actual variance is higher since outreach, program management, and escalation are applied on top of this.

<sup>27</sup> PG&E response dated 12/6/2011 to data request DRA 26 Q10.

<sup>28</sup> Net difference due to none- vs. semi congestion. The escalation rate for this project is higher since it’s scheduled a year later, so this offsets part of the difference.

1 model for specific segments and projects.<sup>29</sup> For Hydro projects there were  
2 significant deviations for four projects:

- 3 • L-057A-MC: segment 100.3 has an estimated OD, indicated by a -16”  
4 listing. PG&E used the costs for a <12” line for this segment. This results  
5 in a +\$100k variance.
- 6 • L-153\_2: Move around costs for lines > 22" reduced in half.<sup>30</sup> This results  
7 in a +\$650k variance.
- 8 • L-300B\_1: Move around costs for lines > 22" reduced in half, same as  
9 above. This results in a +\$4 million variance.
- 10 • L-300B\_2: Move around costs for lines > 22" reduced in half, same as  
11 above. This results in a +\$1 million variance.

12 The result is that DRA’s calculated aggregate cost for hydrotest projects is  
13 approximately \$6 million lower than the costs based on strict application of  
14 PG&E’s model, without these deviations.

15 **3. DATA USED IN PSEP PIPELINE PLAN**

16 The CPUC required PG&E to file the PSEP by August 26, 2011. Since  
17 PG&E had not completed its MAOP validation process, this necessitated using the  
18 best data available at that time. The PSEP Pipeline Plan requires pipeline data to  
19 prioritize mitigations through its DT, and to allocate cost responsibility between  
20 shareholders and ratepayers. The accuracy and effectiveness of the plan is highly  
21 dependent on the accuracy and completeness of the data used. This section  
22 provides an analysis of the data used to produce the PSEP Pipeline Plan. It also  
23 describes additional data which could be used in future updates to the PSEP  
24 Pipeline Plan.

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<sup>29</sup> Calibration involved ensuring these spreadsheets produce the same results as PG&E’s calculations for the same inputs. DRA’s Hydro spreadsheet produced a calibration error of \$1,000 for the aggregate of all hydro projects, using results rounded to the nearest \$1,000. DRA’s Replacement spreadsheet similarly produced a calibration error of \$4,000 for the aggregate of all replacement projects. Project level variances are discussed later in this testimony.

<sup>30</sup> This was per Ed Starke, as noted in Excel workpaper at F40 and M40.

1 DRA’s most important finding regarding data used for the PSEP Pipeline  
2 Plan is that it is not verified, accurate, and traceable data, as discussed in the  
3 following sections. The Jacobs Report which accompanied the December 23,  
4 2011 CPSD report on PG&E’s PSEP Pipeline Plan implies the opposite when is  
5 stated the a “third filter [to GIS data prior to application of PG&E’s DT] identifies  
6 pipeline that has MAOP established based on verifiable calculations or strength  
7 testing records.”<sup>31</sup> DRA asked PG&E if this was an accurate statement, to which  
8 they responded:

9 “This is not a completely accurate statement. The decision point or  
10 action box 1B in the Pipeline Modernization Decision Tree is there  
11 to incorporate the data resulting from the directives issued by the  
12 National Transportation Safety Board (NTSB), Pipeline and  
13 Hazardous Materials Safety Administration (PHMSA), and the  
14 California Public Utilities Commission (CPUC) to validate the  
15 Maximum Allowable Operating Pressure (MAOP) of PG&E’s  
16 pipeline transmission segments into the Pipeline Modernization  
17 Decision Tree. This decision point ensures that *when* the pipe  
18 segment data is updated and verified, this updated data will be used  
19 for evaluation of the segments. This decision point is not a filter, but  
20 rather a check point to ensure the most accurate data is being used  
21 for the evaluation of all pipe segments covered by the Pipeline  
22 Safety Enhancement Plan.”<sup>32</sup>

23 As described in the following sections, the PSEP Pipeline Plan is based on  
24 a wide range of data quality, including estimated, missing, and incorrect data.  
25 Generally, the plan is based on pipeline feature data that was in the geographic

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<sup>31</sup> Page 20 of Attachment to CPUC CPSD report dated 12/23/2011, available at <http://docs.cpuc.ca.gov/EFILE/REPORT/156326.htm>. Also see PG&E response dated 10/6/2011 to data request DRA 8 Q11.

<sup>32</sup> PG&E response to DRA 57 Q1a, emphasis added.

1 information system (GIS) database as of January 3, 2011,<sup>33</sup> and pressure test data  
2 from the MAOP validation project as of April 30, 2011.<sup>34</sup> It is only when a project  
3 enters the detailed engineering Phase that PG&E's PSEP Pipeline Plan team  
4 checks for the latest pipeline data from the MOAP pipeline feature lists (PFLs),  
5 and adds this data to the PSEP Pipeline Plan database.<sup>35</sup> In other words, where  
6 updated data exists, it is incorporated into a project in the future before project  
7 execution. This data, however, was not available during preparation of the PSEP  
8 Pipeline Plan, and is not reflected in it. Therefore, the PSEP database does not  
9 contain the most up to date pipeline data, either when the PSEP was created or  
10 now. PG&E does not plan to include the final results of the MAOP validation  
11 process until late in 2013 in preparation for a filing for Phase 2 of PG&E's PSEP  
12 Pipeline Plan,<sup>36</sup> and therefore the PSEP database will remain out of date into 2013  
13 given PG&E's current plan. The impact of anomalous data impacts application of  
14 the decision tree (see Section 4.1.2 of this exhibit), assigning segments to projects  
15 (Section 4.4), costs estimates (Section 5), and allocation of costs to PG&E  
16 shareholders (Section 6). Uncertainty in the quality of key data should also  
17 directly impact PG&E's calculation of contingency for the pipeline portions of the  
18 PSEP, but does not appear to (Section 7).

19

20 It may be useful to refer to the roadmap provided in Figure 2 of this exhibit for  
21 the following discussion of PG&E's pipeline data.

### 22 **3.1 GIS database**

23 The primary source of pipeline data used for the PSEP Pipeline Plan is  
24 from PG&E's GIS database, as described in Section 3.2.2. After pipeline data was  
25 exported to the PSEP Pipeline Plan team on January 3, 2011, the GIS database was

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<sup>33</sup> PG&E response dated 10/21/2011 to data request DRA 11 Q5a.

<sup>34</sup> PG&E response to DRA 45 Q1(a).

<sup>35</sup> PG&E response to DRA 45 Q2, many parts.

<sup>36</sup> PG&E response to DRA 45 Q2(c).

1 not queried again as part of the PSEP Pipeline Plan process. The GIS database has  
2 also not been updated based on the results from the MAOP validation process.<sup>37</sup>  
3 This is an important point because PG&E has assumed values for some missing  
4 data and flags this data with a minus sign. For example, there are many segments  
5 with negative diameters, have assumed values that could be incorrect.<sup>38</sup> There are  
6 also many examples of missing data, as shown in Figure 3 of this exhibit for the  
7 longitudinal seam of segment 139.5. As discussed in Section 4.1, PG&E's DT this  
8 missing data directly impacts the assignment of a mitigation measure via PG&E's  
9 DT.

10 In addition to these issues, DRA discovered other data problems in the  
11 course of reviewing the PSEP Pipeline Plan. For example, 4,944 segments had a  
12 test date before the installation date, which is not possible.<sup>39</sup> Note that these  
13 anomalies were not found as part of a rigorous evaluation of data quality, but were  
14 found as a byproduct of other analysis. DRA did not have the resources to  
15 perform a complete evaluation of the GIS database, and the quality of data therein.

16 **Finding:** The primary source of pipeline data used to create the PSEP  
17 Pipeline Plan includes estimated, missing, incomplete, and incorrect data. This  
18 GIS database has not yet been updated with the results of MAOP validation, but  
19 PG&E plans to do so once the MAOP validation process is complete.

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<sup>37</sup> Based on meetings held at PG&E on December 19, 2011 and January 20, 2012, both arranged by Kristina Castrence.

<sup>38</sup> Based on a meeting held at PG&E on December 19, 2011, arranged by Kristina Castrence. Confirmation of the meaning of data preceded by a minus sign is pending in the response to data request DRA XX, TCR 27, issued on January 31, 2012. (Note that DRA issues data requests in this proceeding numbered based on the originator's initials, and PG&E then assigns sequential "DRA XX" numbers.)originators initials, PG&E assigns sequential "DRA XX" numbers.

<sup>39</sup> Results of DRA query of data provided as Attachment 1 in PG&E's response dated 10/6/2011 to data request DRA 8 Q28.

1 **3.2 MAOP Validation**

2 PG&E has been engaged in a MAOP project since early in 2011, based on a  
3 recommendation from the NTSB.<sup>40</sup> Chapter 5 of its testimony describes PG&E's  
4 MAOP Records Validation Project which includes three parts:<sup>41</sup>

- 5 • Part 1 – Search for strength/pressure test records for 1,805 miles of priority  
6 pipelines
- 7 • Part 2 - Gather pipeline data and validate MAOP for the same 1,805 miles
- 8 • Part 3 – Gather data and validate MAOP for all remaining transmission  
9 pipelines

10 As described in Sections 5 and 6 of this exhibit, results from Part 1 of the  
11 MAOP validation process are used in both the implementation of the DT and in  
12 the allocation of costs between shareholders and ratepayers. Part 2 of MAOP  
13 validation results in either verification of pipeline feature data, or updating this  
14 data where it is found to be missing or inaccurate. The status of these MAOP  
15 verification processes and how interim results are reflected in the current PSEP  
16 Pipeline Plan are discussed in the following sections.

17 **3.2.1 MAOP validation Part 1 -Pressure Test Records**

18 This effort involves finding and verifying pressure test records for Class 3  
19 and Class 4 segments, and other HCA segments totaling 1,805 miles.<sup>42</sup>

20 On March 15, 2011, PG&E submitted its first MAOP status report. At that  
21 time PG&E had only partial pressure test records for 133 miles of pipeline, 59  
22 miles of line verified only through a report to the CPUC in 1968, 455 miles where  
23 a line was grandfathered per section CFR 192.619(c), and was still reviewing

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<sup>40</sup> Accident Report NTSB/PAR-11/01; PB2011-916501NTSB, available at [http://www.nts.gov/investigations/2010/sanbruno\\_ca.html](http://www.nts.gov/investigations/2010/sanbruno_ca.html).

Recommendations P-10-2 and P-10-3, p.133.

<sup>41</sup> Chapter 5, p.5-9. PG&E states that it will not seek cost recovery for Part 1 and portions of Part 2 costs incurred in 2011. Refer to Exhibit DRA 8 regarding MAOP validation for which PG&E is requesting costs recovery.

<sup>42</sup> PG&E Testimony, Chapter 5, p.5-9

1 pressure test records on 140 miles.<sup>43</sup> In total, 787 miles were not considered  
 2 complete by PG&E based on a detailed Strength Test Pressure Report (STPR).  
 3 The next report does not breakout the Section 619(c), but rather adds them to the  
 4 “still reviewing records” category, and reports 134 miles of pressure test records  
 5 changed to “complete.”<sup>44</sup> In the final report submitted by PG&E on September 12,  
 6 2011, there were still 630 miles of pipelines in HCA areas which PG&E does not  
 7 classify as “Complete.”<sup>45</sup>

8

9 **Table 3 – PG&E MAOP validation status for pressure test records**<sup>46</sup>

Report Date	3/15/11	5/10/11	6/10/11	7/11/11	8/10/11	9/12/11	10/14/11
Complete	1018	1152	NA	1155	1163	1175	NA
Partial	133	132		132	124	120	
Pressure test per 1968 report	59	26		26	26	23	
Section 619c Documentation	455						
Still Reviewing Records	140	495		492	492	487	
Total	1805	1805		1805	1805	1805	
<b>Not "Complete"</b>	<b>787</b>	<b>653</b>		<b>650</b>	<b>642</b>	<b>630</b>	

10

11

12 Note that in contrast to the March 15 MAOP report, PG&E currently does  
 13 not consider pipelines in category “pressure test per 1968 report” to be complete.<sup>47</sup>  
 14 Also, “partial” above refers to a pipeline where complete pressure test data was  
 15 found, but the length of pipe on the test record doesn’t match the GIS data, so the  
 16 pipeline as a whole cannot be considered tested.<sup>48</sup> The San Bruno incident  
 17 highlights the importance of testing every foot and fitting in a pipeline. Based on  
 18 data from the monthly reports summarized in Table 3 above, the number of miles

<sup>43</sup> PG&E Testimony, pp.7-10 and 13.

<sup>44</sup> PG&E Testimony, pp. 3-4. The 1968 report included only test pressure and medium. PG&E indicated pipeline in this category is not considered complete for purposes of the DT in response to DRA 45 Q9, but this is not consistent with statements on page 10 of the March 15 report.

<sup>45</sup> PG&E also issued a report titled “MAOP Status Report”, on October 14, 2011, but this report only stated that PG&E had completed its reporting requirements and provided no detailed data on pressure test records.

<sup>46</sup> All data from PG&E 2011 MAOP status reports filed in R.11-02-019.

<sup>47</sup> PG&E response dated 1/23/2012 to data request DRA 67 Q1.

<sup>48</sup> PG&E response dated 12/21/2012 to data request DRA 38 Q7(c).

1 for which MAOP validation of pressure test records has decreased very slowly  
2 since April 30, 2011. PG&E has either expended less energy on finding and  
3 evaluating test records, or these records are becoming increasingly scarce. Either  
4 way there is uncertainty resulting from these incomplete or missing records in the  
5 current PSEP that needs to be resolved before the final PSEP Pipeline Plan is  
6 compiled.

7 **Finding:** The PSEP Pipeline Plan only incorporates MAOP validation of pressure  
8 test data through April 30, 2011, when the MAOP validation process for pressure  
9 test records for approximately 653 miles of HCA line had not been completed.  
10 Even when MAOP validation on all HCA lines is “completed” at the end of  
11 January 2012, there will still be hundreds of miles of HCA line for which the  
12 status of pressure test records is unknown. PG&E plans to review these over the  
13 next three years when they design each project.

### 14 **3.2.2 MAOP Validation Part 2 – Pipeline Feature List (PFL) and** 15 **MAOP validation**

16 Part 2 includes four subparts:

- 17 1. Collect, code, and compile pipeline segment data<sup>49</sup>
- 18 2. Review data, and make assumptions where data is missing
- 19 3. Build a Pipeline Features List (PFL) and perform quality assurance/quality  
20 control (QA/QC) on the data,
- 21 4. Calculate MAOP

22 First, PG&E’s Testimony does not adequately discuss *how* it will find, correct,  
23 and track erroneous data it uncovers through the MAOP validation process.<sup>50</sup>

24 PG&E has provided some explanations through DRA’s discovery process, but this  
25 is a critical issue which requires CPUC attention. DRA recommends that PG&E

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<sup>49</sup> Chapter 5, p.5-9. PG&E states that much of the source data was compiled during Part 1 of the MAOP validation process.

<sup>50</sup> This is based on DRA’s review of PG&E Testimony Chapters 3 and 5.

1 be ordered to submit detailed written procedures which describe its treatment of  
2 data errors, and how they will provide a permanent record of any changes.

3 The four subparts of Part 2 of MAOP validation includes sequential events  
4 which culminate in the calculation of MAOP for each segment. PG&E's  
5 Testimony defines four high priority groups of pipeline "based on potential risk  
6 and consequences," but does not state how many miles are included in each  
7 group.<sup>51</sup>

8 The following describes and summarizes PG&E's reported activities with  
9 respect to complying with MAOP validation Part 2. On March 21, 2011 PG&E  
10 submitted a request for Commission approval of a MAOP validation plan covering  
11 all 1,805 miles of pipelines in HCA areas.<sup>52</sup> The plan lists seven priority groups  
12 with due dates such that all 1,805 miles are validated by the end of 2011. The first  
13 four priority groups, which correspond to the descriptions in PG&E Testimony  
14 above, include 705 miles to be validated by "Q3 2011."

15 PG&E's status report on May 10, 2011, stated that by April 30, 2011, PG&E  
16 had compiled data for all Priority 1 segments, begun compiling PFLs for these  
17 segments, and that they had "not yet completed MAOP validation work for the  
18 705 miles that are covered by the Compliance Plan."<sup>53</sup> Progress continued through  
19 2011 with 35 miles validated by May 30,<sup>54</sup> 152 miles by June 30,<sup>55</sup> 450 miles by  
20 July 31,<sup>56</sup> and 750 miles by August 31.<sup>57</sup> While not explicitly stated in this last  
21 report, PG&E had begun and completed work on 45 miles of Priority 5 or lower  
22 pipeline by the end of August.

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<sup>51</sup> PG&E Testimony, Chapter 5, pp. 5-11 to 5-12.

<sup>52</sup> PG&E report filed in R.11-02-019, p.17.

<sup>53</sup> PG&E stated that 705 miles represents the total for priorities 1 through 4 of the compliance plan.

<sup>54</sup> June 10, 2011 report filed in R.11-02-019, p. 6.

<sup>55</sup> July 11, 2011 report filed in R.11-02-019, p. 6.

<sup>56</sup> August 10, 2011 filed in R.11-02-019, p. 4.

<sup>57</sup> September 12, 2011 filed in R.11-02-019, p. 3.

1 PG&E’s final MAOP validation report, dated October 14, 2011, stated that this  
2 report was provided “as a courtesy” and that “PG&E had fulfilled the monthly  
3 status report requirement.”<sup>58</sup> This monthly report was three page summary which  
4 did not provide the detailed tables or status included in previous reports. Instead it  
5 discussed a re-prioritization whereby 280 miles of non-HCA would be validated in  
6 2011, but all the original 1,805 priority HCA miles plus the additional 280 miles  
7 would be validated by January 31, 2012.<sup>59</sup> The report also states that the  
8 remaining 4,660 miles of non-HCA transmission pipeline will be validated by  
9 “early 2013” and that “[p]riority for these miles will be based on pipelines with the  
10 highest perceived risk and system operational impact and consistent with the pipe  
11 modernization decision tree included in the Pipeline Safety Enhancement Plan.”<sup>60</sup>  
12 If PG&E can validate 300 miles per month, as they did in July and August 2011,  
13 they should be able to complete an additional 3,300 miles of validation in 2012,  
14 and complete the validation effort mid-May 2013. DRA bases its recommendation  
15 for 2012 action on this rate of data review (see Section 10.3).

16 **Finding:** The PSEP Pipeline Plan generally does not include the results of  
17 MAOP validation of pipeline features, and some DT assignments were made  
18 based on estimated or incorrect data.

19 **Finding:** PG&E plans to incorporate revised pipeline features based on MAOP  
20 validation and other data sources during the final project engineering, which will  
21 take place over the next three years. PG&E is not updating the Phase 1 PSEP  
22 Pipeline Plan based on new PFLs, but plans to use the results from the final  
23 MAOP validation in creating a Phase 2 PSEP Pipeline Plan.

24 **Finding:** PG&E will have completed records and MAOP validation for all  
25 HCA pipeline segments by the time this testimony is served. PG&E has validated

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<sup>58</sup> October 14, 2011 report filed in R.11-02-019, p.1.

<sup>59</sup> Ibid, p.2.

<sup>60</sup> Ibid.

1 approximately 300 miles per month in 2011, and this rate is consistent with  
2 PG&E’s estimate that MAOP validate will be completed “early in 2013.”

3 **3.3 HCA re-classification**

4 In Resolution L-403, the CPUC ordered P&GE to review and report on its  
5 HCA classifications. PG&E’s first report stated that it “identified 1,057 miles of  
6 pipeline where the current classification differed from the initial classification.”<sup>61</sup>  
7 This report doesn’t state how the classifications changed, only that their GIS  
8 database allowed them to compare current HCA classification to initial HCA  
9 classification.<sup>62</sup>

10 PG&E’s second report on June 30, 2011 indicated that 550 miles of  
11 pipeline had a change in class designation based on an undefined “system-wide  
12 verification” performed by a consultant.<sup>63</sup> Of these, 378.4 miles had a reduction in  
13 class (e.g. Class 3 changed to Class 2) which PG&E “believes” is due to more  
14 accurate data.<sup>64</sup> The verification also found 172.1 miles with an increase in class,  
15 and 100 miles for which they are were still reviewing records.<sup>65</sup> In response to a  
16 DRA discovery question, PG&E indicated that the PSEP Pipeline Plan is not  
17 based on HCA revisions from the June 30 report:

18 “The class location changes reflected in the June 30, 2011 report were not  
19 available in PG&E’s GIS at the time of the rate case filing and are not

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<sup>61</sup> October 4, 2010 letter to Paul Clanon.

<sup>62</sup> DRA interprets this as current data was used in the PSEP Pipeline Plan, rather than the initial classification. Confirmation of this is pending in the response to data request DRA XX, TCR 27, issued on January 31, 2012. (Note that DRA issues data requests in this proceeding numbered based on the originator’s initials, and PG&E then assigns sequential “DRA XX” numbers.)

<sup>63</sup> June 30, 2011 letter to Paul Clanon. This letter only mentions that “Wilbros” was retained to perform the verification, but includes no discussion of what this entailed.

<sup>64</sup> See footnote 2 of PG&E’s June 30, 2011 report, in which they state “PG&E has not yet investigated why segments went down in class.”

<sup>65</sup> Pending data request DRA XX, TCR 27, issued on January 31, 2012 asks if the 100 miles are having HCA verified, or other data to establish MAOP.

1 reflected in the PSEP Pipeline Plan. The class location changes will be  
2 reviewed during each project’s data validation process.”<sup>66</sup>

3 In other words, PSEP Pipeline Plan is not based on the latest HCA data.  
4 The June 30 report at page 5 shows nearly 320 miles of line had a reduction in  
5 class, and 106 miles an increase in class, that would change the mitigation  
6 outcome from PG&E’s DT. Net, over 210 miles had a reduction in class that  
7 would trigger a hydrotest rather than replacement, or Phase 2 rather than Phase 1  
8 hydrotest. Based on this information, it appears that HCA classifications, and  
9 segment mitigations based on HCA classifications, are subject to change. These  
10 changes are not explicitly discussed and the process for making changes in not  
11 transparent.

12 In November 2011 the CPUC initiated Order Instituting Investigation (OII)  
13 11.11.009 to “review and determine whether PG&E has failed to classify its  
14 pipelines correctly and whether PG&E failed to comply with federal standards  
15 requiring that it regularly study, patrol, and survey these locations for increased  
16 population density.”<sup>67</sup> The very fact that the CPUC opened this investigation  
17 adds uncertainty to the current HCA classifications which is discussed in Section  
18 7.3 of this exhibit.

19 **Finding:** The PSEP Pipeline Plan does not incorporate revised HCA  
20 classifications from PG&E’s June 30, 2011 report. The PSEP Pipeline Plan is  
21 based on errors in HCA classification known to PG&E when the PSEP was filed,  
22 and which on average tend to increase the cost.

23 **Finding:** PG&E plans to incorporate revised HCA classifications based on  
24 MAOP validation and other data sources during the final project engineering,  
25 which will take place over the next three years. PG&E is not updating the Phase 1

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<sup>66</sup> PG&E Response dated December 22, 2011 to DRA 37, Q2.

<sup>67</sup> Press release dated November 10, 2011, available at  
[http://docs.cpuc.ca.gov/PUBLISHED/NEWS\\_RELEASE/151457.htm](http://docs.cpuc.ca.gov/PUBLISHED/NEWS_RELEASE/151457.htm).

1 PSEP Pipeline Plan based on revised HCAs, but plans to use the results from the  
2 final MAOP validation in creating a Phase 2 PSEP Pipeline Plan.

3 **3.4 Other specific data issues**

- 4 • In Chapter 3, PG&E states that “Project scopes (type of pipe, length, class  
5 location) were based on information contained in GIS and the results from  
6 the 2011 MAOP strength testing and data validation program results that  
7 PG&E has filed with the CPUC through June 30, 2011.”<sup>68</sup> DRA’s  
8 discovery reveals that this is not a complete description, since the most  
9 recent data used was from June 24, 2011, and even this data was modulated  
10 based on the April 30, 2011 MAOP data.<sup>69</sup> Thus, the PSEP is essential  
11 limited by data through April 30, 2011.
- 12 • PG&E’s May 10, 2011 MAOP report with results through April 30, 2011  
13 shows that of the 1,805 miles of HCA segments there are 132 miles  
14 classified as “partial.” Analysis of the 969 miles included in Phase 1  
15 replacement and hydrotest projects indicate that 175.6 miles are considered  
16 partial, also through April 30, 2011.<sup>70</sup>

17  
18 **5. PG&E’S DECISION TREE AND PSEP PIPELINE**  
19 **IMPLEMENTATION PLAN**

20 **4.1 Overview of PG&E Decision Tree and PSEP Pipeline**  
21 **Implementation Plan**

22 Section 2.1 provides a general definition of the Decision Tree (DT) and the  
23 PSEP Pipeline Implementation Plan. To correctly interpret this testimony, it is

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<sup>68</sup> PG&E Testimony, p.3-60.

<sup>69</sup> DT outcomes use a field “Sub\_J62411” to establish that a segment has a valid Sub-J pressure test. While this data dates back to June 24, 2011, per PG&E, this field is relies on April 30, 2011 MAOP data to establish a full range of values. In essence, the “Sub\_J62411” field only adds a further screen to the April 30, 2011 data.

<sup>70</sup> Results of DRA query of “Partial mileage” entries in the MAOPrec430” field in the spreadsheet provided as Attachment 1 in PG&E’s response dated 10/6/2011 to data request DRA 8 Q28.

1 essential to understand the difference between these two terms. The DT is an  
2 engineering evaluation of the threats that exist in PG&E's transmission pipelines,  
3 and an engineering-based recommendation of how these threats should be  
4 mitigated. It also establishes the priority of mitigation by assigning segments to  
5 Phase 1, 2011-2014, or Phase 2, 2015 and after. The PSEP Pipeline  
6 Implementation Plan builds on the DT outcomes by grouping segments requiring  
7 similar mitigation in Phase 1 into projects, and scheduling the projects based on  
8 priority from the DT and other input. In addition, PG&E includes many segments  
9 not requiring Phase 1 mitigation into Phase 1 projects for the purported reason of  
10 increasing efficiency and reducing mitigation costs. Therefore PG&E PSEP  
11 Pipeline Implementation Plan includes approximately 344 more miles in Phase 1  
12 than required by the DT.<sup>71</sup> The derivation and interaction between the DT and  
13 PSEP Pipeline Implementation Plan are illustrated by an example using Line 220  
14 in the balance of Section 4.1.

#### 15 **4.1.1 PG&E Decision Tree**

16 PG&E states that their DT is the primary tool used to determine the mitigation  
17 required for each pipeline segment.<sup>72</sup> A flow chart representing the DT is  
18 provided in PG&E Attachment 3A and development and rationale for the DT are  
19 described in PG&E Attachment 3B. The DT shows conceptual decision points in  
20 grey, and mitigation outcomes in yellow. The outcome of the DT is that each of  
21 25,076 transmission pipeline segments is assigned one of 15 DT outcome codes,  
22 which designate both the type of mitigation, and when it should be performed. For  
23 example, DT outcome M2 requires pressure reduction and replacement in Phase 1,  
24 while outcome C1 requires a strength test and Close Interval Survey (CIS), or ILI  
25 and CIS, in Phase 2.

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<sup>71</sup> Refer to Table 4 of this exhibit. This value is PG&E's request for Phase 1 replacement (783 miles) plus hydrotest (186 miles) Table 4 cells A1 and A2.

<sup>72</sup> PG&E Testimony, p.3-3. Also, PG&E response dated 10/6/2011 to data request DRA 8 Q7.

1           **4.1.2 Implementation of the DT**

2           The DT shown in PG&E Attachment 3A to PG&E’s Testimony is  
3 implemented in practice by applying logical tests to pipeline segment data from  
4 various sources, which ideally should be 100% consistent with PG&E’s  
5 Testimony. Critical types of input data include:

- 6           1. Installation date
- 7           2. Pipeline manufacturing and construction details
- 8           3. Strength test data
- 9           4. Pipeline material - to establish Specified Minimum Yield Strength (SMYS)
- 10          5. Pipeline OD, wall thickness, and operating pressure – to establish the level  
11           of stress on a pipeline, as indicated by the % SMYS
- 12          6. HCA classification

13          This section, and Sections 5 and 6, will describe why the validity of the PSEP  
14 Pipeline Plan depends on the accurate application of the DT on accurate pipeline  
15 data. Because of this, DRA spent a significant amount of time working with  
16 PG&E to understand the process, tools, and data used. The following discussion  
17 of this critical process is based on multiple written discovery responses and  
18 information obtained in meetings with PG&E staff.

19          First, PG&E needed the pipeline data summarized above for each of the 25,076  
20 transmission pipeline segments. This was available from their general GIS  
21 database, but rather than working directly with this large database, PG&E pulled  
22 the required data on January 3, 2011.<sup>73</sup> This data set is referred to as the “PSEP  
23 Pipeline Plan Database.” Below is a sample of the data exported for Line 220:<sup>74</sup>

24

25          **Figure 3 – Example of PSEP Pipeline Plan database pipeline features**

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<sup>73</sup> PG&E response dated 10/21/2011 to data request DRA 11 Q5a.

<sup>74</sup> This example shows 15 contiguous segments on Line 220. The data columns shown are only a sample of relevant data, and do not include all data used to implement the DT. Also note that the PSEP Pipeline Plan is an ArcView GIS database, but DRA’s analysis is based on exports from this database as Excel files.

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
ROUTE	SGMNT_NO	MP1	MP2	Year_INSTALL	LONG_SEAM	JOINT_TYPE	SMYS	Wall_THICK	OD	MOP	HCA Class	HCA	TEST_DATE	TEST_PRESS	TEST_DUR	TestPer
220	133.9	22.11	22.14	1/1/1981	ERW	BUTT	35000	0.2500	10.750	792.0	3	YES	1/1/1981	1375.0000	9.0000	1.74
220	134.2	22.14	22.17	1/1/1938	SMLS	BBCR	35000	0.2500	10.750	792.0	3	YES		0.0000	0.0000	0.00
220	134.5	22.17	22.17	1/1/1938	SMLS	BBCR	35000	0.2500	8.625	792.0	3	YES		0.0000	0.0000	0.00
220	135.5	22.17	22.17	1/1/1938	SMLS	BBCR	35000	0.2500	8.625	500.0	3	YES		0.0000	0.0000	0.00
220	136	22.17	22.31	1/1/1937	SMLS	BBCR	35000	0.2500	8.625	500.0	3	YES		0.0000	0.0000	0.00
220	136.3	22.31	22.35	1/1/1937	SMLS	BBCR	35000	0.2500	8.625	500.0	3	YES		0.0000	0.0000	0.00
220	137	22.35	22.41	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58
220	137.5	22.41	22.58	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58
220	137.77	22.58	22.73	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3		1/1/1980	1290.0000	8.0000	2.58
220	138	22.73	22.85	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58
220	138.5	22.85	23.10	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3		1/1/1980	1290.0000	8.0000	2.58
220	139	23.10	23.15	1/1/1980	ERW	BUTT	42000	0.1720	8.625	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58
220	139.5	23.14	23.15	1/1/1962		BUTT	42000	0.1880	8.625	500.0	3			0.0000	0.0000	0.00
220	140	23.15	23.37	1/1/1937	SMLS	BBCR	35000	0.2190	8.625	500.0	3		1/1/1962	0.0000	0.0000	0.00
220	141	23.37	23.89	1/1/1937	SMLS	BBCR	35000	0.2190	8.625	500.0	1			0.0000	0.0000	0.00

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PG&E then added results of the MAOP validation process, shown in yellow below, which were used in the evaluation of whether a pressure test had been performed to the requirements of 194 CFR Sub-part J:<sup>75</sup>

**Figure 4 – Example of PSEP Pipeline Plan database, MAOP validation data added**

A	B	C	D	E	K	L	M	N	O	P	Q	R	S
ROUTE	SGMNT_NO	MP1	MP2	Year_INSTALL	MOP	HCA Class	HCA	TEST_DATE	TEST_PRESS	TEST_DUR	TestPer	MAOPrec430	Sub_J62411
220	133.9	22.11	22.14	1/1/1981	792.0	3	YES	1/1/1981	1375.0000	9.0000	1.74	Complete	Y
220	134.2	22.14	22.17	1/1/1938	792.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N
220	134.5	22.17	22.17	1/1/1938	792.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N
220	135.5	22.17	22.17	1/1/1938	500.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N
220	136	22.17	22.31	1/1/1937	500.0	3	YES		0.0000	0.0000	0.00	Partial Mileage	N
220	136.3	22.31	22.35	1/1/1937	500.0	3	YES		0.0000	0.0000	0.00	Partial Mileage	N
220	137	22.35	22.41	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	137.5	22.41	22.58	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	137.77	22.58	22.73	1/1/1980	500.0	3		1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	138	22.73	22.85	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	138.5	22.85	23.10	1/1/1980	500.0	3		1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	139	23.10	23.15	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y
220	139.5	23.14	23.15	1/1/1962	500.0	3			0.0000	0.0000	0.00	Incomplete Record	N
220	140	23.15	23.37	1/1/1937	500.0	3		1/1/1962	0.0000	0.0000	0.00	Partial Mileage	N
220	141	23.37	23.89	1/1/1937	500.0	1			0.0000	0.0000	0.00		N

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PG&E then queried this updated PSEP Pipeline Plan database using computer code it wrote to perform the logical tests defined in the DT. As a result of the querying process, DT outcome numbers were assigned to each segment in a

<sup>75</sup> Columns F-K not shown in this figure.

1 new column of the PSEP Pipeline Plan database, shown in column T and shaded  
 2 green below:<sup>76</sup>

3 **Figure 5– Example of PSEP Pipeline Plan database, decision tree outcome**  
 4 **added**

A	B	C	D	E	K	L	M	N	O	P	Q	R	S	T
ROUTE	SGMNT NO	MP1	MP2	YearR_ INSTALL	MOP	HCA Class	HCA	TEST_ DATE	TEST_ PRESS	TEST_ _DUR	TestPer	MAOPrec430	Sub_J624 11	DT_Ref_ Num
220	133.9	22.11	22.14	1/1/1981	792.0	3	YES	1/1/1981	1375.0000	9.0000	1.74	Complete	Y	C7
220	134.2	22.14	22.17	1/1/1938	792.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N	F2
220	134.5	22.17	22.17	1/1/1938	792.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N	F2
220	135.5	22.17	22.17	1/1/1938	500.0	3	YES		0.0000	0.0000	0.00	Incomplete Record	N	C3
220	136	22.17	22.31	1/1/1937	500.0	3	YES		0.0000	0.0000	0.00	Partial Mileage	N	C3
220	136.3	22.31	22.35	1/1/1937	500.0	3	YES		0.0000	0.0000	0.00	Partial Mileage	N	C3
220	137	22.35	22.41	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C6
220	137.5	22.41	22.58	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C6
220	137.77	22.58	22.73	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C5
220	138	22.73	22.85	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C6
220	138.5	22.85	23.10	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C5
220	139	23.10	23.15	1/1/1980	500.0	3	YES	1/1/1980	1290.0000	8.0000	2.58	Complete	Y	C6
220	139.5	23.14	23.15	1/1/1962	500.0	3			0.0000	0.0000	0.00	Incomplete Record	N	M4
220	140	23.15	23.37	1/1/1937	500.0	3		1/1/1962	0.0000	0.0000	0.00	Partial Mileage	N	C3
220	141	23.37	23.89	1/1/1937	500.0	1			0.0000	0.0000	0.00		N	C1

5  
6

7 For example, the second and third segments in this list (134.2 and 134.5) were  
 8 assigned F2 outcomes, indicating these segments need Phase 1 replacement. This  
 9 excerpt represents the data used by Gulf to develop the PSEP Pipeline  
 10 Implementation Plan

11 **4.2 Analysis of PG&E’s Decision Tree**

12 In Exhibit DRA-04, BEAR provides a review of PG&E’s decision tree  
 13 which generally confirms PG&E’s process, but notes the following concerns:<sup>77</sup>

- 14 • Certain manufacturing threats were inappropriately assigned a default  
 15 designation for replacement in Phase 1
- 16 • All Class 2 locations were treated the same as Class 3 by default
- 17 • Fabrication and construction threats were inappropriately screened based on  
 18 previous 49 CFR 192 Sub-part J (Sub-J) pressure tests

<sup>76</sup> Columns F-K not shown in this figure.

<sup>77</sup> Exhibit DRA-4 also raises issues concerning the data used, which are addressed in Section 3 above.

- 1 • Mitigation was prioritized based on Sub- J pressures tests only, not based  
2 on other strength tests which demonstrate reduced risk

3 To correct these deficiencies, BEAR revised PG&E’s DT, as follows:

- 4 1. For clarity, reordered decision points 1J and 1K on manufacturing threats  
5 2. For manufacturing threats, renamed PG&E outcomes M3 and M5 to M12  
6 and M13 respectively, because they are derived differently  
7 3. For manufacturing threats, replaced PG&E outcomes M2 and M4 with  
8 new outcome M11, thereby eliminating replacement as a default for  
9 manufacturing threats  
10 4. For fabrication and construction threats, removed PG&E decision point 2F,  
11 because pressure test is not as effective as replacement as mitigation for  
12 these threats  
13 5. Modified decision points 1J, 2G (now 2F), and 3B to reflect that Class 2  
14 segments should not be treated as HCAs by default  
15 6. Modified Decision point 1H to include hydrotest data after 1955 for project  
16 prioritization

17 The impact of BEAR’s revised DT on outcomes and **required** mitigation for  
18 all transmission pipelines is shown in the following table:<sup>78</sup>

19

---

<sup>78</sup> This table compares the outcomes of the decision trees, which reflect required mitigation based on engineering analysis. Changes in the scope of replacement hydrotest projects are discussed in Section 4.3.

1 **Table 4 – Scope of pipeline mitigation required per PG&E and BEAR**  
 2 **decision trees**

		A	B	C	
		PG&E	Bear	Change	
	Required Mitigation per DT	Included DT Outcomes	Miles	Miles	Miles
1	Phase 1 Replace	M2 and F2	161.6	110.2	(51.4)
2	Phase 1 Hydrotest	M4, M11, C2	463.3	472.4	9.1
3	Phase 1 ECA, and possible replacement, phase 1 or 2	F1	-	-	-
4	Phase 2 TBD based on fatigue analysis	M1, M3, M5, M12, M13	254.3	1,079.4	825.1
5	Phase 2 hydro & ILI or replace	F3	42.9	127.9	85.0
6	Phase 2 hydrotest or ILI+	C1, C3, C4, C5	4,207.1	3,455.7	(751.4)
7	TIMP	C6, C7	685.3	568.9	(116.4)
8		<b>Total</b>	<b>5,814</b>	<b>5,814</b>	<b>(0.0)</b>

3  
4

5 BEAR’s revised decision tree results in a net reduction in segments  
 6 requiring Phase 1 replacement, an increase in required Phase 1 hydrotests, and a  
 7 reduction in required Phase 1 mitigation overall.<sup>79</sup> BEAR concludes that  
 8 “Decision outcomes recommended by BEAR result in a pipeline evaluation that  
 9 has less risk than the PG&E decisions, while simultaneously reducing scope.”<sup>80</sup>

10 **4.3 Overview of PG&E’s Pipeline Modernization PSEP Pipeline**

11 **Implementation Plan**

12 The PSEP Pipeline Implementation Plan represents the sum of PG&E’s  
 13 efforts to prioritize and schedule mitigation work in accordance with its decision  
 14 tree. It converts DT outcomes for 26,076 pipeline segments into a specific list of  
 15 projects to be completed during 2011-2014. Based primarily on the DT outcome,  
 16 PG&E grouped segments requiring Phase 1 mitigation into one of 168  
 17 replacement projects, 165 hydrotest projects, or 8 Inline Inspection (ILI)  
 18 Projects.<sup>81</sup> Whereas the DT outcomes were assigned objectively according to  
 19 fixed criteria described in its testimony, the PSEP Pipeline Implementation Plan

<sup>79</sup> The decrease in segments replaced due to manufacturing threats is greater than the increase in segments replaced due to fabrication and construction threats.

<sup>80</sup> Exhibit DRA-4, p.3.

<sup>81</sup> Six of the ILI projects include a capital costs request for upgrades, in addition to expenses for performing these tests.

1 was developed subjectively by PG&E and its consultant Gulf.<sup>82</sup> The PSEP  
2 Pipeline Implementation Plan also adds to these projects segments that do not  
3 require Phase 1 mitigation per the DT, based on “construction efficiency”.<sup>83</sup> The  
4 PSEP Pipeline Implementation Plan is also the basis of PG&E’s cost models.

5  
6 PG&E provided a copy of the PSEP Pipeline Plan database that included the  
7 DT outcome number and pipeline feature data for all 25,076 segments (see  
8 example in Section 4.2 above) sometime after June 24, 2011.<sup>84</sup> PG&E’s  
9 Testimony provides some of the criteria used, but does not describe the process for  
10 grouping segments into projects. DRA developed the following understanding of  
11 the process based on PG&E’s data request responses and interviews with PG&E  
12 staff.<sup>85</sup>

- 14 • Gulf took a first cut at project grouping based on review of satellite images  
15 of the segment locations, PG&E GIS data, and other information
- 16 • Gulf and PG&E worked together to refine the projects, and finalized the  
17 segment groupings
- 18 • PG&E determined if segments assigned to replacement projects needed to  
19 be expanded in diameter (Prop\_OD) or relocated
- 20 • PG&E established a project schedule and assigned operational dates  
21 (OPDATE) to each project

22 PG&E describes the process used to prioritize projects in response to data  
23 DRA’s request DRA 36 Q3.

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<sup>82</sup> PG&E Testimony, Attachments 3A and 3B.

<sup>83</sup> See PG&E workpapers at WP 3-21 and WP 3-785.

<sup>84</sup> This figure is taken from the “Implementation\_Plan\_08-13-11” tab of File “Test Ph. 1 Projects Rev 1.1 10-31-11” provided as an attachment to the response to DRA 16.

<sup>85</sup> Meetings on December 19, 2011 and January 20, 2012 at PG&E noted previously, and response to DRA 36 Q3 and DRA 26, Q13

1  
2 “Once the segments were grouped in specific projects (replace, strength-  
3 test), PG&E used the prioritization model described in testimony on pages  
4 3-33 to 3-34 to propose an initial schedule for completing the work. This  
5 was done by simple Excel code for the factors discussed in testimony and is  
6 shown in attachment GasPipelineSafetyOIR\_DR\_DRA\_036-Q03Atch01.  
7 This file was used to create project prioritization. PG&E then took into  
8 consideration the project scheduling factors discussed in testimony on  
9 pages 3-34 to 3-35 to re-arrange the projects into an achievable work plan,  
10 the product of which was included as the PSEP Pipeline Implementation  
11 Plan Filing on August 26, 2011 for Chapter 3 workpapers. The process to  
12 apply the scheduling impacts discussed in testimony was done in several  
13 informal meetings with engineering and project management team  
14 members from PG&E and Gulf. The biggest driver for schedule shift of all  
15 Phase 1 projects were expected permitting delays, but other factors such as  
16 expected data validation completion by 2013, work load leveling and an  
17 appropriate ramp-up pattern for the work, construction efficiency and/or  
18 disturbance mitigation, and coordination with other projects/processes, such  
19 as ILI, valve automation, and system gas control, all played a part in the  
20 final project scheduling across 2012 to 2014.”  
21

22 This work was completed prior to August 13, 2011, based on the date of  
23 PG&E’s detailed PSEP Pipeline Implementation Plan as submitted to DRA.<sup>86</sup>  
24 Using the example for Line 220 in Section 4.1, new data was added to the PSEP  
25 Pipeline Plan database showing project assignments, operational dates, and  
26 proposed OD, as shown in blue below:<sup>87</sup>

---

<sup>86</sup> “Implementation\_Plan\_08-13-11” tab of File “Test Ph. 1 Projects Rev 1.1 10-31-11” provided as an attachment to PG&E’s response to data request DRA 16.

<sup>87</sup> Columns E-P not shown in this figure.

1 **Figure 6 - Example of PSEP Pipeline Plan database, project data added**

	A	B	C	D	E	R	S	T	U	V	W	AC
1	ROUTE	SGMNT NO	MP1	MP2	YeaR_ INSTALL	MAOPrec430	Sub_J624 11	DT_Ref_ Num	Prj_Type	GIEPrjNum	OPDATE	Prop_OD
2	220	133.9	22.11	22.14	1/1/1981	Complete	Y	C7	REPL	L-220REPL	12/1/2013	10.75
3	220	134.2	22.14	22.17	1/1/1938	Incomplete Record	N	F2	REPL	L-220REPL	12/1/2013	10.75
4	220	134.5	22.17	22.17	1/1/1938	Incomplete Record	N	F2	REPL	L-220REPL	12/1/2013	10.75
5	220	135.5	22.17	22.17	1/1/1938	Incomplete Record	N	C3				
6	220	136	22.17	22.31	1/1/1937	Partial Mileage	N	C3				
7	220	136.3	22.31	22.35	1/1/1937	Partial Mileage	N	C3				
8	220	137	22.35	22.41	1/1/1980	Complete	Y	C6				
9	220	137.5	22.41	22.58	1/1/1980	Complete	Y	C6				
10	220	137.77	22.58	22.73	1/1/1980	Complete	Y	C5				
11	220	138	22.73	22.85	1/1/1980	Complete	Y	C6				
12	220	138.5	22.85	23.10	1/1/1980	Complete	Y	C5				
13	220	139	23.10	23.15	1/1/1980	Complete	Y	C6				
14	220	139.5	23.14	23.15	1/1/1962	Incomplete Record	N	M4	TEST	L-220TEST		
15	220	140	23.15	23.37	1/1/1937	Partial Mileage	N	C3	TEST	L-220TEST		
16	220	141	23.37	23.89	1/1/1937		N	C1	TEST	L-220TEST		

2  
3

4 Figure 6 includes segments that PG&E has added to Phase 1 projects even  
5 though this is not required based on the engineering assessment embedded in the  
6 DT process. For example, segment 133.9 is slated for replacement even though  
7 the DT only requires ILI at the next TIMP assessment (DT ref C7), and segment  
8 140 is included in a Phase 1 hydrotest, even though the DT shows a Phase 2 ILI  
9 and CIS could be sufficient. In testimony, PG&E directly addresses the issue of  
10 “extra” miles included in Phase 1 for hydrotesting by stating:

11 “[t]o complete the 546 miles of segments, PG&E plans to strength test 783  
12 miles of pipe. “This 237 mile difference (783 less 546) was created by  
13 determination of efficient ending points per project as opposed to the exact  
14 start and stop of every pipe segment without a pressure test.”<sup>88</sup>

15 PG&E does not quantify the number of miles of pipeline it recommends  
16 replacing where replacement was not identified per the DT.

17

18 PG&E also included other modifications to segments designated for pipeline  
19 replacement projects, including expanding and relocating lines. PG&E states that:

<sup>88</sup> PG&E Testimony, pp.3-29 to 3-30.

1 “Typically, PG&E will replace pipe size for size, unless PG&E has known  
2 capacity restrictions that can be resolved by increasing the pipe diameter.  
3 More importantly, PG&E will attempt to create long sections of the same  
4 diameter of pipe to better facilitate ILI.”

5 This is shown for Segment 134.5 in the example in column AC, which  
6 indicates they propose replacing the current 8.625” OD line with a 10.75”  
7 segment.<sup>89</sup> PG&E does not mention in testimony that the PSEP Pipeline  
8 Implementation Plan also includes relocating lines, as discussed in Section 4.5.3  
9 below.

#### 10 **4.4 Analysis of the PSEP Pipeline Implementation Plan**

11 DRA evaluated the PSEP Pipeline Implementation Plan at two Phases.  
12 First, an overall review was performed to determine the aggregate impacts of the  
13 plan. In Section 4.4.1, the results of a high level review are presented which  
14 indicates the need for more detailed review. Section 4.5 provides the detailed  
15 analysis of a sample of projects reviewed by DRA, and others reviewed by BEAR.

##### 16 **4.4.1 Review of PG&E’s PSEP Pipeline Implementation Plan Scope**

##### 17 **4.4.1.1 BEAR review of PSEP Pipeline Implementation Plan**

18 Exhibit DRA-4 provides the following table based on DT outcomes for  
19 both BEAR and PG&E’s decision trees:<sup>90</sup>

---

<sup>89</sup> Existing OD is shown in PG&E workpapers, p.WP 3-218.

<sup>90</sup> Table 1 from Exhibit DRA-4 was reformatted to aid in the discussion which follows it in this exhibit.

1 **Table 5 – Scope of Phase 1 pipeline mitigation, per PG&E and BEAR**

		A	B	C	D	E	F
		PG&E	PG&E: not from DT	BEAR DT Recomm	Unique to BEAR	BEAR DT, w/ neighbor	Unique to BEAR
1	Replace (segments)	2,797	314	788	133	910	166
2	Replace (mileage)	186	18	110	21	113	22
3	Test (segments)	3,396	1,362	3,123	240	3,336	286
4	Test (mileage)	783	270	472	41	502	51

2

3

4 The columns define Phase 1 mitigation as follows:

5

6

- A –Per PSEP

7

- B – Included in PSEP, but not driven by PG&E DT

8

- C –Per BEAR revised DT

9

- D – Required by BEAR, but not included in PSEP

10

- E – Same as C, but with “Neighboring Segment” situation<sup>91</sup>

11

- F - Same as D, but with “Neighboring Segment” situation<sup>92</sup>

12

13

Three overarching observations are summarized here:

14

- PG&E included 288 miles of pipeline in Phase 1 for reasons other than their DT (Table 5, B2 plus B4)

15

16

- BEAR recommends 62 miles to Phase 1 for engineering/safety reasons that are not included in the PSEP (D2 plus D4)

17

<sup>91</sup> See Exhibit DRA-4, p.12. BEAR defines this situation as “when a segment which has not been flagged for a replacement or testing project by the Decision Tree is surrounded by segments which have been flagged for a project, the non-flagged segment may be included if doing so is more economical. Such a decision would be made on a project-by-project basis.”

<sup>92</sup> See Exhibit DRA-4, p.12.



1 **Table 6 – PG&E decision tree outcomes for all DOT transmission lines<sup>95</sup>**

	A	B	C	D	E	F	G	H
	Overall		Replacement		Hydrotest		Phase 2	
DT Outcome	Segments	Miles	Segments	Miles	Segments	Miles	Segments	Miles
D1	-	-	-	-	-	-		
M1	-	-	-	-	-	-		
M2	1,241	133.6	1,118	100.1	43	15.5	80	17.9
M3	1,166	138.4	2	1.9	22	12.3	1,142	124.2
M4	1,768	253.8	898	21.9	838	225.8	32	6.1
M5	547	115.9	2	0.1	51	22.7	494	93.1
F1	-	-	-	-	-	-	-	-
F2	188	28.0	126	13.9	58	12.9	4	1.2
F3	169	42.9	7	1.9	2	0.1	160	40.9
C1	2,502	1,053.2	2	0.0	158	73.2	2,342	979.9
C2	1,066	209.5	264	6.3	762	195.2	40	8.0
C3	1,952	277.9	78	9.0	537	93.0	1,337	176.0
C4	5,629	2,109.1	83	14.9	177	46.1	5,369	2,048.0
C5	4,253	766.9	44	1.9	193	12.6	4,016	752.4
C6	3,162	432.4	97	7.2	322	41.3	2,743	383.9
C7	1,433	252.9	76	6.3	233	32.4	1,124	214.2
Blank	-	-	-	-	-	-	-	-
<b>Total</b>	<b>25,076</b>	<b>5,814.5</b>	<b>2,797</b>	<b>185.5</b>	<b>3,396</b>	<b>783.0</b>	<b>18,883</b>	<b>4,845.9</b>

2

3

4 Outcomes in orange or yellow require Phase 1 replacement or hydrotest  
 5 respectively, per PG&E’s DT. This table shows that the PSEP Pipeline  
 6 Implementation Plan deviates significantly from the mitigations specified by  
 7 *PG&E’s own DT*. For example:

8

- 9 1. 47.6 miles that should be replaced in Phase 1 (M2 or F2) are either
- 10 hydrotested or deferred to Phase 2
- 11 2. 14.1 miles that should be hydrotested in Phase 1 (M4 or C2) are deferred to
- 12 Phase 2
- 13 3. 71.5 miles are replaced in Phase 1, when they could be deferred to Phase 2
- 14 and/or subject to less expensive mitigation

<sup>95</sup> In Table 6, columns A and B were obtained by querying the DT outcome on all segments in the PSEP database; columns C and D obtained by querying the DT outcome on all segments included in Phase 1 replacement projects; columns E and F obtained by querying the DT outcome on all segments included in Phase 1 hydrotest projects; column G was generated by subtracting C and E from A; and column H was generated by subtracting D and F from B.

1 4. 333.7 miles are hydrotested in Phase 1, when they could be deferred to  
2 Phase 2 and possibly subject to less expensive mitigation

3

4 PG&E’s DT does not automatically require replacement in Phase 2 for any  
5 outcome, but establishes options, the most expensive of which is to “replace or  
6 hydro and ILI” for outcomes M5 or F3.<sup>96</sup> Of the 405.2 miles advanced into Phase  
7 1 by the PSEP Pipeline Implementation Plan, less than 25 miles would eventually  
8 require replacement or hydrotest and ILI. For the balance, the PSEP Pipeline  
9 Implementation Plan advances them unnecessarily into Phase 1, which results in  
10 more expensive mitigation for some segments.

11

12 DRA’s high level analysis shows that the PSEP Pipeline Implementation  
13 Plan shows significant deviations from the results of PG&E’s DT which:

14

- 15 1. Provides less safety for many of the highest priority pipeline segments
- 16 2. Specifies more expensive mitigation than required according to PG&E’s  
17 DT
- 18 3. Increases the scope of Phase 1 mitigation, which could create resource  
19 constraints and cost inflation

20

#### 21 **4.4.2 Review of PSEP Pipeline Implementation Plan Cost** 22 **impacts**

23

24 DRA was able to use the models described in Section 2.4.1 of this exhibit  
25 to estimate the cost impact of PG&E’s deviations from its DT on its Phase 1 cost  
26 recovery request.

---

<sup>96</sup> PG&E DT outcome F1 provides the possibility of Phase 2 replacement, but only after an ECA. No segments currently have been assigned this outcome. See PG&E response dated 12/16/2011 to data response DRA 34 Q4.

1

2 For replacement projects, DRA’s model can account for \$828.5 million of  
3 the \$843.9 million requested to individual segments with 100% accuracy.<sup>97</sup> Table  
4 7 shows how much of the \$828.5 million is driven by each DT outcome, with  
5 outcomes requiring Phase 1 replacement in green, and those requiring Phase 1  
6 hydrotest in orange:

7

8 **Table 7– Phase 1 pipeline replacement costs NOT driven by PG&E decision**  
9 **tree**

10

<b>PG&amp;E DT Outcome</b>	<b>Cost Excluding Mob/Demob</b>	
D1	\$ -	
M1	\$ -	
M2	\$ 447,178,430	
M3	\$ 4,585,192	
M4	\$ 108,436,821	
M5	\$ 572,739	
F1	\$ -	
F2	\$ 50,656,310	
F3	\$ 7,716,638	
C1	\$ 24,746	
C2	\$ 34,086,651	
C3	\$ 35,374,617	
C4	\$ 58,661,486	
C5	\$ 6,749,473	
C6	\$ 42,297,802	
C7	\$ 32,146,906	
<b>Total</b>	<b>\$ 828,487,811</b>	98.2%
<b>Total with mob/demob</b>	<b>\$ 843,921,000</b>	100.0%
REPL Ph1 per DT	\$ 497,834,740	59.0%
Hydro P1 per DT	\$ 142,523,472	16.9%
Replacement optional	\$ 188,129,599	22.3%

11

12

13

<sup>97</sup> This is PG&E’s total cost for replacement, which is the sum of \$833.6 million and \$0.6 million from table 3-1 (p.3-6) and \$9.8 million that PG&E offers to pay (p.3-66). The remaining costs are for Mob/Demob costs which are assigned by PG&E at the project level. These costs can be assigned to the segment level, but not with 100% accuracy.

1           Of these \$828.5 million, DRA calculates that \$497.8 million is for  
2 segments that require Phase 1 replacement per PG&E’s DT. \$142.5 million is for  
3 segments that were assigned to Phase 1 hydrotest, which at face value increases  
4 the cost of mitigation for these segments 10 fold (see Table 9 below). In practice,  
5 for short adjacent segments, particularly if they are of small diameter, there may  
6 be cases where the fixed cost of hydrotesting is higher than the cost to replace, but  
7 this requires a detailed review on a project and segment basis (see section 4.4.2 for  
8 an example.)

9  
10           In addition, PG&E includes \$188.1 million for segments that are not a high  
11 priority. In total, Table 7 shows that less than 60% of the cost PG&E’s request s  
12 for Phase 1 replacement are driven by their DT.

13  
14           For hydrotests, PG&E’s cost models have high fixed costs that are assigned  
15 to projects, and are difficult to assign to specific segments. As a result, DRA’s  
16 model can account for only \$319.3 million of the \$404.9 million requested to  
17 individual segments with 100% accuracy.<sup>98</sup> Table 8 shows how much of the  
18 \$319.3 million is driven by each DT outcome, with outcomes requiring Phase 1  
19 hydrotest in blue, and those requiring Phase 1 replacement in yellow:

20  
21  

---

<sup>98</sup> This is PG&E’s total cost for hydrotesting, which is the sum of \$389.1 million and \$4.1 million from table 3-1 (p.3-6) and \$11.8 million that PG&E offers to pay (p.3-66). The remaining costs are for Mob/Demob costs which are assigned by PG&E at the project level. These costs can be assigned to the segment level, but not with 100% accuracy.

1 **Table 8– Phase 1 pipeline hydrotest costs NOT driven by PG&E decision tree**

PG&E DT Outcome	Cost Excluding Mob/Demob	
D1	\$ -	
M1	\$ -	
M2	\$ 5,062,634	
M3	\$ 4,495,874	
M4	\$ 68,525,062	
M5	\$ 6,271,596	
F1	\$ -	
F2	\$ 5,766,414	
F3	\$ 23,264	
C1	\$ 30,555,018	
C2	\$ 102,994,648	
C3	\$ 32,770,310	
C4	\$ 19,292,765	
C5	\$ 5,064,432	
C6	\$ 17,582,021	
C7	\$ 20,917,781	
<b>Total</b>	<b>\$ 319,321,819</b>	78.9%
<b>Total with mob/demob</b>	<b>\$ 404,934,000</b>	100.0%
Hydro Ph1, per DT	\$ 171,519,709	42.4%
Replace Ph1, per DT	\$ 10,829,049	2.7%
Other	\$ 136,973,061	33.8%

2  
3

4 Of these \$319.3 million, DRA calculates that \$171.5 million are for  
5 segments that require hydrotest per PG&E’s decision tree, and \$10.8 million for  
6 segments that should have been replaced, but PG&E includes in hydrotest projects  
7 instead. Therefore, at least \$137.0 million of PG&E’s request is for segments that  
8 could be addressed after 2014, and possibly with less expensive measures such as  
9 ILI or CIS and DCVG. Table 8 shows that even if none of the Mob/Demob costs  
10 are unique to the optional segments, over one-third of PG&E’s proposed hydrotest  
11 costs are NOT required by its decision tree:<sup>99</sup>

12 **4.4.3 Adding segments to replacement vs. hydrotests**

13 For hydrotests, only the beginning and end of the test section, which can  
14 include multiple pipeline segments, need to be excavated, unless a failure occurs.

<sup>99</sup> Mob/Demob costs are assigned by PG&E at the project level. These costs would only be reduced if PG&E has defined a project in which none of the segments requires a Phase 1 hydrotest, and the project can be eliminated.

1 The excavation and setup costs are required regardless of the length of the test  
 2 section. This leads to high fixed costs per test that are independent of the length of  
 3 pipeline tested, which can be seen in the wide range of strength test costs per mile  
 4 provided by PG&E:

5

6 **Table 9 – PG&E’s estimated pipeline mitigation costs per mile from PSEP**

7 **Pipeline Plan**

	A	B	C	D	E	F
	PG&E's Provided Costs			Total Cost with Contingency	Miles	Calculated Cost
	Low	Average	high	from Table 1		
	\$/mile	\$/mile	\$/mile	millions		\$/mile
<b>Replacement</b>	\$ 4,118	\$ 4,514	\$ 5,180	\$ 1,011.8	186	\$ 5,440
<b>Strength Tests</b>	\$ 248	\$ 502	\$ 13,971	\$ 488.3	783	\$ 624
<b>Retrofit for ILI</b>	\$ 137.0	\$ 152.0	\$ 158.0	\$ 36.7	199	\$ 184
<b>Pipeline ILI</b>	\$ 16.0	\$ 40.0	\$ 60.0	\$ 11.6	234	\$ 50

8

9

10 In contrast, replacement requires excavating the entire length of pipeline to  
 11 be replaced, such that the cost per mile calculated by PG&E is both much higher  
 12 and constant across all PSEP Pipeline Plan projects. Based on these findings,  
 13 DRA concludes that it may be reasonable to include not only adjacent segments to  
 14 Phase 1 hydrotests, but potentially close segments that are not contiguous.  
 15 However, the opposite is true for replacement projects: since the fixed  
 16 Mob/Demob costs for replacement are very low compared to the variable per-mile  
 17 costs for excavation and pipeline, there should be few cases where it is  
 18 economically efficient to replace segments unless required per the DT.

19

20 It should also be noted that replacement lines will need to be hydrotested  
 21 prior to being placed into service, per 49 CFR 192. Extending the length of this  
 22 hydrotest to include additional segments on either side of the replacement should  
 23 be a low-cost alternative to replacing these segments. In this case, approximately  
 24 one half of the high fixed costs will already be included in the costs to replace the

1 central replacement section, and the only incremental cost should be the hydrotest  
2 cost per foot, which is approximately 10 times lower than the cost per foot to  
3 replace.<sup>100</sup>

#### 4 5 **4.5 Sample project review**

6 Conceptually, it is reasonable for PG&E to consider adding segments to  
7 Phase 1 projects if it results in a net increase in efficiency, and reduction in costs,  
8 when all Phases of the PSEP Pipeline Plan are considered. However the  
9 combination of the issues raised above, and lack of justification for the  
10 composition of projects in PG&E's Testimony led DRA to review a small sample  
11 of projects and evaluate the reasonableness of PG&E's augmenting Phase 1  
12 projects where it was not required by the DT. Based on DRA's evaluation of one  
13 randomly selected project, DRA instructed its consultant BEAR to review other  
14 projects. Detailed comments on four other projects are provided, as well as a  
15 summary of some other minor issues uncovered.

##### 16 17 **4.5.1 Review of PG&E projects on Line 21F**

18 This project was essentially at random, as the first replacement project in  
19 PG&E's workpapers in which "post 70" costs to be funded by PG&E shareholders  
20 were included.

21  
22 Line 21F runs 21.5 miles roughly parallel to the 101 freeway in Marin  
23 County, from Petaluma to San Rafael. Of the 125 segments in the line, 60 are  
24 included in the PSEP Pipeline Plan for proposed Phase 1 action: replace 29  
25 segments totaling 4.24 miles,<sup>101</sup> and hydrotest 31 different segments totaling 5.18

---

<sup>100</sup> Based on a comparison of the "all-in" costs for replacement, PG&E Testimony, p. 3E-15, with the "all-in" costs for hydrotest, PG&E Testimony, p. 3E-17, for the same sized pipeline.

<sup>101</sup> Project L-021-F REPL, as detailed in the PG&E workpapers starting at WP 3-20

1 miles.<sup>102</sup> Line 21F consists primarily of 12.75” OD segments with many segments  
2 of 16” interspersed, and one 20” section:

3

4 **Table 10 – Existing outside diameters for PG&E Line 21F**

		OD		
	Total	12.75"	16"	20"
Miles	21.150	16.38	4.71	0.06
Feet	111,672	86,486	24,869	317

5

6

7 For the subject replacement project, the segments to be replaced are  
8 clustered in three separate locations at the beginning, middle, and end of this line  
9 as shown on pages 12 and 13:

10

- 11 ■ 2.1 miles in Petaluma (MP 0 to 2.13)
- 12 ■ .89 miles in Novato (MP 10.8 to 11.7)
- 13 ■ 1.23 miles in San Rafael (MP 19.9 – 21.1)

14

15 The hydrotest project includes 4 test sections, two between Petaluma and  
16 Novato; one section adjacent and to the south of the Novato replacement section;  
17 and one section adjacent to, and north of the San Raphael replacement section.  
18 The following observations were made by reviewing PG&E’s workpapers, the  
19 PSEP Pipeline Plan database, and Google map images of the route:

20

- 21 • The decision tree includes four outcomes (M1, M3, M5, and F3) that are  
22 not terminal points (i.e. at least one more decision remains to be made),<sup>103</sup>  
23 but that connect to other section of the DT. PG&E should clarify how to  
24 treat segments with more than one outcome.

---

<sup>102</sup> Project L-021-F Test, as detailed in the PG&E workpapers starting at WP 3-785.

<sup>103</sup> Refer to PG&E’s DT.

- 1 • Many segments that did not have pressure test duration in the GIS database  
2 were deemed to have complete pressure test records by the MAOP  
3 validation project. The records for these segments should be reviewed.
- 4 • For each project, PG&E should determine and report the “pigability” of the  
5 lines.<sup>104</sup> This will allow accurate determination of which segments to  
6 replace, hydrotest, or ILI.
- 7 • This project begins with three segments totaling 1,396 feet of Class 1 lines  
8 that do not require replacement. These lines are all same diameter, and  
9 with adjacent sections, so there is no obvious impediment to ILI. The north  
10 end of the line could be fitted with a permanent pig launch port and test  
11 head in a separate dig, and a pig receiving port could be installed at the  
12 south end, which would be excavated as part of the replacement project.  
13 An ILI could be performed, and the three segments hydrotested when the  
14 replacement segments were tested, at a much lower cost than replacing  
15 them.
- 16 • The first two sections, 101 and 101.3 are classified by Gulf as “highly-  
17 congested.”<sup>105</sup> Comparing the image of this line on WP 3-583 with a detail  
18 on Google maps, these segments appear to be non-congested. The fact that  
19 they are listed as Class 1 in the PSEP Database tends to support this  
20 observation. This is a moot point if these sections are hydrotested per  
21 above, but this discrepancy appears to causes Gulf’s current estimate to be  
22 erroneously inflated.
- 23 • The bulk of Line 21F is 12.75” diameter, but PG&E proposes to replace the  
24 north end of the project with 16” line. Since Gulf’s cost model assigns a

---

<sup>104</sup> Pigable refers to a pipeline that can be inspected using a smart pig for ILI. A pipeline must have certain characteristics before ILI is possible, relating the bends, changes in OD, and other obstacles in the line which prevent the passage of a smart pig. DRA seeks a catalog of these impediments to ILI.

<sup>105</sup> Gulf classifies each segment as non-, Semi-, or highly- congested. See PG&E Testimony at pp.3-42 to 3-45. Note PG&E does not explain if or how these classifications relate to HCA classifications.

1 lower costs for 12.75” line, this upgrade adds a significant cost. PG&E  
2 should document why this section of the line, and all OD upgrades  
3 suggested by PG&E, requires a large OD to justify this cost increase.

- 4 • Over 10,000 feet of line, nearly half of the replacement project total, was  
5 installed after 1960, but test records are incomplete. All but 20 of these  
6 were installed after 1971. PG&E shareholders should pay for these  
7 replacements since strength test recordkeeping requirements were clearly  
8 established by CPUC GO 122 in 1960<sup>106</sup>
- 9 • For the Novato section of the replacement project, segments from MP10.84  
10 to 11.73, are directly adjacent to the majority of the hydrotest project, MP  
11 11.73 to 13.92. By coordinating the hydrotest project with the post-  
12 replacement hydrotest on the replacement project, as least half of the fixed  
13 costs (\$215,000) should be avoided, and other efficiencies should also be  
14 gained.
- 15 • Segment 125, which constitutes the bulk of the Novato section of the  
16 replacement test, is classified by Gulf as highly congested. Google maps  
17 images seem to indicate the northern end of this line, around the  
18 intersection of San Marin Drive and Redwood Blvd., is actually semi-  
19 congested.
- 20 • For the hydrotest section between Novato and San Rafael, MP 11.73 to  
21 13.92, most of the segments were hydrotested after installation, primarily in  
22 1982 or 1983. Only 3% of the footage in this section has complete test  
23 records. PG&E should pay to test these sections. A similar situation exists  
24 for the most of the San Raphael replacement portion of the line.

---

<sup>106</sup> These dates relate the dates of state and federal pipeline safety standards. DRA believes that PG&E should also be liable for pipeline installed or tested prior to 1960, as discussed in Section 6 of this exhibit, and Exhibit DRA-2.

- 1 • In the southernmost section of this line, a hydrotest segment is located  
2 immediately adjacent to a replacement project. As above, this section  
3 should be tested as part of the replacement project.
- 4 • The southernmost segments on the line, 153, 153.5, and 154 have DT  
5 outcomes C5 or C6 and don't require replacement or even hydrotesting in  
6 Phase 2. These segments should not be included in Phase 1, certainly not  
7 replaced. If PG&E can provide a compelling reason, these segments could  
8 be hydrotested as part of the post-replacement hydrotest of this section of  
9 the line.

10  
11 DRA did not calculate the total cost impact of these findings, but can do so  
12 if requested. In summary, the review of line 21F showed that:

- 13  
14 1. PG&E did not attempt to coordinate replacement and hydrotest projects for  
15 the line. As such, it missed opportunities to reduce costs
- 16 2. PG&E planned to replace segments that did not require Phase 1 action, and  
17 some which did not require hydrotesting
- 18 3. Gulf overestimated the congestion class for some sections, leading to an  
19 inflated cost estimate
- 20 4. A significant portion of Line 21F was hydrotested after installation, in most  
21 cases after 1970. In most of these cases, PG&E does not have complete test  
22 records. PG&E's process for allocating costs for "post 70" pipelines did  
23 not capture this, resulting in an erroneous request for ratepayer funding
- 24 5. PG&E proposed to enlarge the OD for part of the replacement project, but  
25 no reason is provided in the testimony, and there is no clear technical  
26 reason given the size of the balance of the line. Since enlargement will  
27 significantly increase replacement cost, PG&E should provide a  
28 justification

- 1 6. PG&E should investigate and report the “pigability” of lines before  
2 assigning non-priority segments to Phase 1 projects, if this is the reason for  
3 replacing them  
4

#### 5 **4.5.2 Review of PG&E projects on Lines L101 and L109**

6 DRA discovered that PG&E’s hydrotest costs include \$22.6 million for a  
7 so-called “peninsula adder” which is added to six projects. This adder is not  
8 discussed in the testimony or in the narratives for each project in the workpapers.  
9 The only indication of this adder is in one line in six of the nearly 350 individual  
10 spreadsheets for each project in the workpapers.<sup>107</sup> When asked to explain the  
11 purpose of this adder, PG&E responded:  
12

13 “The adder increases the cost forecast of the five L-109 pipeline  
14 replacement projects by \$200/foot. The L109\_1 project was the first PSEP  
15 Pipeline Plan pipe replacement project to be initiated in 2011, with the  
16 engineering and job estimate completed and a portion of construction  
17 completed in 2011. The L109\_1 job estimate (based on detailed estimate  
18 based on sites visits, detailed permitting and routing discussions and  
19 securing of third-party facility information) exceeds the L109\_1 rate case  
20 estimate by over 30% when contingency is removed from both estimates.  
21 The \$200/foot adder was created to increase the rate case cost estimates of  
22 the L-109 projects (the major PSEP Pipeline Plan pipe replacement projects  
23 on the Peninsula) to reflect the high cost of pipe replacement on the  
24 Peninsula. The congestion, lack of third-party utility records, and  
25 permitting are just a few of the cost drivers that PG&E believes will  
26 increase replacement costs on the Peninsula above those in other areas  
27 within PG&E’s system. The adder also covers higher than estimated costs

---

<sup>107</sup> For example, see page WP 3-44 and look for a \$18,000 cost. DRA only noticed the magnitude of this adder by noting a \$20+ million variance when calibrating its models.

1 due to the long length of the L-109 project replacement, traversing through  
2 numerous cities, counties and San Francisco Public Utilities Commission  
3 land, as well as permitting of numerous creek crossings and compliance  
4 with the California Environmental Quality Act. The adder allowed the rate  
5 case estimated costs for the L-109 pipeline replacement projects to reflect  
6 these additional cost drivers. The adder reflects expected costs and is not a  
7 contingency item. These issues are not expected to affect the other PSEP  
8 Pipeline Plan work as significantly, and therefore, the adder was not  
9 applied to any other PSEP Pipeline Plan projects.”<sup>108</sup>

10

11 This response is inaccurate because it fails to note that this adder was also  
12 applied to a sixth test on Line 101.<sup>109</sup> When asked to “Provide all workpapers  
13 which show and describe how the \$200/foot adder was derived, PG&E responded:

14 “See response to part (a). The \$200/foot adder was identified in the L109  
15 workpapers on pages WP 3-68, WP 3-72, WP 3-76, WP 3-79, and WP 3-  
16 82. The adder was not calculated, but was created as a result of the refined  
17 cost estimate work performed on the L109\_1 pipeline replacement project  
18 vs. pipeline modernization cost estimating basis.”<sup>110</sup>

19

20 Thus, even when directly asked, PG&E was unable to provide support for  
21 this adder. We do not know why the cost is applied on a per foot basis, nor what  
22 is so unique about the Peninsula or SFPUC land compared to similarly dense  
23 regions in PG&E’s service territory.

24

---

<sup>108</sup> PG&E response to data request DRA 33 Q1a.

<sup>109</sup> See PG&E Testimony at WP 3-44.

<sup>110</sup> PG&E Response to data request DRA 33 Q1c.

### 4.5.3 Review of PG&E projects on Lines L103 and L108

BEAR reviewed these two projects, as discussed in Exhibit DRA-6, Section 6. BEAR also reviewed approximately 20 other projects and found their quality to be similar to L103 and L108, which were randomly selected. For Line 103, BEAR found:

- Applying the revised BEAR DT reduced the mileage replaced by over 25%
- Mismatches in the congestion class within the PSEP
- Misclassification of the congestion class by Gulf
- An “all-in” cost savings of 61% when adjustments were made for all anomalies

For Line 108, BEAR found:

- Application of the revised BEAR DT *more than doubled* the mileage replaced
- Misclassification of the congestion class by Gulf
- The entire line is 16” OD currently, but PG&E proposes replacement with 24” OD line, which significantly increases the cost estimate

### 4.5.4 Review of PG&E projects on Lines L111 and L118

DRA discovered many anomalies for these two lines while calibrating our cost models. First, it was noticed that for Project L-118A REPL (WP 3-101) proposes to replace existing 8” and a 12” pipe with 24” diameter pipe. PG&E stated that:

“[t]he reason for the significant increase in pipe size is to serve increasing gas customer demand from Fresno to Modesto along the Highway 99, L-118 gas transmission corridor. PG&E developed a gas transmission

1 capacity plan for the Central San Joaquin Valley. That plan required several  
2 new pipelines to be constructed southwest of Fresno.”<sup>111</sup>

3

4 DRA later asked for a copy of the referenced plan, to which PG&E  
5 provided only two confidential powerpoint presentations prepared in 2007 and  
6 2009 that offer minimal details for this multi-million dollar project.<sup>112</sup>

7

8 It was also discovered that PG&E has included relocation of Lines L118  
9 and L111 in the same area, even though PG&E’s Testimony says new lines will be  
10 installed adjacent to existing pipelines.<sup>113</sup> This project is revealed only by a single  
11 large number in one cell of one workbook.<sup>114</sup> When asked, PG&E responded that  
12 this was part of the same plan referenced above, and provided a drawing dated  
13 December 1, 2011, many months after the PSEP Pipeline Plan was filed.<sup>115</sup>  
14 PG&E’s response correctly notes that 15,000 ft of line were removed from project  
15 L-118A, and the same amount was added to project L-111A. However, it fails to  
16 address the fact that the footage removed was at a lower cost than the footage  
17 added, resulting in a net \$5 million cost increase.<sup>116</sup>

18

#### 19 **4.5.5 Other findings regarding particular projects**

- 20 • L-132\_1 TEST: Many segments requiring replacement based on an F2  
21 DT outcome were included for hydrotest, also a couple of M2 segments

---

<sup>111</sup> PG&E response to data request DRA 26 Q8.

<sup>112</sup> PG&E response to data request DRA 37 Q1. In response to another portion of this question, PG&E stated that “[n]o other upgrade plans exist that include the projects identified within the PSEP Pipeline Plan.”

<sup>113</sup> PG&E Testimony at p.3-51 states “[i]t was assumed that all new pipeline replacement projects would be installed adjacent to existing pipelines and by widening ROWs, easements and staying with franchise areas. However, local cities, counties, permitting agencies and property owners may challenge the routing and location of new gas pipelines, which could significantly increase overall project length, constructability and cost.”

<sup>114</sup> See WP 3-85 and look for an anomalous entry of “15000.” This number was manually entered in the spreadsheet. This error was also discovered while calibrating DRA’s models.

<sup>115</sup> Response to data request DRA 26 Q9, Attachment 1.

<sup>116</sup> This is discussed in greater detail in Section 5.3 of this exhibit.

- L-1181: PG&E acknowledged that the PSEP Pipeline Plan erroneously proposed to increase 6 5/8” and 12 3/4” sections of the line to 24” OD, thereby increasing the cost<sup>117</sup>

#### 4.5.6 Summary of sample project review

Overall, DRA finds that the unsupported inclusion of segments in Phase 1 projects provides one of the most compelling reasons to reject the proposed PSEP Pipeline Implementation Plan.

- It is necessary to review all segments in a project (e.g. replacement), and in other types of projects on the same line (e.g. hydrotest) to determine if a project is correctly defined
- Many sections are enlarged (larger proposed OD), but no justification is provided
- Gulf’s estimate of congestion is often too high
- Errors were found in the pipeline segment database
- In many cases, mitigation for a large number of segments is driven by the classification of a single segment. In some cases, this segment classification is marginal
- PG&E seeks ratepayer funding to retest lines previously tested to subpart J, but where they lost the records

#### *4.6 Cost adjustments based on changes to the decision tree and PSEP*

##### *Pipeline Implementation Plan*

The following cost adjustments were implemented in both DRA’s replacement and hydrotest cost models, in addition to other adjustments described in Sections 5.5 and 6.4. The overall impacts of DT changes, provided in Table 17, were not

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<sup>117</sup> Response to DRA 26 Q 8.

1 calculated separately from these other cost adjustments, but can be calculated upon  
2 request by the CPUC.

3 BEAR's revised DT resulted in a modified PSEP Pipeline Implementation  
4 Plan which eliminates many of PG&E's projects, significantly modifies others,  
5 and adds new projects. DRA estimated cost adjustments based on BEAR's  
6 revised DT. For Phase 1 replacement, DRA essentially created a modified and  
7 simplified PSEP Pipeline Implementation Plan to allow a reasonable model run  
8 using the revised segment lists as follows:

- 9 • Where the BEAR DT eliminated all segments from a PG&E project, the  
10 project was eliminated,
- 11 • PG&E project costs were recalculated based on the segments retained,  
12 within the project, where at least one segment was retained,
- 13 • New segments were assigned to new projects based on the facility type for  
14 the segments,

15

16 In addition, the schedule represented by PG&E's project operational dates  
17 (Ops Dates) became outdated and invalid using BEAR's DT. This required an  
18 assumption, included with other assumptions in Section 4.4.1.

19

20 DRA did not attempt to perform a project level analysis where new segments  
21 were added to Phase 1 replacement or hydrotest, but rather grouped new segments  
22 together by facility type.<sup>118</sup> DRA's model using BEAR DT outcomes eliminated  
23 103 of the 168 replacement projects defined by PG&E, while adding 6 new  
24 projects. These new replacement projects include 21 miles of new segments, and  
25 segments which were formerly included in PG&E's hydrotest projects.<sup>119</sup> At the

---

<sup>118</sup> Ideally, each new segment would be compared to the segments in existing projects on the same line and a decision would be made to add the segment to the existing project based on proximity or other factors, or grouped into a new project.

<sup>119</sup> These segments are described in PG&E's response dated 1/6/2011 to data request DRA 45 Q10.

1 same time, DRA’s model using BEAR DT outcomes eliminated 21 of the 168  
2 hydrotest projects defined by PG&E, while adding 8 new projects. These new  
3 hydrotest projects include new segments totaling 41 miles, and segments formerly  
4 included in PG&E’s replacement projects.

5

6 For both models, these new project lists induce unknown cost variances  
7 since they do not represent actual projects that could be implemented. For  
8 example, new segments in DRA project “new-LT-REPL” includes local  
9 transmission (LT) segments on lines 021H, 111A, 118A, and 210A which are not  
10 in close proximity to each other, and would not be included in the same project.  
11 For this project, actual costs will likely be higher than DRA’s estimate, since fixed  
12 costs will be incurred for each project. However, the new projects also include  
13 many segments which might reasonably assigned to an existing project. Moving  
14 new segments to an existing project would result in a reduction in costs compared  
15 to DRA’s estimate. Overall, the net cost could be higher than DRA’s calculated  
16 value in Table 5.1 if more than 14 projects are required for new segments not  
17 absorbed into existing projects, if more moves are required, or based on the need  
18 for road bores or excavation requiring horizontal directional drilling (HDD).

19

20 In addition to implementing BEAR’s DT, DRA also eliminated the  
21 Peninsula adder described in section 4.5.2 because the need for it was not  
22 adequately established.

23

#### 4.6.1 Assumptions

24

25 DRA’s models were modified to accommodate BEAR’s revised PSEP  
26 Pipeline Implementation Plan. For segments retained, all data used in PG&E’s  
27 cost estimate was used. For segments added based on the BEAR DT, the  
28 replacement model was modified as follows:

28

- The actual OD was used to estimate costs, since there was no  
29 proposed OD

29

- 1 • All segment footage was classified as “semi- congestion”
- 2 • No HDD or Road bore adders were assigned to these segments,
- 3 • No move adders were assigned to these segments
- 4 • A Mob/Demob adder of \$95k was assigned to each of the new
- 5 projects
- 6 • Escalation was calculated using an OpsDate of 12/1/2013
- 7 • New project names were assigned based on facility type (e.g.
- 8 backbone (BB) or distribution main feeder (DFM))

9

10 The hydrotest model was modified as follows:

- 11 • No move adders were assigned to these segments,
- 12 • Mob/Demob adder of \$500k was assigned to each of the new
- 13 projects,
- 14 • Escalation was calculated using an OpsDate of 12/1/2012,
- 15 • New project names were assigned based on facility type (e.g.
- 16 backbone (BB) or distribution main feeder (DFM)),

17

18

## 19 5 Cost Models and Unit Costs

### 20 5.1 Gulf Cost models and project costs

21 PG&E’s estimates for project costs are generated by three models  
22 developed by Gulf, one each for replacement, hydrotest, and ILI.<sup>120</sup> Each of  
23 these models is an Excel spreadsheet which applies the unit costs listed on pages  
24 3E-13 and 3E-16 of PG&E’s Testimony to the pipeline segments included in the  
25 341 Phase 1 projects. Each model has a tab with the full detailed PSEP Pipeline  
26 Implementation Pla , including all 25,076 segments, and a tab representing each  
27 project. Each project tab pulls data from the PSEP Pipeline Implementation Plan

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<sup>120</sup> DRA prioritized the review of these models, and was not able to perform a detailed review of the ILI model.

1 tab, and from other files. Each project tab has the format provided in the  
2 workpapers, at WP 3-9 for example. The models do not provide cost calculations  
3 at the segment level, for reasons to be discussed. They also do not provide  
4 summary information in aggregate, for all replacement projects as an example.

5  
6 Most costs are particular to the type of mitigation and the model used, so these  
7 will be discussed separately. However, some costs are applied consistently across  
8 all models, including the following:

- 9
- 10 1. Customer outreach is estimated by applying a 2.9% adder to the project  
11 costs
  - 12 2. Project management is estimated by applying a 2.5% adder to the project  
13 costs
  - 14 3. Escalation is applied on top of project costs and the customer outreach and  
15 project management adder. Escalation is calculated semi-annually, and  
16 applied based on the Ops\_Date for the project
  - 17 4. “Post-70” costs to be funded by PG&E shareholders are calculated as a last  
18 step (as described in Section 6)

19  
20 **5.1.1 Segment data estimated by Gulf for use in their cost**  
21 **models**

22 For the replacement projects in particular, additional information on  
23 segments was required by Gulf’s model, including data on the population  
24 congestion at each segment location, and information on the type of excavation  
25 required:<sup>121</sup>

26

---

<sup>121</sup> Hydrotests also required segment level information on the number of tests performed within a project, but this data is not shown in the figure.



1

	A	B	C	D	R	S	T	U	V	W	X	Y	Z	AA	AB
1	ROUTE	SGMNT	MP1	MP2	MAOPrec430	Sub_J624	DT_Ref_					Non	Semi	High	Total
2	220	133.9	22.11	22.14	Complete	11	Num	Prj_Type	GIEPrjNum	OPDATE	Prop_OD	Cong	Cong	Cong	Bored
3	220	134.2	22.14	22.17	Incomplete Record	N	F2	REPL	L-220REPL	12/1/2013	10.75	0	193	0	150
4	220	134.5	22.17	22.17	Incomplete Record	N	F2	REPL	L-220REPL	12/1/2013	10.75	0	0	154	154
5	220	135.5	22.17	22.17	Incomplete Record	N	C3					0	0	5	0
6	220	136	22.17	22.31	Partial Mileage	N	C3								
7	220	136.3	22.31	22.35	Partial Mileage	N	C3								
8	220	137	22.35	22.41	Complete	Y	C6								
9	220	137.5	22.41	22.58	Complete	Y	C6								
10	220	137.77	22.58	22.73	Complete	Y	C5								
11	220	138	22.73	22.85	Complete	Y	C6								
12	220	138.5	22.85	23.10	Complete	Y	C5								
13	220	139	23.10	23.15	Complete	Y	C6								
14	220	139.5	23.14	23.15	Incomplete Record	N	M4	TEST	L-220TEST						
15	220	140	23.15	23.37	Partial Mileage	N	C3	TEST	L-220TEST						
16	220	141	23.37	23.89		N	C1	TEST	L-220TEST						

2

3

### 5.1.2 Summary of PG&E’s replacement cost model

4

The replacement model includes the following unit costs that apply at the segment data discussed above, and vary directly with the length of pipe:

5

6

- “All-in” costs

7

- Road bores

8

- HDD

9

10

“All-in” cost is a misnomer since it only account for 80% of replacement

11

costs (See section 5.2.) This “all-in” cost is assigned to each segment based on

12

both congestion classification estimated by Gulf, and the OD proposed by PG&E.

13

Road bores and HDD vary only with the proposed OD. The Gulf model applies

14

one of 12 “all-in” unit costs, one of five road bore costs, and one of five HDD

15

costs to each segment.<sup>125</sup>

16

17

In addition to these variable per foot costs, Gulf assigns two costs for each

18

project, based on the largest diameter segment in the project: a “Move around

19

charge” and a “Mob/Demob” charge. Neither of these are defined in the testimony

20

or workpapers. These fixed costs add from \$60,000 to \$145,000 to each project,

<sup>125</sup> Since a segment may not have a road bore or HDD, there are five possible unit costs for each, including zero. See page 3E-13 of PG&E’s Testimony.

1 depending on the size of the largest proposed pipeline segment. Note that the  
2 fixed per project cost increases substantially if PG&E proposes increasing the size  
3 of even a single segment in the project.

### 5.1.3 Summary of PG&E's Hydrotest cost model

6 The hydrotest model includes only one unit cost that is applied to each  
7 segment and varies with length: the "all-in cost". This "all-in" cost is even more  
8 of a misnomer in this instance, since it only accounts for 44% of hydrotest costs  
9 (See Section 5.2, Figure 9.) The hydrotest "all-in" unit cost varies only the actual  
10 OD, not with congestion class.<sup>126</sup>

11  
12 Two additional unit costs are assigned at the segment level, but  
13 implemented at the project level: "Move Around costs" and "test header charges".  
14 PG&E's hydrotest project often include multiple test section which typically are  
15 not connected, and might be located many miles apart.<sup>127</sup> In these situations, two  
16 new access holes for each additional test section and another 8 hour pressure test  
17 must be performed. For some costs, like excavation and shoring, it is as though a  
18 separate test is performed. For other costs, like water supply and treatment and  
19 equipment moves, the costs should be much lower. As such, move-around costs  
20 should be lower than Mob/Demob costs.

21  
22 Gulf assigns a move around cost ranging from \$200,000 to \$500,000,  
23 depending on pipe diameter, to each move within a project, and a flat \$500,000  
24 Mob/Demob cost for each project.

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<sup>126</sup> PG&E did not assign proposed ODs to hydro projects, since the lines are not replaced.

<sup>127</sup> See Section 5.4 of this exhibit for a discussion of "leaf-frogging."

1 In addition, Gulf assigns a \$15,000 to \$40,000 adder to each move for test  
2 heads.<sup>128</sup> DRA asked PG&E:<sup>129</sup>

3

4 “PG&E appears to be requesting between \$15,000 - \$40,000 for temporary  
5 test heads for each pressure test performed, and then disposing of them.

6 Explain if DRA’s interpretation is correct, and why PG&E is not using  
7 existing permanent test heads, or building additional permanent test  
8 heads?”

9

10 Rather than providing a direct answer to this question, PG&E responded:

11

12 “PG&E uses both permanent test heads and temporary test heads to  
13 complete the hydrostatic testing work. Permanent test heads are used on the  
14 ends of the tests where there is typically a large work space, water injection  
15 or removal equipment, and pressure testing equipment attached to the test  
16 heads. Permanent test heads are transported and used throughout the system  
17 to hydrostatically test new and existing pipelines. Temporary test heads or  
18 test-caps are used to seal off the various taps or branch connections that are  
19 tested either with the mainline, sometimes independently of the main line,  
20 or in locations where excavation space only allows for temporary piping  
21 and test heads. Per PG&E Standard A-37, temporary test heads may only be  
22 used a maximum of 3 times if the test pressure exceeds 72% SMYS of the  
23 test head or test cap. The temporary test heads must then be destroyed.”

24

25 See Section 8 for further discussion of test header costs.

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<sup>128</sup> For a general description of test heads, refer to the presentation from May 6, 2011 Educational Symposium on Hydrostatic Testing of Natural Gas Pipeline, p.41, available at <http://www.cpuc.ca.gov/NR/rdonlyres/1A47C67C-4398-49CA-B52A-A8B5CD13457B/0/HydrostaticTestingSymposiumPresentationMaterialsversiontopost.pdf>

<sup>129</sup> PG&E response to data request DRA 26 Q3.

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To implement move around costs and test header costs, Gulf reviewed all segments in a hydrotest project and inserted a “1” value where a line was not contiguous. The hydrotest model counts all the values in the file for each project, and multiplies it by the unit move around and test header costs to get the total cost per project.

The difference between the move around and Mob/Demob unit costs for replacement vs. hydrotest is striking and lead to the following data request question:<sup>130</sup>

“Hydrotest project Mob/Demob cost of \$500k appears high compared to PG&Es estimated Mob/Demob for replacement projects, which range from \$45k to \$95k per project. Explain the reason these cost estimates are so different.”

PG&E responded:

“Both cost estimates were derived from models used to predict future costs of pipeline projects based on the aggregate totals of previous projects. Although both line items are called “Mob/Demob costs,” they are not the same, and an apples-to-apples comparison cannot be made. The Mob/Demob cost of \$500K for hydrotest work represents the fixed costs of performing the entire hydrotest, regardless of line length or diameter. This estimate covers the fixed price for the strength test, pipe cleaning, water handling/storage/disposal, bell-hole excavations, and drying of the pipeline, all of which takes approximately 3 to 5 weeks to complete. The Mob/Demob costs for the pipe replacement projects represent the movement of excavation, welding, and pipe movement equipment and man power to and

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<sup>130</sup> PG&E response to data request DRA 26 Q6.

1 from the project site. All the other variables of completing the pipe  
2 replacement are including in the construction price per foot, and not in the  
3 “Mob/Demob” line item.”  
4

5 As discussed by Delfino Engineering in Exhibit DRA-5 and BEAR in  
6 Exhibit DRA-6, this description overlaps with descriptions of Gulf’s “all-in” cost,  
7 and made it difficult to determine if Gulf is double counting costs. DRA has  
8 issued a data request question seeking further clarification of this issue.<sup>131</sup>

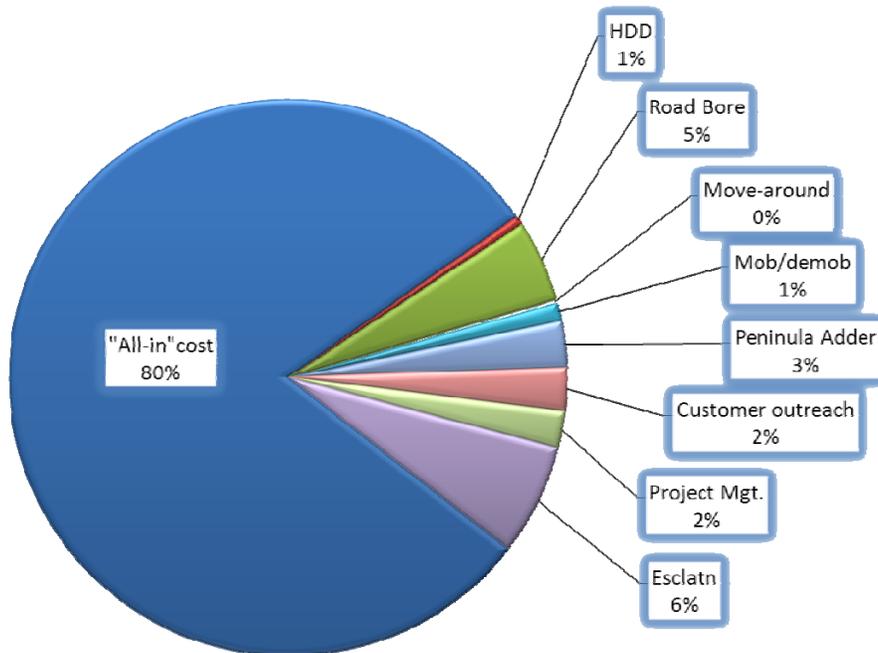
9 ***5.2 Cost drivers in PG&E’s cost estimate***

10 DRA was able to calculate the share of total project costs generated by each  
11 major element of Gulf’s model. For replacement, the variable “all-in” cost per  
12 foot leads to 80% of the costs, dominating all other costs:  
13  
14

---

<sup>131</sup> Pending data request DRA XX, TCR 27, issued on January 31, 2012. (Note that DRA issues data requests in this proceeding numbered based on the originator's initials, and PG&E then assigns sequential “DRA XX” numbers.)

1 **Figure 8 – PSEP Pipeline Plan pipeline replacement cost drivers**<sup>132</sup>



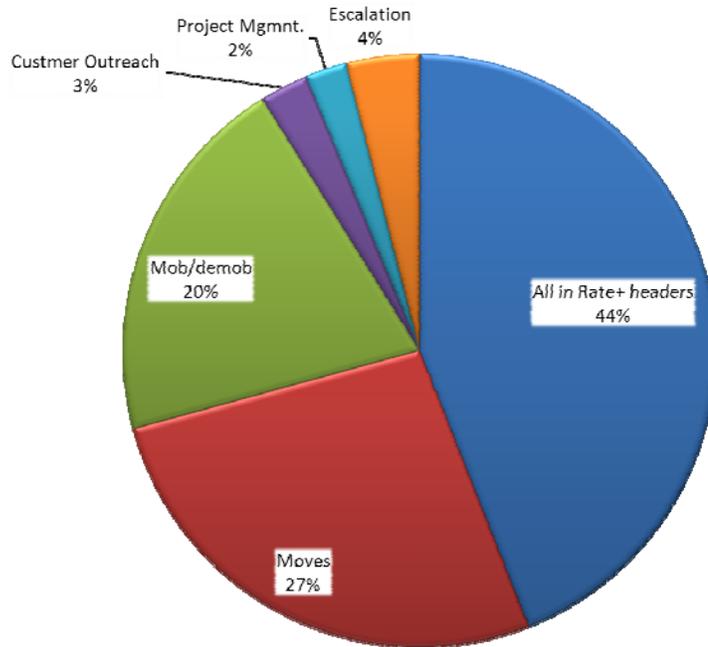
2  
3

<sup>132</sup> Chart developed by DRA using data provided in attachments to PG&E response dated 11/4/2011 to data request DRA 16 Q1.

1 For hydrotests, costs broke down as follows:

2

3 **Figure 9 – PSEP Pipeline Plan hydrotest cost drivers**<sup>133</sup>



4

5

6 This figure clearly shows that for hydrotest, variable “all-in” costs is still  
7 the largest cost driver, but fixed project level costs, moves and Mob/Demob,  
8 combine for an even larger impact.

### 9 ***5.3 Replacement Project unit costs***

10 Given that variable “all-in” costs per foot are responsible for 80% of  
11 PG&E’s cost request for replacement, DRA analysis focused on these costs.  
12 Exhibit DRA -5 provides a “bottom-up” calculation of these costs based on a  
13 detailed analysis of the major elements of pipeline replacement, namely the pipe  
14 material, welding, trenching, and indirect costs.<sup>134</sup> Each of these elements  
15 includes both labor and materials, and PG&E’s indirect costs were used. Table 11

<sup>133</sup> Chart developed by DRA using data provided in attachments to PG&E response dated 11/4/2011 to data request DRA 16 Q1.

<sup>134</sup> A “bottom-up” analysis determines and calculates values for elemental variables, and sums them to get a total value. In contrast, a “top-down” starts with a high-level or aggregate value, then attempts to separate the impact of the elemental variables.

1 shows how these costs combine, and show the derivation of the Delfino  
 2 Engineering costs for non-congested areas:

3

4 **Table 11 – Example of Delfino Engineering pipeline replacement cost**  
 5 **elements**

<b>Non-Congested Areas</b>					
Pipe Size Range	Pipe & Coating	Welding	Trenching	Indirect Costs	Total
10”	\$33	\$5	\$47	\$37	\$122
16”	\$73	\$11	\$72	\$54	\$210
24”	\$163	\$25	\$112	\$86	\$386
36”	\$364	\$55	\$180	\$154	\$753

6

7 These calculations were performed for the three congestion areas used in  
 8 Gulf’s cost models, and also by DRA, as summarized below:

9

10 **Table 12 - Summary of Delfino Engineering pipeline replacement “ All-in per**  
 11 **foot” unit costs**

Pipe Size Range	Non-Congested Areas	Semi-Congested Areas	Highly Congested Areas
10”	\$122	\$242	\$400
16”	\$210	\$383	\$610
24”	\$386	\$650	\$985
36”	\$753	\$1,170	\$1,678

12

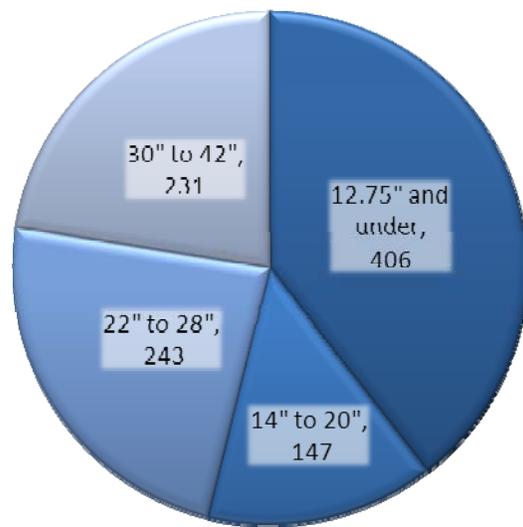
13 Exhibit DRA-5 shows that on average, these costs are 30% lower than PG&E’s.

14 In addition, Delfino Engineering’s costs are very close for (93% to 94%) for large

1 pipelines, but the error increases as the size decreases, and is 43% to 51% lower  
2 than PG&E’s for the smallest pipe sizes. DRA reviewed the pipeline sizes for  
3 lines classified by PG&E as HCA and found that the average size, weighted by  
4 miles, is 19.8”. Alternatively, grouped by PG&E size groupings:

5  
6  
7  
8  
9

**Figure 10 – Mile of PG&E DOT classified transmission pipeline per PSEP Pipeline Plan size group**



10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

Based on this information, the actual reduction from using Delfino Engineering “all-in” costs results in a reduction of more than 30%.

It is important to note that Delfino Engineering calculations are self-classified as “conceptual cost estimates” which are consistent with industry practice and represent a conservative estimate that could be as much as 40% higher than actual costs. In other words, they represent an upper bound of costs, based on the analysis of Delfino Engineering.

1 Exhibit DRA-6 reviews two studies on pipeline replacement costs summarized in  
 2 Table 5 of that exhibit, which is reproduced here:

3

4 **Table 13 – Summary of BEAR research on pipeline replacement “all-in” costs**

	Non-Congested	Semi-Congested	Highly Congested
<b>UC Davis compared to PG&amp;E</b>			
Diameter		<b>Average Reduction</b>	<b>21%</b>
10	73%	83%	85%
16	78%	80%	80%
24	76%	78%	79%
36	81%	80%	80%
<b>PNNL compared to PG&amp;E</b>			
Diameter		<b>Average Reduction</b>	<b>20%</b>
10	76%	76%	76%
16	80%	80%	80%
24	77%	77%	77%
36	88%	88%	88%

5

6

7 Table 13 compares costs from each study evaluated by BEAR to PG&E’s  
 8 “all-in” costs from page 3E-15 of PG&E’s Testimony. The percentage for each  
 9 combination of pipeline diameter and congestion classification indicates is the  
 10 study value divided by PG&E’s value. The average of these values yields the  
 11 Average Reduction in grey. Note that BEAR did not include PG&E’s contingency  
 12 request in this comparison, and that if they had, the Average Reductions in this  
 13 table would be higher.

14

15 BEAR recommends using costs derived from Oil and Gas Journal (OGJ)  
 16 data, which are either UC Davis or PNNL values.<sup>135</sup> BEAR also found that “The

---

<sup>135</sup> See Exhibit DRA-6.

1 PNNL study showed that California is not the most expensive area to replace gas  
2 pipelines.”<sup>136</sup>

3

4

#### 5 ***5.4 Hydrotest Project unit costs***

6 As with replacement projects, DRA and its consultants focused on  
7 reviewing the largest cost drivers first. For hydrotests, this required reviewing  
8 fixed move around and Mob/Demob costs as well as “all-in” costs. Exhibit DRA -  
9 5 provides alternatives for each of these costs separately.

10

11 For “all-in” costs, Delfino Engineering provided a bottom-up approach as  
12 with replacement costs, this time calculating the water needed for the test, and the  
13 air needed for line drying for each size of pipeline. Delfino Engineering then  
14 applied specific estimated unit costs for water supply, water treatment, “hydrotest”  
15 personnel and equipment, and critical equipment like pumps and air compressors  
16 needed to dry the lines when the test is completed.<sup>137</sup> The resulting costs, which  
17 range from \$7 to \$33 per foot, are significantly lower than Gulf’s estimates of \$30  
18 to \$59.<sup>138</sup> Delfino Engineering points to two clear reasons why their costs are  
19 lower. First, cleaning lines prior to test should be performed as part of routine

---

<sup>136</sup> Ibid.

<sup>137</sup> In this instance, “hydrotest” refers to the process of pressurizing the line and documenting that an accurate test was performed. This is a subset of the overall hydrotest process. PG&E provided general hydrotest procedures as confidential attachments in its 10/12/2011 response to data request DRA 10 Q5. PG&E stated “Please note the attachments to this response contain sensitive personal information pertaining to PG&E employees, such as employee names and Lan IDs. For this reason, and only for this reason, PG&E is providing this response pursuant to Public Utilities Code section 583.” A test-specific procedure for the failed hydrotest T-117 of PG&E pipeline 300B was also provided as confidential attachment to PG&E’s response dated 11/2/2011 to data request DRA 17 Q5, requesting Section 583 treatment for the same reason.

<sup>138</sup> See Exhibit DRA-5.

1 maintenance, and should not be included in PSEP Pipeline Plan costs.<sup>139</sup> Second,  
2 water from one test be reused in the next test.<sup>140</sup>

3  
4 For fixed costs, Mob/Demob was estimated first by Delfino Engineering  
5 using a bottom-up estimate that considers the specific processes, material, and  
6 equipment need for the hydrotest. For the cost to excavate each end of the  
7 pipeline, Delfino Engineering used a figure supplied by PG&E in response to a  
8 question regarding ILI costs, and scaled in for the size of holes required for a  
9 hydrotest.<sup>141</sup> Delfino Engineering calculates Mob/Demob costs of \$85,600 to  
10 \$139,400, which are significantly lower than Gulf’s costs, which are fixed at  
11 \$500,000 per test regardless of the line size.

12  
13 For move around costs, Delfino Engineering started with its calculated  
14 Mob/Demob cost, then adjusted downward based on the assumption that PG&E  
15 was able to “leap frog” equipment from one test to the next.<sup>142</sup> The resulting cost  
16 ranges from \$44.7 to \$76.7 which are significantly lower than Gulf’s costs, which  
17 ranges from \$200k to \$500k. DRA and its consultant have not evaluated how  
18 many “move arounds” involve such a leap frog vs. a non-contiguous segment.

19  
20 Both Delfino Engineering and BEAR note that the analysis of fixed costs  
21 was complicated by the lack of clear definition of what was included in the  
22 Mob/Demob cost, compared to the move around charge.<sup>143</sup>

23  

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<sup>139</sup> Exhibit DRA-5.

<sup>140</sup> Exhibit DRA-5.

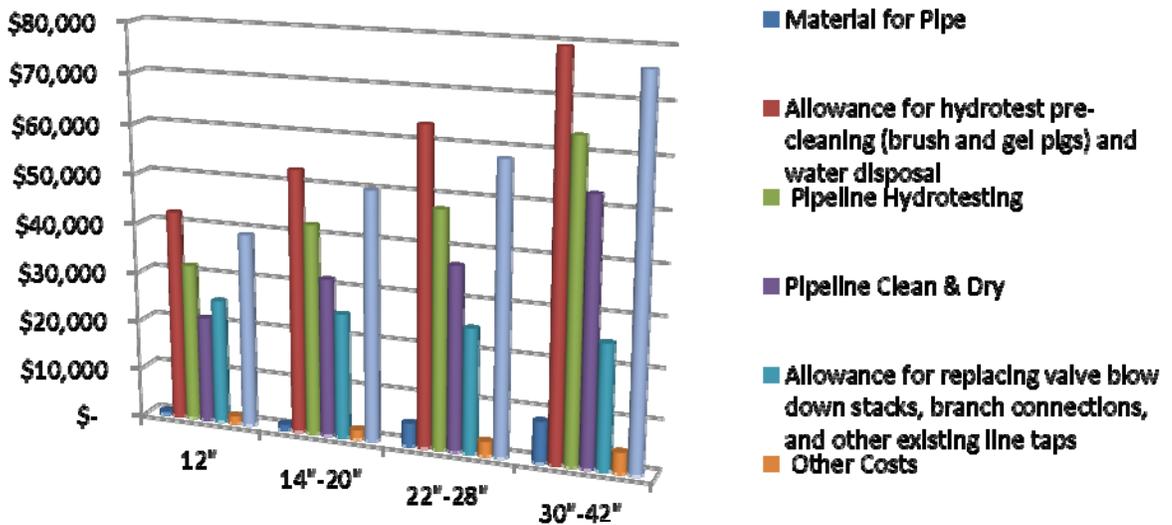
<sup>141</sup> Test heads are a separate line item and not included here. – See section 5.5 of this exhibit

<sup>142</sup> In Exhibit DRA-5, Delfino Engineering discusses how equipment at one end of a hydrotest can be left in place when testing contiguous pipeline sections. For example, if a line is running north to south, equipment from the south end of the first test can be left in place while the equipment on the north end of the first test is “leap-frogged” to become the south end of the second test.

<sup>143</sup> Exhibit DRA-5 and DRA-6.

1 In Exhibit DRA-6, BEAR provides an analysis of PG&E’s hydrotest costs, and a  
 2 review of studies on hydrotest costs. As shown in Graph 2, reproduced here, the  
 3 cost of cleaning a line prior to filling it with water is the highest cost component:  
 4

5 **Figure 11 – Breakdown of PG&E costs for hydrotesting**  
 6



7  
 8 In Table 9 of this exhibit, DRA calculated that the average cost of PG&E’s  
 9 cost request for hydrotesting is \$624,000 per mile when contingency is included.  
 10 In Exhibit DRA-6, BEAR reviewed the limited cost data available on hydrotests  
 11 for comparison to PG&E’s request. BEAR found:  
 12

- 13 1. The median cost of hydrotesting per the American Gas Institute (AGA) is  
 14 less than \$200,000 per mile
- 15 2. Costs for long interstate transmission lines range between \$58,000 and  
 16 \$124,000 per mile
- 17 3. Shorter intra-state transmission line hydrotest costs range between  
 18 \$250,000 and 500,000

19  
 20 BEAR summarizes:

1 “PG&E’s costs for hydro testing pipelines are in the upper range of industry  
2 standards and are 150% higher than the median industry cost. PG&E has  
3 not sufficiently explained nor justified its higher cost, especially when  
4 considering that half of its hydrotests are on small, 12” diameter [or  
5 smaller] pipelines. The high fixed cost of mobilization and demobilization  
6 ("mob/demob") have been questioned repeatedly, and PG&E’s answers  
7 have been essentially unresponsive.”

8  
9 In addition BEAR found that there is currently a federal rulemaking in  
10 which the costs and benefits of proposed revisions to pipeline safety regulations,  
11 but this will not be provided in the current comment period.<sup>144</sup> BEAR proposes  
12 conducting an independent study to verify hydrotesting cost data, particularly  
13 since hydrotesting will be an on-going maintenance requirement whose cost needs  
14 to be managed.

15

### 16 *5.5 Cost adjustments based on changes in unit costs*

17 As mentioned previously, DRA calculated costs adjustments using the  
18 model described in Section 2.4.1, which is primarily based on the Gulf models.  
19 DRA’s cost model was modified based on the costs adjustments described in this  
20 section, and the adjustments calculated are included in the total cost adjustments  
21 provided in Table 17. The overall impacts of these changes were not calculated  
22 separately from cost adjustments due to the revised DT, but can be if required. In  
23 addition, it was not possible to include some of the cost adjustments recommended  
24 by BEAR or Delfino Engineering quantitatively, based on the timing of this filing.  
25 These costs including customer outreach, escalation, and test headers are discussed  
26 in Section 8 of this exhibit.

27

28

---

<sup>144</sup> Docket PHMSA-2011-0023.

1 **5.5.1 Replacement cost adjustments**

2 First, the Replacement model used by DRA implemented Gulf’s model  
3 without exception. As discussed in section 2.4.1, specific variances were  
4 discovered in PG&E’s calculations during calibration, and excluding these  
5 exceptions decreased DRA’s baseline cost by \$29.2 million.

6  
7 Second, DRA used a set of “all-in” costs recommended by BEAR in  
8 Exhibit DRA-6, Table 2 which are reproduced here:

9  
10 **Table 14 - BEAR recommended “all-in per foot” costs for hydrotests**

Diameter	Non-Congested	Semi-Congested	Highly Congested
10	\$ 214	\$ 370	\$ 598
16	\$ 278	\$ 494	\$ 784
24	\$ 398	\$ 648	\$ 978
36	\$ 704	\$ 1,098	\$ 1,577

*Note: These are 2011 dollars.*

11  
12  
13 BEAR recommended using costs based on OGJ data, which includes both  
14 the UC Davis and PNNL studies. DRA used the PNNL numbers rather than UC  
15 Davis numbers since they were the first available and the difference between the  
16 costs was relatively small.

17  
18 DRA did not adjust PG&E’s road bore, HDD, move around, or  
19 Mob/Demob unit costs. This was because DRA did not perform analyses of these  
20 unit costs and should not be construed as an endorsement of these unit costs.

21  
22 Note from Table 17 that the total adjustment for BEAR’s revised DT and  
23 unit costs reduced PG&E’s \$843.9 million request to \$374.4 million. Based  
24 strictly on 76 miles of replacement eliminated by BEAR, and an average 20%

1 reduction in cost, this figure would be \$401.4 million. The difference highlights  
2 that costs are highly dependent on line diameter and congestion classification, and  
3 that changing the mix of segments in a project or the PSEP Pipeline Plan in whole  
4 impacts the aggregated costs.

5

### 6 **5.5.2 Hydrotest cost adjustments**

7 As above, the model used by DRA implemented Gulf’s model without  
8 exception. However, in this case the hydrotest model used by DRA has a baseline  
9 cost \$6.2 million *higher* than PG&E’s.

10

11 Delfino Engineering costs were the primary basis of the costs used in  
12 DRA’s cost adjustments. DRA used a fixed Mob/Demob cost of \$160,000 for all  
13 pipeline sizes, based on Delfino Engineering’s highest cost of \$139,400. While  
14 developing DRA’s cost adjustments, DRA did not fully understand that the  
15 Delfino Engineering numbers already provided a “+40% estimate”, and scaled up  
16 the Delfino Engineering value to be conservative, and to simplify calculations in  
17 the DRA hydrotest model. DRA used Delfino Engineerings “all-in” costs as  
18 provided, and rounded up the Delfino Engineering move around costs slightly.  
19 The following “all-in” and move around costs were used by DRA:

20

21 **Table 15 – Delfino Engineering recommended “all-in per foot” hydrotest**  
22 **costs**

	“All-in” cost per foot	Move around
12.75” and under	\$9	\$45,000
14” to 20”	\$11	\$50,000
22” to 28”	\$17	\$60,000
30” to 42”	\$33	\$80,000

23

1 DRA did not adjust PG&E’s test header charge, but believes PG&E’s  
2 requested costs to be excessive, as discussed in Section 8.

3  
4 Delfino Engineering has provided a detailed estimate of moving dirt, water,  
5 men, and machines to actually perform hydrotesting. Delfino Engineering makes  
6 logical assumptions not included in PG&E’s estimate that significantly reduce  
7 costs. BEAR showed that the cost to clean lines prior to hydrotest is the single  
8 largest component of the “all-in” cost per foot, and it is one of the costs  
9 specifically excluded from the Delfino Engineering calculations. DRA  
10 understands that other costs, such as pipeline clearance, may contribute to the  
11 higher costs used by Gulf and PG&E. Since PG&E did not sufficiently define  
12 how their costs were derived, DRA used the Delfino Engineering costs in its  
13 illustrative calculations. The burden is on PG&E to specifically define anything  
14 Delfino Engineering may have missed, and quantify the impacts.

15  
16 Cost issues raised by DRA in Section 5, but for which cost adjustments  
17 were not calculated are discussed in Section 8 of this exhibit.

## 18 19 **6 Shareholder/Ratepayer cost allocation**

### 20 ***6.1 Overview of PG&E request***

21 PG&E proposes that two groups of costs will be excluded from the  
22 ratepayer funding request: mitigation initiated by PG&E in 2011 and mitigation  
23 for lines installed “Post-1970 without verifiable records.” The later exclusion  
24 applies only to replacement and hydrotest portions of the pipeline plan, not ILI,  
25 ILI upgrades, or other capital expenditures and expenses.

26  
27 PG&E states that “[c]osts to strength test or replace any pipe installed post-  
28 1970 without verifiable test records have been excluded from PG&E’s request for

1 cost recovery in this proceeding.”<sup>145</sup> PG&E calculates that a total of \$21.6 million  
2 has been removed from the cost forecast based on this assertion.<sup>146</sup> PG&E  
3 summarizes its calculation method concisely: “The cost associated with pipe  
4 replacement of any post-1970 pipe without a verifiable strength test was allocated  
5 by multiplying the total project cost by the ratio of footage of post-1970 pipe  
6 compared to the total footage within each project.”<sup>147</sup> This calculation has two  
7 steps. First, PG&E evaluates each pipeline segment included in a replacement or  
8 hydrotest project to determine if it is a pipe installed after November 12,1970  
9 without verifiable test records. PG&E used a spreadsheet to apply the following  
10 logical test to each of these segments: If “installation date” > 11/12/1970 AND  
11 “MAOPrec430” = “Incomplete”. Segment footage is classified as “Post-70”, and  
12 removed from the ratepayer cost request, where this statement is true. Second, for  
13 each project, the ratio of post-70 pipeline feet vs. the balance of pipeline footage in  
14 the project was calculated, and this ratio was multiplied by the total project cost to  
15 determine the portion paid by shareholders. For example, PG&E estimates the  
16 total cost of Project L-21FREPL to be \$20.449 million to replace 22,397 feet of  
17 pipeline. They state that 42 feet meet their criteria for shareholder funding, and  
18 calculate that they should pay \$38,000 ( $\$20.449 \times 42 / 22397$ ).<sup>148</sup>

19

20 ***6.2 PG&E shareholder funding for Pipeline Modernization work***  
21 ***performed in 2011***

22 PG&E’s Pipeline Witness Hogenson states that “The 2011 expenses and  
23 capital related costs (including depreciation, taxes and return) for capital projects  
24 forecast to be operational in 2011 will be funded by shareholders, as described in

---

<sup>145</sup> PG&E Testimony, p. 3-65.

<sup>146</sup> PG&E Testimony, p. 3-66. \$11.8 million is for strength testing expenses, and \$9.8 million is for replacement capital expenditures.

<sup>147</sup> PG&E Testimony, p. 3-66.

<sup>148</sup> PG&E rounds all figures to the nearest \$1,000.

1 Chapter 8.”<sup>149</sup> PG&E further states that “PG&E proposes that PG&E shareholders  
2 absorb the actual 2011 PSEP Pipeline Implementation Plan revenue requirement  
3 for the PSEP Pipeline Implementation Plan work planned for 2011.<sup>150</sup> PG&E  
4 requests \$32.8 million in capital expenditures and \$122.7 in expenses for Pipeline  
5 modernization work 2011, all of which should therefore be funded by PG&E  
6 shareholders.

7

8 PG&E’s November report on hydrotesting stated that some of the work  
9 planned for 2011 was delayed.<sup>151</sup> PG&E subsequently stated that “PG&E will not  
10 seek cost recovery for strength testing and MAOP records validation of Priority 1  
11 pipeline segments (i.e., the approximately 152 miles of pipeline with features  
12 similar to the pipe that ruptured in San Bruno) if delayed, for any reason, beyond  
13 2011.<sup>152</sup> This statement does not cover all of PG&E 2011 requests which include  
14 ILI upgrades, pipeline replacement, and other expense and capital activities.<sup>153</sup>

15

16 ***6.3 PG&E shareholder funding proposal for “Post-1970 pipelines without***  
17 ***verifiable records”***

18 DRA reviewed PG&E’s method for allocating shareholder responsibility  
19 for “post-70” pipelines by addressing three questions: Is the calculation method  
20 reasonable? Is the calculation performed correctly?, and Is the allocation logic  
21 reasonable?

22

---

<sup>149</sup> PG&E Testimony, Chapter 3, footnote “a” to Table 3-1, p. 3-6.

<sup>150</sup> PG&E Testimony, Chapter 8, p.8-9.

<sup>151</sup> PG&E report dated November 30, 2011 in R.11-02-011.

<sup>152</sup> PG&E response to data request DRA 38, question 6.b.

<sup>153</sup> See Table 2 of PG&E workpapers, lines 173 to 183, p. WP 3-6; Table 3 of PG&E workpapers, lines 181 and 182, p. WP 3-757; PG&E response to DRA 30 question 10, dated December 9, 2011.

### 6.3.1 Is the calculation method reasonable?

PG&E's basic method is to use a ratio of pipeline footage to allocate project costs between ratepayers and shareholders. The reasonableness of this method depends on two important features of PG&E's cost models. The first is that both hydrotest and replacement projects have substantial fixed costs which are independent of the pipeline length tested or replaced. PG&E's method allocates these fixed costs in proportion to the variable per foot costs to be paid by shareholders, which is reasonable. The other issue is that for replacement projects, variable costs in PG&E's model are based on whether a segment is in a low, semi-, or highly congested area. PG&E's method lumps all segments together, regardless of the level of congestion. It thus would underestimate the cost responsibility for shareholders in the situation where the segments without records are in congested areas, but the balance of the project is in less dense areas. DRA did not attempt to quantify the potential impact of this simplification by PG&E, particularly since Given that the current PSEP Pipeline Plan includes only a rough AACE Class 4 cost estimate, DRA does not challenge PG&E's calculation method at this time, but instead recommends that PG&E address the feasibility of allocating project costs based on the segments costs, not the segment miles.<sup>154</sup>

### 6.3.2 Is the calculation performed correctly?

DRA confirmed that PG&E's allocation calculations were accurate at an aggregate level (for all replacement and all hydrotest projects) and for a random selection of projects. This verification was achieved through the calibration runs of DRA's spreadsheets discussed in detail in Section 5.1.1. However, DRA investigated each criterion used by PG&E in the allocation process and found a number of anomalies. For the installation date, DRA first discovered that 1,031

---

<sup>154</sup> PG&E Testimony, Table 7-3, p.7-25.

1 segments (12.5 miles) in PG&E’s database<sup>155</sup> do not have an installation date,  
2 which automatically assigns these costs to ratepayers.<sup>156</sup> Second, we found that for  
3 many segments, only the year of events such as installation and pressure testing,  
4 were in the database.<sup>157</sup> PG&E’s database had 68 pipeline segments which total  
5 5.0 miles with the installation date of “1/1/1970”, and these segments were also  
6 assigned to ratepayers, since PG&E uses a filter date of 11/12/1970.<sup>158</sup> Third,  
7 PG&E determines if MAOP verification records are incomplete using the criteria  
8 “MAOPrec430 equals incomplete.”<sup>159</sup> PG&E’s database provides four possible  
9 results in the MAOPrec430 field for MAOP validation:

10

- 11 1. Incomplete,
- 12 2. Complete,
- 13 3. Partial mileage,
- 14 4. No data (blank cell in spreadsheet)

15

16 PG&E’s PSEP Pipeline Plan includes 915 segments (175.6 miles) listed as  
17 “partial mileage” and 1,092 (317.9 miles) segments with blank fields. PG&E’s  
18 allocation criteria assigns these segments, in addition to those with “complete”  
19 records, to ratepayers. Finally, PG&E’s database contains other fields that  
20 relate to records validation, or other data that might impact cost allocation. In  
21 particular, PG&E includes a “test date” field indicating when segments were  
22 pressure tested. 2247 segments (512.2 miles) without complete data were  
23 installed before 1955, but tested afterwards. These segments are slated by

---

<sup>155</sup> The statistics in this section relate to the 969 miles of pipeline assigned by PG&E to replacement or hydrotest projects in Phase 1 of the PSEP Pipeline Plan.  
<sup>156</sup> DRA query of pipeline data provided by PG&E in response to written data requests.  
<sup>157</sup> PG&E response dated 12/8/2011 to data request DRA 30 Q8(a) indicates that the source of GIS data prior to “the mid-1990’s” only provided the year.  
<sup>158</sup> DRA query of pipeline data provided by PG&E in response to written data requests.  
<sup>159</sup> PG&E response dated 12/8/2011 to data request DRA 30 Q8, parts (a) to (d).

1 PG&E for ratepayer funding. DRA’s cost adjustments described in Section 5.4  
2 adjust for each of these anomalies.

### 3 4 **6.3.3 Is PG&E’s allocation logic reasonable?**

5 Overall, PG&E should pay for mitigation where they have not complied  
6 with state, federal, or industry standards. PG&E’s selection of November 12,  
7 1970 as a dividing point is not consistent with these standards. In addition,  
8 ratepayers should not fund testing through the PSEP Pipeline Plan that repeats  
9 previous ratepayer funded pipeline tests, but for which test records are missing,  
10 incomplete, or erroneous. PG&E filed a report on MAOP validation dated March  
11 15, 2011 in R.11-02-019. At page 13, the report shows that of the pipelines  
12 analyzed and installed before 7/1/1961, at least 31% were pressure tested.  
13 PG&E’s allocation process fails to account for these tests. In response to the  
14 question “[w]hat was the justification for performing these tests?” PG&E  
15 responded:

16  
17 “Pressure tests were, and are, a means to confirm or test the strength of  
18 pipeline segments. PG&E believes that after adoption of American Society  
19 of Mechanical Engineers (ASME) standard ASA B31.1.8-1955, PG&E’s  
20 practice was to follow ASA B31.1.8-1955, including pre-service testing.”<sup>160</sup>

21  
22 DRA also asked “Were these tests funded by PG&E ratepayers or PG&E  
23 shareholders?” to which PG&E responded “The testing was part of the pipe  
24 installation costs and, therefore, would have been funded by ratepayers.”<sup>161</sup>

25  

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<sup>160</sup> PG&E response dated 1/6/2012 to data request 45 Q7(a).

<sup>161</sup> PG&E response dated 1/6/2012 to data request 45 Q7(f).

1 DRA proposes and utilizes alternative allocation logic, as described in the  
2 next Section.

### 3 ***6.4 Cost Allocation adjustments***

4 The following adjustments were implemented in both DRA's replacement  
5 and hydro cost models, on top of the other adjustments described in Sections 4.6  
6 and 5.1. The overall impacts of these changes, provided in Table 9.1, were not  
7 calculated separately from these other cost adjustments, but can be calculated upon  
8 request by the CPUC.

9  
10 DRA's position regarding cost allocation is presented in Exhibits DRA-2  
11 and DRA-9. Treatment of the shareholder allocation of costs incurred in 2011 is  
12 discussed in the Exhibit DRA-9. The revised cost sharing discussion in this  
13 section is primarily to illustrate how costs should be allocated, if ratepayers are to  
14 be responsible for any Phase 1 costs.

15  
16 DRA adjusted the criteria used to allocate segment costs such that PG&E  
17 shareholders are responsible if:

- 18
- 19 • There is no installation date
  - 20 • The installation date is after December 31, 1954<sup>162</sup> and the results of  
21 MAOP validation do not indicate complete test records OR
  - 22 • The segment was hydrotested after December 31, 1954 and results of  
23 MAOP validation do not indicate complete test records
- 24

25 This is accomplished in the DRA spreadsheets by applying logical tests  
26 consistently for each segment. If any of the statements above is true for a  
27 segment, the cost to replace or hydrotest the segment is assigned to PG&E

---

<sup>162</sup> Section 4.3 of this exhibit describes why this date was used, rather than the date ASTM 31.8 was revised.

1 shareholders. DRA’s spreadsheet uses PG&E’s “ratio of footage” method to  
2 adjust project level costs based on the revised ratio of ratepayer pipeline footage  
3 per project to total pipeline footage per project.

4

5 DRA utilized PG&E’s basic process for allocating costs, but modified the  
6 criteria used by PG&E, and added a new criteria. First, PG&E’s data was tested to  
7 determine if an installation date was present and segments without a date were  
8 assigned to PG&E. Second, December 31, 1954 was used as the first filter  
9 criteria, rather than PG&E’s filter date of November 12, 1970. This December  
10 1954 date was used based on the ratification of American Standard ASA B31.1.8-  
11 1955, which established explicit recordkeeping requirements for pressure tests of  
12 newly installed pipelines.<sup>163</sup> PG&E indicated that its GIS database only has the  
13 year of installation prior to “the mid-1990’s”, so a filter date at the end of 1954  
14 was selected to capture all pipelines installed in 1955, per PG&E’s records.<sup>164</sup>  
15 Third, recall that from Section 3.3.2 that PG&E’s database provides four possible  
16 results in the MAOPrec430 field for MAOP validation:

17

- 18 1. Incomplete,
- 19 2. Complete,
- 20 3. Partial mileage,
- 21 4. No data (blank cell in spreadsheet)

22

23 Records for each foot of pipeline have not been verified for segments with  
24 blank or “Partial Mileage” entries in the MAOPrec430 field.<sup>165</sup> DRA’s criteria

---

<sup>163</sup> Per section 841.417. Additional details in the Testimony of DRA Witness Pocta, Exhibit DRA-2, Attachment A.

<sup>164</sup> PG&E response dated 12/8/2011 to data request DRA 30 Q8(a).

<sup>165</sup> In response to DRA 38 Q7.c, PG&E provides the following definition: The term “Partial Mileage” is defined as a complete strength test report that has been located for the pipe segment, but the footage in the document does not match the footage in GIS, as-builts, or other record information. Further documentation review will be required to resolve these discrepancies.

1 provides the same outcome as PG&E for the first two results. However, costs for  
2 segments where MAOP results were not given, or where they indicate “Partial  
3 Mileage”, are assigned to PG&E shareholders using DRA’s criteria. This is the  
4 correct assignment given the current data provided by PG&E, since segments with  
5 results 3 or 4 above cannot be considered as fully validated. As PG&E updates the  
6 results of the MAOP validation project, missing or “partial” results will be  
7 reduced, and ideally eliminated, and this difference should become moot, but the  
8 burden to demonstrate adequate records lies with PG&E.

9  
10 DRA added a second allocation criterion to account for those segments  
11 which were hydrotested after ASA B31.8-1955 was adopted. Segments with a test  
12 date after Dec. 31, 1954 and MAOPrec430 not equal to “complete” were assigned  
13 to PG&E.<sup>166</sup> Since industry best practices, as codified in ASA B1.1.8-1955,  
14 required retention of pressure test records, and PG&E has stated that these tests  
15 were previously funded by ratepayers, ratepayers should not be required to pay  
16 twice to pressure test the same segment.<sup>167</sup>

17  
18 DRA assigns segment costs to PG&E shareholders if either the installation  
19 or test date criteria above indicate a “true” result. This process was used on both  
20 replacement and hydrotest projects.

21  
22 Using DRA’s revised shareholder allocation and the BEAR DT, ratepayers  
23 pay 95% of the cost for replacements, primarily because the segments were  
24 installed prior to 1955. For hydrotest projects however, PG&E shareholders  
25 should be funding nearly 75% of the costs.

26  

---

<sup>166</sup> For this criterion, blank entries in the test date field did not impact the outcome.

<sup>167</sup> PG&E response dated 1/6/2012 to data request DRA 45 Q7(f).

1     **7 Contingency request**

2             ***7.1 Summary of PG&E Request***

3             In Chapter 7, PG&E discusses the uncertainty embedded in their baseline  
4 estimates included in Chapter 3, and provides a request for \$380.5 million in  
5 overall contingency. DRA acknowledges that the CPUC has previously adopted  
6 contingency budgets for other PG&E projects, and does not dispute the need for a  
7 contingency budget for the PSEP Pipeline Plan. However, DRA does not believe  
8 PG&E performed a contingency analysis as described in their testimony.

9  
10            There are uncertainties in key elements of PG&E’s PSEP Pipeline Plan,  
11 beginning with the data used by the DT through to the allocation of estimated  
12 costs between ratepayers and shareholders. These uncertainties create risks that  
13 the costs actually incurred by PG&E and ratepayers will vary from the baseline  
14 estimates, whether the baseline was calculated by PG&E, DRA, or any other party.  
15 One method used by the CPUC to account for this risk in ratemaking is to  
16 calculate a contingency budget. PG&E’s Testimony describes the key elements of  
17 quantitative risk assessment, which includes:

- 18            • Determining key cost drivers in the baseline estimate.
- 19            • Estimating the uncertainties for each cost driver.
- 20            • Applying a probabilistic model to run scenarios, such as one cost driver  
21            being at 50% while others are at 75%.
- 22            • Determine a contingency rate based on the risk of overspending the adopted  
23            budget.

24  
25            This analysis focused on the \$251.1 million<sup>168</sup> in contingency budget requested  
26 for the replacement and hydrotest portions of the PSEP Pipeline Plan, since it  
27 represents the contingency request for the majority of the baseline costs shown in

---

<sup>168</sup> The difference between this figure and the \$270.7 in Table 1 of this exhibit is due to other cost elements such as ILL.

1 Table 7-3 of PG&E’s Testimony, but many of the comments in this section also  
2 apply to PG&E’s overall contingency request for \$380.5 million.<sup>169</sup>

3

#### 4 **7.2 Quantitative Risk Assessment (“QRA”)**

5 In Figure 7-4, PG&E lists the Government Accountability Office’s (GAO)  
6 best practice checklist for sensitivity analysis, which PG&E states is “a key  
7 component of conducting Quantitative Risk Assessments.”<sup>170</sup>

8

9 **Figure 12 – GAO sensitivity analysis best practices, as provided by PG&E**

**10. Best Practices Checklist: Sensitivity Analysis**

- The cost estimate was accompanied by a sensitivity analysis that identified the effects of changing key cost driver assumption and factors.
  - ✓ Well-documented sources supported the assumption or factor ranges.
  - ✓ The sensitivity analysis was part of a quantitative risk assessment and not based on arbitrary plus or minus percentages.
  - ✓ Cost-sensitive assumptions and factors were further examined to see whether design changes should be implemented to mitigate risk.
  - ✓ Sensitivity analysis was used to create a range of best and worst case costs.
  - ✓ Assumptions and performance characteristics listed in the technical baseline description and GR&As were tested for sensitivity, especially those least understood or at risk of changing.
  - ✓ Results were well documented and presented to management for decisions.
- The following steps were taken during the sensitivity analysis:
  - ✓ Key cost drivers were identified.
  - ✓ Cost elements representing the highest percentage of cost were determined and their parameters and assumptions were examined.
  - ✓ The total cost was reestimated by varying each parameter between its minimum and maximum range.
  - ✓ Results were documented and the reestimate was repeated for each parameter that was a key cost driver.
  - ✓ Outcomes were evaluated for parameters most sensitive to change.
- The sensitivity analysis provided a range of possible costs, a point estimate, and a method for performing what-if analysis.

10

11

12 DRA agrees that quantifying uncertainty is the first step in quantifying risk and  
13 calculating an accurate contingency budget. DRA queried PG&E about how well

<sup>169</sup> PG&E Testimony, Chapter 7, Table 7-10, p. 7-46.

<sup>170</sup> PG&E Testimony, Chapter 7, p. 7-29.

1 PG&E and its consultants complied with this checklist, and found they did not  
2 follow many key aspects described:<sup>171</sup>

- 3
- 4 • **“The sensitivity analysis was part of a quantitative risk assessment and**  
5 **not based on arbitrary plus or minus percentages.”** PG&E’s QRA  
6 analysis was driven by the use of arbitrary percentages as described in  
7 section 7.4 below.
- 8 • **“Key cost drivers were identified.”** PG&E does not identify key cost  
9 drivers in the Gulf cost estimate models such as the diameter of pipelines  
10 and the congestion level where they are located.<sup>172</sup>
- 11 • **“The total cost was re-estimated by varying each parameter [that was a**  
12 **key cost driver] between its minimum and maximum range.”** PG&E  
13 provided only an aggregated estimate of uncertainty based on the types of  
14 projects, not of the specific uncertainties generated by Gulf’s cost  
15 models.<sup>173</sup>

### 16

### 17 *7.3 Uncertainty in PG&E cost estimate*

18 PG&E generally classifies the current PSEP Pipeline Plan project cost  
19 estimate as an AACEI Class 4 estimate, which according to the AACEI  
20 classification standard PG&E provides, is a cost estimate for a preliminary /study  
21 stage of project definition.<sup>174</sup> The AACE Classification Standard indicates that  
22 actual project costs could vary between -30% to +50% of the baseline costs for  
23 Class 4 estimates, and as shown in Table 7-6 of PG&E’s Testimony, most project  
24 elements of the PSEP Pipeline Plan are considered by PG&E to Class 4.

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<sup>171</sup> DRA asked many questions in data request DRA 52 that are pertinent. Only a few are reflected here.

<sup>172</sup> PG&E response to DRA data request DRA 52 Q6.

<sup>173</sup> PG&E response to DRA data request DRA 052 Q7.

<sup>174</sup> PG&E Testimony, Chapter 7, p. 7-24.

1 PG&E’s QRA analysis treats individual projects as cost drivers, and applies  
2 the same generic risk to each type of project, as described in Section 7.4 below.<sup>175</sup>  
3 This is not a correct treatment since cost drivers vary by each project. Based on  
4 DRA’s review of the PSEP Pipeline Plan, uncertainties for which risk should have  
5 been quantified include:

- 6 1. Incomplete and incorrect pipeline data in PG&E’s GIS database
- 7 2. Incomplete results for the MAOP validation project
- 8 3. Uncertainty in HCA classifications
- 9 4. DT outcomes like M1 and F2, which require an engineering  
10 evaluation before assigning mitigation
- 11 5. Gulf’s cost models and unit costs used
- 12 6. Gulf’s estimates of the congestion for each segment
- 13 7. Gulf’s estimates of road bores and HDD
- 14 8. Gulf’s estimates of the number of Move Arounds
- 15 9. Allocation of shareholder funding which is based on MAOP results
- 16 10. Uncertainty in the availability of sub-contractors to meet PG&E’s  
17 schedule, and the level of competition for PSEP Pipeline Plan work  
18 that could drives costs down

19  
20 Analyzing the uncertainties is a key to determining the magnitude of risk as  
21 well as whether the uncertainties are likely to increase or decrease the actual costs  
22 compared to the baseline estimate (i.e., “direction of risk”). The following  
23 describes some of these examples in greater detail to show that the direction of  
24 some risks is known to lead to either cost increases or cost reductions, while others  
25 have symmetric risk profiles, with equal probability of cost increases or reductions  
26 compared to the base estimate.

27  

---

<sup>175</sup> PG&E response to data request DRA 52 Q6 and DRA 52 Q7.

1 For data uncertainties, PG&E should have evaluated the completeness of  
2 the MAOP project data (e.g. the number of blank or “partial mileage” entries in  
3 field MAOPrec430), and evaluated how this data impacts both the Implementation  
4 Plan and allocation of costs to shareholders. The available evidence indicates that  
5 there is significant risk due to data uncertainties, but does not know if the MAOP  
6 project will uncover more data errors than PG&E found as of April 30, 2011, or  
7 less. Therefore, the direction of this risk is likely symmetric, with a chance that  
8 project costs paid by ratepayers could be higher or lower than the baseline  
9 estimate.

10  
11 Risk due to Gulf’s estimates of congestion for each segment should  
12 similarly be symmetric, unless Gulf deliberately biased their estimates. Gulf  
13 reviewed aerial photographs and PG&E’s GIS database of pipeline locations to  
14 allocate each segment to one of three congestion classes, which drives significant  
15 differences in the unit costs used to estimate project costs. Uncertainty could be  
16 generated due to errors in the GIS database, changes in the region after the photos  
17 were taken, or human error comparing the two data sets. The same is true for Gulf  
18 estimates of road bores, HDDs, and move around. Significant risk exists due to  
19 Gulf project estimates, but this risk should be symmetric unless Gulf purposefully  
20 biased its estimates.

21  
22 Not all risks are symmetric. For example, DT outcome F2 requires  
23 replacement in either Phase 1 or Phase 2 depending on the outcome of an  
24 engineering condition assessment (ECA). Neither PG&E nor BEAR assigned any  
25 segments to Phase 1 based on this outcome, because the evaluation will be  
26 performed in the future, during final project engineering. This induces a one-way  
27 risk profile that can only lead to higher costs, because the baseline assumes no  
28 costs for this outcome, but it may later be determined that more segments must be  
29 replaced.

1

2 Risk can also be biased the other way. PG&E’s second HCA report on  
3 June 30, 2011 indicated that 378.4 miles had a reduction in class (e.g. Class 3  
4 changed to Class 2) which PG&E “believes” is due to more accurate data.<sup>176</sup>  
5 Since the PSEP Pipeline Plan was not based on the June 30 HCA calcifications,  
6 and the DT assigns many segments to Phase 1 based on HCA class, this new data  
7 should result in segments being eliminated from Phase 1 during project  
8 engineering, and a lowering of project costs. This is an example of a risk that  
9 should have been considered in the QRA and that in hindsight, we know would  
10 lead to lower costs.

11

12 Overall, it appears that the uncertainties inherent in many of the key cost  
13 drivers in PG&E’s baseline estimate are symmetric. Consequently, there is a  
14 significant probability that actual costs could be both either higher or lower than  
15 PG&E’s baseline estimate.

16

17 In response to a data request from DRA concerning what uncertainties are  
18 included in PG&E’s contingency request, PG&E explains:

19 “the intent of the contingency is to account for uncertainties in the baseline  
20 estimates, exclusions expressly defined in the Basis of Estimate (BOE) for  
21 the baseline estimates, and risks due to unanticipated events, it is not  
22 possible to fully predict unforeseeable events and other factors that will  
23 inevitably affect the performance of the component projects in the PSEP  
24 Pipeline Plan. For example, during the 2011 pipeline hydrotesting projects,  
25 PG&E detected elemental mercury within pipeline segment downstream  
26 from major control stations. This resulted in hazardous waste disposal  
27 costs, increased project duration and resulting construction costs (see

---

<sup>176</sup> See footnote 2 of PG&E’s June 30, 2011 report, in which they state “PG&E has not yet investigated why segments went down in class.”

1 Estimate basis exclusions on testimony page 3E-6). These costs were  
2 unforeseeable and were not included in the QRA methodology and risk  
3 allowances”<sup>177</sup>

4

5 In response to another data request from DRA concerning whether PG&E’s  
6 QRA model considers project specific risks and uncertainties in its contingency  
7 request, PG&E explains “the risks associated with project specific risks will be  
8 identified, documented, managed and quantified in future updates of the project  
9 risk contingency.”<sup>178</sup>

10

11 It does not make sense that PG&E’s QRA model should ignore the actual  
12 2011 experience for the PSEP Pipeline Plan project simply because such  
13 information was not available when PG&E filed its original application. PG&E  
14 makes many arbitrary assumptions about the magnitude of various project risks in  
15 its QRA analysis. PG&E states it does not plan to update its current estimate, and  
16 does not provide any reasons why it cannot or should not.<sup>179</sup>

17

#### 18 ***7.4 Review of PG&E’s Contingency Calculations***

19 PG&E generally classifies the current PSEP Pipeline Plan project cost  
20 estimate as an AACEI Class 4 estimate, for the purposes of calculating  
21 contingency. However, PG&E applied a narrower range of variability to its  
22 baseline cost estimate. PG&E shows this narrower range in Table 7-6 and calls it  
23 “Range Applied.” For Pipeline Replacement costs (lines 1 and 2 in Table 7-6)  
24 PG&E uses a “Range Applied” from a Low value of 0% to a High value of 17.5%.  
25 For Strength Test expense costs (lines 14 and 15 in Table 7-6), PG&E uses a  
26 “Range Applied” from a Low value of 0% to a High value of 20%.

---

<sup>177</sup> PG&E’s response to DRA data request DRA 52 Q1.

<sup>178</sup> PG&E’s response to DRA data request DRA 52 Q23.

<sup>179</sup> PG&E’s response to DRA data request DRA 41 Q5.

1 To quantify risk, PG&E’s QRA model uses Monte Carlo simulation  
2 technique, in which both risk and uncertainty values are recalculated over many  
3 iterations to provide confidence level curves for the potential final costs of the  
4 Implementation Plan and each component project. In response to a data request  
5 from DRA, PG&E explains that the “Low” value determines the lowest end of the  
6 range of possible risk variables which are applied to increase or decrease the base  
7 estimate in the Monte Carlo simulation.<sup>180</sup> However, in the same response PG&E  
8 explains that cost items in Table 7-6 with a “zero” Low value in the “Range  
9 Applied” column actually have no Low value. In these cases, the Monte Carlo  
10 simulation runs for estimating uncertainty only used the “High” value for all  
11 iterations. Consequently, the contingency for Pipeline Replacement capital costs  
12 and Strength Test expense costs are *primarily* based on a point estimate of  
13 uncertainty (at High value of 17.5% and 20%, respectively).<sup>181</sup> In its testimony  
14 PG&E does not explain why it did not run the Monte Carlo simulation for all  
15 possible uncertainty outcomes either for the -30% to +50% AACE recommended  
16 range or its own narrower “Range Applied” scenarios in Table 7-6.

17

18 In response to a data request from DRA, PG&E explains that "Based on  
19 estimate assumptions and exclusions, and discussions with PG&E and its third-  
20 party engineers, PwC concluded there was a need for contingency, over and above  
21 the base estimate, and that the use of a low range would be inappropriate in  
22 establishing a reasonable contingency for certain component projects. Given  
23 this view, a point estimate was more appropriate than a range for the estimate  
24 uncertainty component of the contingency for specific projects."<sup>182</sup> PG&E has

---

<sup>180</sup> PG&E response to DRA data request DRA\_041-09.

<sup>181</sup> PG&E workpapers at WP 7-4 indicate that an additional “risk occurrence” element of uncertainty was considered in the analysis that increased the contingency amount by approximately 1.25% to 2.5% for Pipeline Replacement. DRA based this estimate by applying the 25% risk occurrence to the “Best Case” and “Worst Case” percentages (5% and 10%) PG&E used for “Risk Impacts” shown on WP 7-4.

<sup>182</sup> PG&E response to DRA data request DRA\_052-24.

1 essentially predetermined the outcome of its Monte Carlo simulation results for  
2 these costs by completely ignoring the variability of outcomes for Pipeline  
3 Replacement capital costs and Strength Test expense costs above the Baseline  
4 costs. When all the zero “Low value” items in the “Range Applied” column in  
5 Table 7-6 are added, DRA finds that contingency amounts for almost 78% of  
6 Baseline Capital costs and 65% of Baseline expense costs of the entire PSEP  
7 Pipeline Plan project are not subject to any variability, but rather are  
8 predetermined and entered as fixed point values in PG&E’s Monte Carlo  
9 simulation model.

10

11 PG&E asserts that its contingency recommendation is based on 1,000  
12 iterations, corresponding to 1,000 potential outcomes,<sup>183</sup> but, in fact, the  
13 contingency amount (before adding a “risk allowance”) is fixed at 17.5 % for all  
14 of the 1,000 iterations for the Pipeline Replacement capital costs and at 20 % for  
15 the Strength Test expense costs in the Monte Carlo simulation. Indeed, PG&E’s  
16 recommendation of a 20 percent contingency allowance for Pipeline Replacement  
17 capital costs (Table 7-10, lines 2 and 3) is very close to this 17.5 percent fix value,  
18 when the additional “risk allowance” PG&E includes in its calculations is  
19 considered.<sup>184</sup> Similarly, PG&E’s recommendation of a 21 % contingency  
20 allowance for pipeline Strength Test expense costs (Table 7-10, line 16) is very  
21 close to the 20 % fix value in the model, when the additional “risk allowance” is  
22 included. Because PG&E’s analysis fixes contingency at 20 percent (capital) or  
23 21 percent (expense) for these baseline costs, the contingency amount changes  
24 only very little between PG&E’s “P90” contingency estimate (\$167.8 million) and  
25 its “P80” estimate (\$165.4 million).<sup>185</sup> Even at a much lower 50% probability  
26 (i.e., “P50”) PG&E’s contingency amount drops to only 19% for Pipeline

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<sup>183</sup> PG&E Testimony, Chapter 7, p.7-39.

<sup>184</sup> See footnote 175.

<sup>185</sup> PG&E Testimony, Chapter 7, Table 7-7, p. 7-41.

1 Replacement capital and remains at 21% for Strength Test expense costs.<sup>186</sup> Note  
2 that even at P0, the contingency is approximately \$156.5 million or 18.8%.<sup>187</sup>  
3 In the opinion of this witness, PG&E’s QRA model results give a false sense of  
4 thoroughness, as it predetermines most of the outcome of contingency analysis for  
5 the Pipeline Replacement capital costs and the Strength Test expense costs.  
6 PG&E should run its Monte Carlo simulation model using the entire estimating  
7 variability range (i.e., “Range Applied” in table 7-6) for all of the cost items  
8 shown in Table 7-6. Furthermore, the additional “risk allowance” PG&E uses in  
9 calculating its recommended contingency amount is not justified because it is not  
10 based on any detailed analysis but is simply a 5 to 10 percent contingency adder  
11 for portions of simulation iterations. As explained in DRA’s contingency  
12 recommendation in Section 7.6 below, such a “risk allowance” is not justified  
13 given that PG&E’s contingency analysis is highly biased towards further inflating  
14 PG&E’s already excessive baseline costs. These adjustments alone will lower the  
15 overall contingency amount far below the 20 to 21 percent PG&E requests in its  
16 testimony. DRA estimates that a uniform distribution of outcomes over the 0% to  
17 17% contingency range would result in a contingency amount of approximately  
18 8.5% (i.e., middle of the range).

19  
20  
21  
22  
23  
24

***7.5 Relationship between contingency request and baseline estimate***

PG&E’s QRA analysis is best summarized by the “Cumulative % Hits”  
versus “Total Cost” relationship shown on Figure 7-5 of PG&E’s Testimony:<sup>188</sup>

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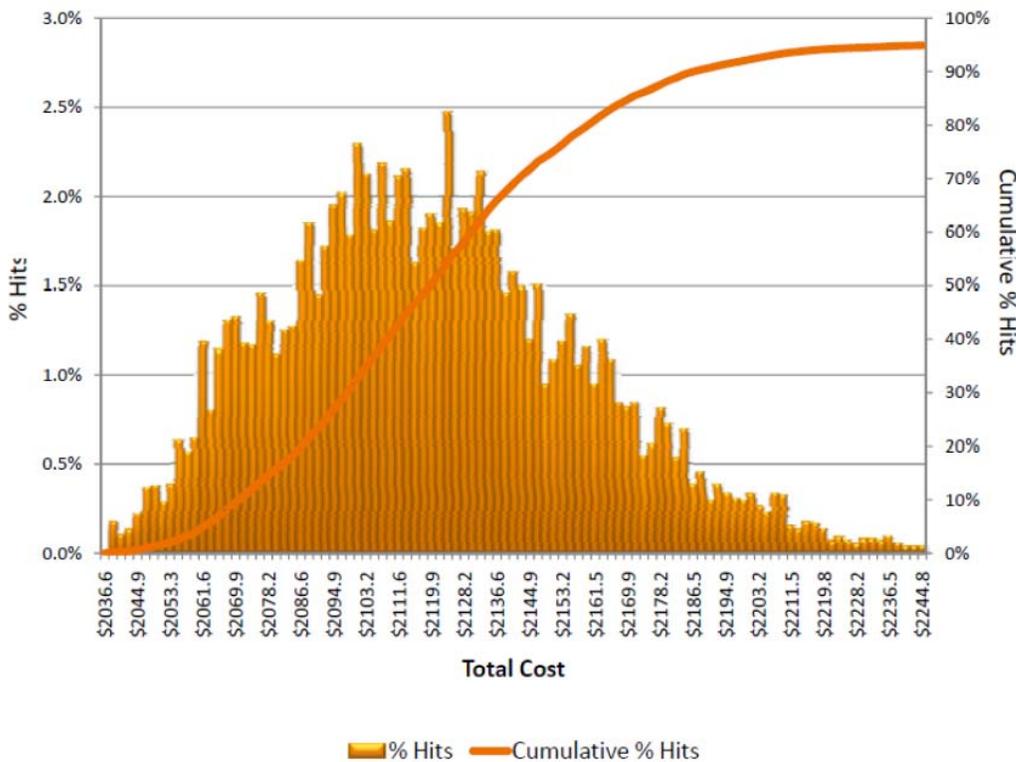
<sup>186</sup> PG&E response to DRA data request DRA 44 Q3.

<sup>187</sup> See PG&E’s response dated 1/24/2012 to DRA data request DRA 65 Q2. The P0 value plus baseline of \$833.6 million is approximately \$990.1 million, the lowest x-axis value in the “histogram for Part a.” \$156.5, the difference between these two numbers, is the contingency amount.

<sup>188</sup> Figure 7-5 in PG&E’s Testimony is incorrect. See PG&E’s response to DRA data request DRA\_041-07. A corrected figure was provided in the January 20, 2012 Errata filing, p. 7-42.

1 **Figure 13 – Results of PG&E QRA analysis for entire PSEP**

2



3

4 The X-axis numbers represent the probable project costs. The figure shows a 0%  
5 probability (P0) that actual costs will be less than \$2,036.6 million, and that there  
6 is about a 97% (P97) probability that actual costs will not exceed than \$2,244.8  
7 million. PG&E proposes using the P90 contingency value of \$2,183.9 million.  
8 PG&E’s baseline estimate for the project is \$1.803.4 million, which is less than  
9 the P0 value shown on this figure. The figure indicates that keeping the actual  
10 costs of the project under PG&E’s baseline estimate (\$1.803.4 million) is not  
11 achievable, and that keeping the actual costs below the zero probability (P0) value  
12 of \$2,036.6 million is unlikely. This result is inconsistent with DRA’s findings  
13 from Section 4.3 that PG&E’s baseline costs are developed based on unit costs  
14 substantially higher than industry averages. DRA suspects that If PG&E had  
15 properly estimated baseline costs, and performed a proper QRA analysis using  
16 variability of outcomes over the entire “Range Applied” shown in Table 7-6, the

1 Figure 7-5 would show that there would be a probability of greater than zero (P0)  
2 that actual costs will be less than the 2,036.6 million PG&E shows in Figure 7-5.  
3 If PG&E were to use the AACE I Classification Range (-30% to +50%) shown in  
4 Table 7-6 for Class 4 estimate, it can be argued that the P0 values should be even  
5 *less* than the baseline cost of \$1,803.4 million. Given that DRA's analysis shows  
6 PG&E's baseline cost estimate to be higher than industry averages, the QRA  
7 should show a significant probability that actual costs could be lower than the  
8 baseline estimate. The histogram shown in Figure 7.5 does not show distribution  
9 of outcomes for actual costs on either side of the base estimate as the AACEI  
10 range for a Class 4 estimate would indicate. At a minimum, the QRA should show  
11 a significant probability that actual costs could be less than PG&E's current  
12 2,036.6 million estimate at P0. It appears as if PG&E tailored its assumptions for  
13 the QRA model to obtain a pre-determined level of contingency for the PSEP  
14 Pipeline Plan project, rather than using reasonable assumptions to let the QRA  
15 model suggest a proper level of contingency.

16

17 The following three figures illustrate the biased nature of PG&E's QRA  
18 analysis for contingency calculations of Pipeline Replacement capital projects.  
19 PG&E provided the following figure in response to a DRA request to provide the  
20 Monte Carlo results for pipeline capital projects:<sup>189</sup>

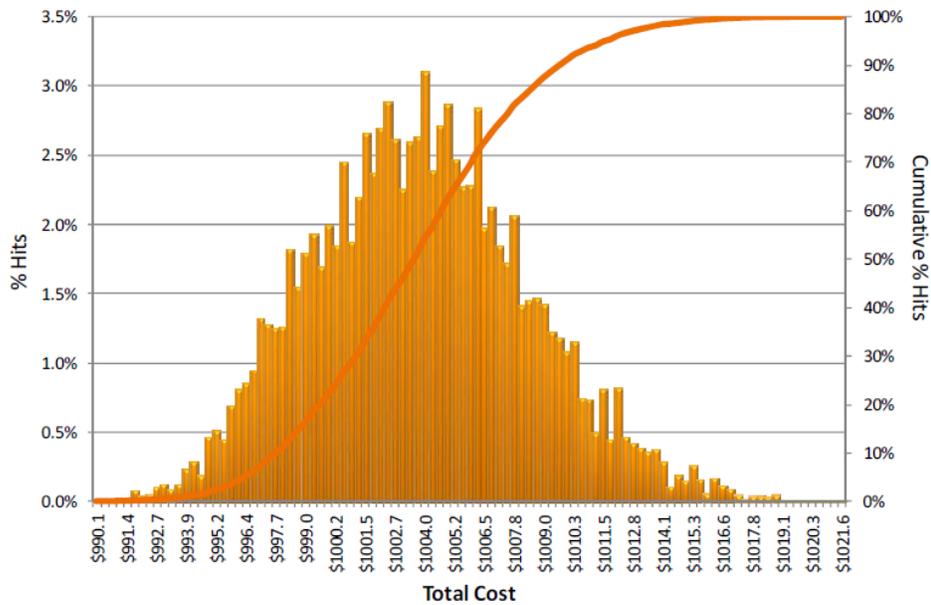
21

22

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<sup>189</sup> PG&E response dated 1/24/2012 to data request DRA\_65-2(a).

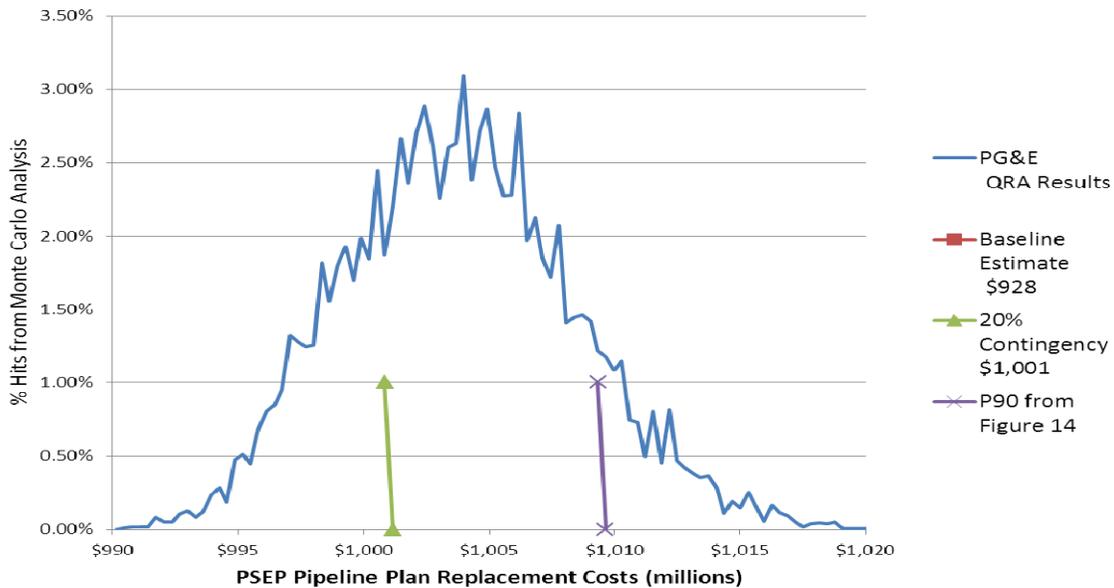
1 **Figure 14 - Results of PG&E QRA analysis for the replacement portion PSEP**  
 2 **Pipeline Plan pipeline replacement program**



3  
 4 This graph makes it look as though there is a wide range of outcomes for actual  
 5 costs. However, recall that the baseline estimate for pipeline capital project,  
 6 primarily pipeline replacement, is \$928.1 million. DRA first reformatted the  
 7 above data to show the Monte Carlo results for pipeline capital projects the 20%  
 8 contingency used by PG&E, and PG&E's P90 value:<sup>190</sup>  
 9  
 10

<sup>190</sup> Attachment 1 to PG&E response dated 1/24/2012 to data request DRA\_65-2(a).

1 **Figure 15 – PSEP Contingency request for pipeline replacement compared to**  
 2 **PG&E QRA results<sup>191</sup>**



3  
4

5 Figure 15 illustrates that PG&E’s QRA provides outcomes roughly  
 6 centered on the 20% value chosen by PG&E, but skewed to the right (greater  
 7 probability of higher cost). This figure also illustrates the discrepancy mentioned  
 8 in footnote XXX of this exhibit, since PG&E’s 20% contingency is supposed to be  
 9 a P90 value. It is clear from this figure that the 20% contingency is not a P90  
 10 value.

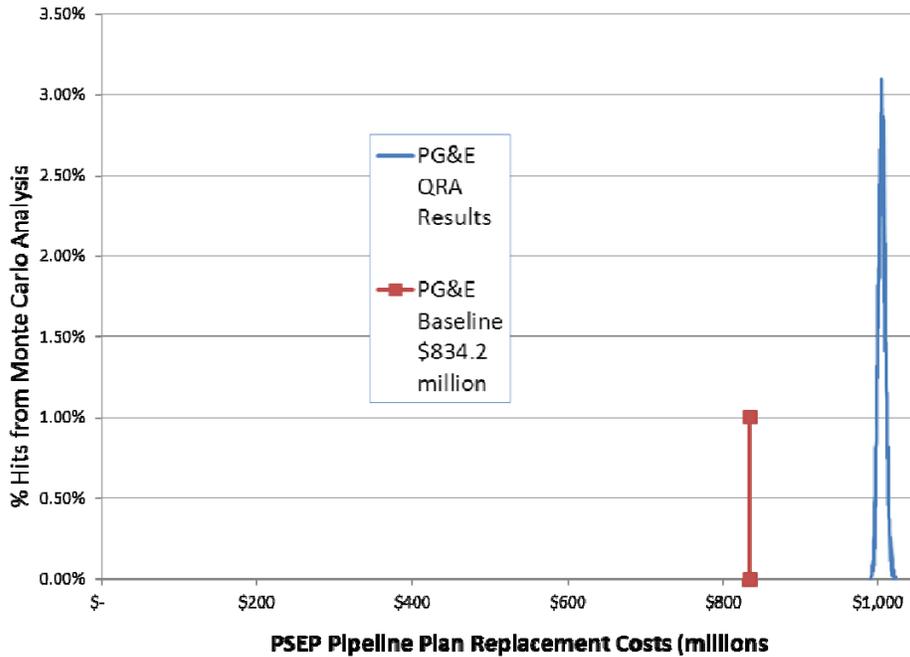
11

12 DRA also reformatted PG&E’s QRA results to compare them to the  
 13 baseline estimate of \$834.6 million:

14  
15

<sup>191</sup> Note that the magnitude of the 20% contingency and P90 bars have no meaning. They only indicate the size of these costs on the X-axis.

1 **Figure 16 - PSEP baseline cost request for pipeline replacement compared to**  
 2 **PG&E QRA results**<sup>192</sup>



3

4

5 This graph shows that the QRA analysis yields a very narrow range of outcomes,  
 6 all of which have a higher cost than the baseline.

7

8

9 ***7.6 Comparison of PG&E’s PSEP Pipeline Plan Contingency request to***  
 10 ***other adopted contingency budgets***

11 PG&E states, “the contingency amounts developed by PG&E are  
 12 consistent with the contingency amounts previously approved by the Commission  
 13 for work efforts with a similar risk profile and in line with industry guidelines,”  
 14 and provides PG&E's advanced metering infrastructure (AMI) application (A.05-  
 15 06-028) and SmartMeter™ Upgrade application (A.07-12-009), which were  
 16 adopted by the Commission in D.06-07-027 and D.09-03-026, as examples.<sup>193</sup>  
 17 The Commission adopted an 8.0% contingency in PG&E’s A.05-06-028 and an  
 18 11.7% in A.07-12-009. These amounts are far lower than the 21 percent

<sup>192</sup> See previous footnote 191.

<sup>193</sup> PG&E response to DRA data request DRA\_041-11.

1 contingency PG&E requests in this application.<sup>194</sup> A review of all Commission  
 2 authorized contingency amounts for all of the AMI-related applications indicate an  
 3 average contingency rate of 8.1%:  
 4

5 **Table 16 – CPUC approved baseline and contingency budgets for Smart**  
 6 **Meters**

Project	Cost Reqstd	Cost Adptd	Contingny Reqstd	Contingny Adopted	% Reqstd	% Adptd	Cite
PG&E Original		\$ 1,739.4		\$ 128.8		8.0%	D.09-03-026 in A.07-12-009, p.87.
SDG&E		\$ 572.0		\$ 33.8		6.3%	D.07-04-043 in A.05-03-015, p.38
		\$ 490.0		\$ 33.8		7.4%	p.38 also says 7.4%???
SCE		\$ 1,634.0		\$ 130.1		8.7%	D.08-09-039 in A.07-07-027; Dec. 5, 2007 errata Testimony, SCE-2, P.14 has contingency costs
PG&E Upgrade	\$ 572.4	\$ 467.0	\$ 65.5	\$ 49.0	12.9%	11.7%	D.09-03-026 in A.07-12-009
SoCalGas	\$ 1,080.0	\$ 1,051.0	\$ 98.0	\$ 68.7	10.0%	7.0%	D.10-04-027 in A.08-09-023, pp. 2, 37,
All AMI		\$5,463.4		\$ 410.4		<b>8.1%</b>	<b>8.1% is the average for all AMI</b>

7  
 8  
 9 In comparing contingencies for PSEP Pipeline Plan and AMI projects, the  
 10 status of technology and project scope must be considered. PG&E has ample  
 11 experience with Pipeline replacement and Hydrotesting projects, as PG&E has  
 12 been doing such work on a large scale routinely for decades. The technology for  
 13 PSEP Pipeline Plan projects proposed in this application is mature and PG&E  
 14 should be very experienced estimating, designing, and implementing these  
 15 pipeline projects. In contrast, California led the nation in implementing new  
 16 metering technology on a wide scale, and PG&E was the first California utility to  
 17 implement an AMI plan. Also, AMI deployment was similar in scope to the PSEP  
 18 Pipeline Plan, since PG&E has requested nearly \$2.2 billion for PSEP Pipeline  
 19 Plan, a request similar in size to PG&E’s \$2,186 million cost request for AMI.<sup>195</sup>  
 20 And yet, PSEP contingency rate is much higher than PG&E’s AMI contingency  
 21 rate.  
 22

<sup>194</sup> PG&E Testimony, Chapter 7, p.7-46.

<sup>195</sup> Citations are provided in Table 16.

1            **7.7 Contingency Cost Adjustments**

2            As discussed elsewhere in this testimony, DRA finds that PG&E’s Pipeline  
3 Modernization Plan is not mature enough to form a proper baseline estimate for  
4 risk analysis. DRA also finds PG&E’s QRA analysis to be deficient and biased  
5 towards achieving a certain level of contingency. Based on the review of  
6 Commission’s previous decisions for similar projects, the 21% contingency PG&E  
7 is requesting is excessive. Table 16 above shows that for the statewide Smart  
8 Meter projects, the Commission adopted an average contingency of only 8.1%.

9  
10            Considering the relative maturity of Pipeline Replacement and  
11 Hydrotesting projects compared to the Smart Meter technology, the risks of cost  
12 overruns should be much lower for the former. Because, as discussed in Section  
13 7.2 above, PG&E has not performed a proper QRA using the “best practices  
14 checklist” for sensitivity analysis, DRA does not recommend a specific  
15 contingency percentage at this time. A proper QRA would yield a contingency  
16 rate substantially lower than the 21% proposed by PG&E. For illustrative  
17 purposes, DRA uses a contingency rate of 8% in its cost adjustments in Exhibit  
18 DRA-09.

19  
20            **DRA’s Specific Recommendations on Contingency**

- 21            1) Update Baseline cost estimates as a first step - DRA recommends the  
22            Commission only approve the contingency amounts based on an updated  
23            baseline estimate done close to the timeline when the Final Implementation  
24            Plan is available. An updated contingency estimate would not delay or in  
25            any way harm the progress of PSEP Pipeline Plan as contingency amounts  
26            are drawn down only when the authorized budget based on the base  
27            estimate has been exhausted first. As PG&E’s PSEP Pipeline Plan project  
28            becomes more defined i.e., moves from the current Class 4 to a lower, more  
29            defined class, the contingency for estimating allowances/uncertainty should

1 narrow further than the “Range Applied” amounts shown in Table 7-6. It  
2 would also provide an opportunity to check if the original base estimate for  
3 the project needs to be modified as well.

4  
5 2) Update Contingency analysis

- 6 • Follow GAO best practices from PG&E Figure 7-4,
- 7 • Require PG&E run its Monte Carlo model without any “Risk  
8 Allowance” adders. These project execution risks should balance  
9 out in aggregate and adders are not necessary because PG&E does  
10 not consider any outcomes where actual costs of the project could be  
11 lower than the base estimate for this phase of the project.
- 12 • Run the Monte Carlo model through the entire spectrum of “Range  
13 Applied” amounts and not limit to just point values as PG&E has  
14 done.
- 15 • Use P80 or lower probability.

16  
17 3) Use a contingency value of 8% for illustrative planning purposes until  
18 PG&E provides an updated estimate done close to the timeline when the  
19 Final Implementation Plan is available.

20  
21 4) DRA recommends the Commission approve contingency amounts in silos  
22 of cost categories. DRA is concerned that if the entire contingency budget  
23 PG&E is requesting (\$380.5 million, see Table 7-10) is provided as a lump  
24 sum, the Commission cannot properly ensure that contingency funds are  
25 used only for the demonstrated uncertainties and risks not captured in the  
26 adopted base estimate. The cost categories in Table 7-7 show that they vary  
27 from a relatively small \$0.1 million (capital item 44A at line 3) to as high  
28 as \$167.7 (capital item 2H1 at line 2). Otherwise, it would be easy and

1 tempting to use the contingency budgets from the larger and/or unused  
2 categories to cover improper or inefficient spending in smaller categories.

3

4 Fund shifting between various items within a silo could be allowed without  
5 prior Commission approval. The Commission may, under certain  
6 conditions, allow PG&E to request via an advice letter fund shift between  
7 the silos. DRA recommends the following fund shifting guidelines:

- 8 • Require separation of contingency amounts for “capital” and  
9 “expense” items.
- 10 • If having a contingency silo for each item shown in Table 7-6 of  
11 PG&E’s Testimony is not practical, silo the contingencies for a  
12 group of items in a way that makes sense. e.g., all “Valve” items  
13 could be grouped together to have their own contingency amount.
- 14 • Require a Tier 2 Advice Letter for moving contingency funds  
15 between any two silos.

16

## 17 **8 Cost issues not included in DRA’s cost adjustments**

### 18 *8.1 Issues analyzed but not included in DRA’s cost adjustments*

19 Three additional cost drivers were reviewed to support this testimony:  
20 escalation, customer outreach, and test heads. These analyses were performed as  
21 secondary priorities and the results were not incorporated into DRA’s  
22 recommended cost adjustments. Additional analysis should be performed on each  
23 of these issues, and results of these analyses should be included in subsequent  
24 iterations of the PSEP.

25

26 Exhibit DRA-6 includes analysis of escalation and customer outreach costs,  
27 which, after “all-in” costs and mobs and moves, were the next highest, cost drivers  
28 for both replacement and hydro projects (See Figure 7 and 8 of this testimony).

29

1                                   **8.1.1 Escalation**

2           Escalation charges are applied for all PSEP Pipeline Plan costs incurred  
3 after 2011 at an annual rate of 3.12%. This adds approximately \$70 million to the  
4 overall cost of the PSEP Pipeline Plan, as shown in Figures 7 and 8 of this exhibit.  
5 In Exhibit DRA-6, BEAR finds that PG&E’s escalation costs are excessive  
6 because:

- 7
- 8           • PG&E’s annual escalation rate of 3.12% is too high given the current state  
9           of the United States economy and volatility of steel prices
  - 10          • Escalation rates are inappropriately applied using the completion date of a  
11          project, rather than when engineering and procurement establish actual  
12          costs

13

14           BEAR recommends using the date when engineering and procurement  
15 establish actual costs to apply an escalation rate of approximately 1.1% to 1.5%  
16 through Phase 1 of the PSEP.

17

18                                   **8.1.2 Customer Outreach**

19           PG&E applies a 2.9% adder for customer outreach costs add over \$31  
20 million to replacement and hydrotest project costs.<sup>196</sup> BEAR reviewed  
21 information provided by PG&E in response to DRA written data requests and  
22 found that customer outreach includes:

- 23
- 24           • Approximately \$5 million for new databases
  - 25           • Approximately \$3 million for government relations
- 26

---

<sup>196</sup> \$31 million was calculated by DRA by summing the customer outreach cost included in each replacement and hydrotest project. BEAR found that PG&E reported the total budget for customer outreach to be \$28.5 million.

1 BEAR notes that the budgets for both of these items varied significantly  
2 between two PG&E responses to DRA data requests. BEAR appropriately  
3 questions the need for government relation as a component of customer outreach,  
4 and for customer outreach generally for an issue with so much public interest and  
5 media attention.

### 6 **8.1.3 AFUDC for hydrotests**

7 PG&E’s Resource Guide defines AFUDC as “[t]he allowance for funds  
8 used during construction (AFUDC) is an accounting procedure used by utilities to  
9 *capitalize* the costs of financing the construction of facilities.”<sup>197</sup> In Exhibit DRA-  
10 6, Table 13, BEAR notes that PG&E included 5.24% for AFUDC for hydrotest  
11 projects. Since the costs of hydrotests are expensed, not capitalized, AFUDC  
12 should not be included for these projects.

### 14 **8.1.4 Test heads for hydrotests**

15 A pair of test heads is required for each hydrotest, to isolate the test section and  
16 pressuring it. PG&E requests funds for test heads in two parts of the PSEP  
17 Pipeline Plan, even though they currently have approximately 50 pairs of test  
18 heads in inventory, ranging in size from 3” to 36”.<sup>198</sup> First, PG&E requests \$6.7  
19 million for test heads as part of “Strength Test Capital Valves and Testheads.”<sup>199</sup>  
20 DRA inquired about this cost in one of its first data requests:<sup>200</sup>

21 “Please describe a “testhead” and its use, discuss whether it is removed or  
22 left in place after testing, provide unit cost data as a function of pipe  
23 diameter and other relevant installation features, and provide supporting  
24 documentation for unit cost data.”

---

<sup>197</sup> PG&E “Resource, an encyclopedia of energy utility terms”, Second Edition, p.15.

<sup>198</sup> PG&E response dated 12/21/2011 to data request DRA 25 Q19, attachment 1.

<sup>199</sup> PG&E Workpapers at WP 3-558.

<sup>200</sup> Data request DRA 8 Q19(a), emphasis added.

1 PG&E did not adequately address the cost portion of this question in their  
2 response:

3 “PG&E plans to build 12 pairs of test heads (various pipe diameters) to  
4 support the strength testing requirements for the Phase 1 work scope. The  
5 cost estimate was based on the price of materials (pipe, end caps, Mueller  
6 taps, flanges, and miscellaneous fittings) and fabrication costs for other  
7 similar welded assemblies PG&E has built in the past.”<sup>201</sup>

8 A follow up data request also failed to yield a useful response:

9 “The cost to fabricate a test head will vary depending on size, pipe diameter  
10 and maximum working pressure. PG&E did not create unit costs estimates  
11 for test head fabrication and construction in preparation of this filing. Each  
12 hydrostatic test head is composed of several components, pipe body, end  
13 cap, isolation valves, valves for moving product in and out, gauge taps,  
14 support skids, etc. The table below contains a material list and unit cost for  
15 line pipe and end caps, two components of a test head, purchased in 2011 in  
16 support of the hydrotesting program.”<sup>202</sup>

17 In addition to the \$6.7 million request, PG&E also requests funds for a new set of  
18 temporary test heads for each and every hydrotest, even where multiple tests are  
19 included in the same project. In essence, PG&E is requesting \$15,000 to \$40,000  
20 per test for disposable test heads.<sup>203</sup> DRA asked:<sup>204</sup>

21

22 “PG&E appears to be requesting \$15,000 - \$40,000 for temporary test heads for  
23 each pressure test performed, and then disposing of them. Explain if DRA’s  
24 interpretation is correct, and why PG&E is not using existing permanent test  
25 heads, or building additional permanent test heads?”

---

<sup>201</sup> PG&E response dated October 6, 2011 to data request DRA 8 Q19(a).

<sup>202</sup> PG&E response dated 10/19/21011 to data request DRA 11 Q2(a). PG&E included a table of material costs per foot which was insufficient to allow DRA to analyze how PG&E calculated a specific cost request of \$6.7 million.

<sup>203</sup> PG&E Testimony, WP 3E-17.

<sup>204</sup> Data request DRA 26 Q3.

1  
2 PG&E's response did not answer this question.<sup>205</sup> Based on PG&E's failure to  
3 answer DRA questions, we were unable to address the reasonableness of PG&E's  
4 cost requests for test heads.

## 6 ***8.2 Issues neither analyzed nor included in cost adjustments***

7 As mentioned previously, the first step of DRA's analysis of the PSEP Pipeline  
8 Plan was to determine the main cost drivers and then to focus on them. Based on  
9 this review, as illustrated in Figures 1, 7, and 8, DRA did not analyze the  
10 following components of the PSEP Pipeline Plan:

- 11
- 12 • Pipeline to repair hydrotest failures (\$37.5 million, Capex)
- 13 • Pipeline Upgrades for ILI (\$30.3 million, Capex)
- 14 • Isolation Valves for hydrotest (\$11.1 million, Capex)
- 15 • Pipeline to replace short sections (\$8 million, Capex)
- 16 • Pipeline ILI (\$9.6 million, expense)
- 17 • Other Pipeline Expenses (\$4.9 million)<sup>206</sup>
- 18 • Program Management (\$27 million total; \$18 million Capex, \$9 million  
19 expense)
- 20

21 DRA has suggested significant costs adjustments to the PSEP Pipeline Plan,  
22 such that the proportion of these "other costs" has increased from under 7% to  
23 over 20% of the total costs (See Section 2.2 and Table 17 of this exhibit).

## 25 **9. Summary of Recommended Cost Adjustments**

---

<sup>205</sup> PG&E response dated 12/5/21011 to data request DRA 26 Q3.

<sup>206</sup> See page 3-6 of PG&E Testimony. These total \$108.4 million, out of a total request of \$1,606.5 billion, which includes contingency, or 6.7% of the pipeline costs.

Based on the analysis in the sections above, DRA has quantified a number of cost adjustments, which are used in Exhibit DRA-9 for revenue requirement and rate calculations. The impact of all adjustments to baseline costs is shown in Table 17:

**Table 17 – DRA Cost Adjustment for PSEP Pipeline Plan pipeline modernization**

Source	Ratepayers				PG&E			Total				% Paid by Ratepayers	Ratepayer Adjustment	% Adjst.
	REPL	Hydro	Other*	Total	REPL	Hydro	Total	REPL	Hydro	Other*	Total			
PG&E Testimony	\$834.2	\$393.2	\$108.4	\$1,335.8	\$ 9.7	\$11.8	\$21.5	\$843.9	\$404.9	\$108.4	\$1,357.3	90.4%	\$ -	0.0%
PG&E per DRA model	\$805.0	\$399.3	\$108.4	\$1,312.7	\$ 9.5	\$11.8	\$21.3	\$814.4	\$411.1	\$108.4	\$1,334.0	90.3%	\$ (23.0)	-1.7%
DRA Testimony	\$355.5	\$ 20.6	\$108.4	\$ 484.5	\$18.9	\$59.6	\$78.5	\$374.4	\$ 80.3	\$108.4	\$ 563.1	66.8%	\$ (851.2)	-63.7%

All dollar values in millions.  
 \* Other includes Line 4, 5, 10, and 11 from PG&E Testimony, Table 3-1.

Costs for alternative scenarios can be calculated using the DRA models described in Section 2.4.1

PG&E’s contingency is also adjusted in two ways. First, PG&E’s contingency request for the PSEP Pipeline Plan of \$270.7 is essentially obtained by applying fixed contingency rates to the baseline estimate. The adjustments in Table 17 reduce the baseline estimate to 41.3% of the PG&E’s total request for \$1,357.3 million, so contingency will be reduced proportional. Second, in Section 7.6 of this exhibit, DRA showed why it believes an 8% contingency is more appropriate than the 20% or 21% used by PG&E. Applying DRA’s 8% figure to the DRA’s adjusted total cost above yields a contingency amount of \$45 million.

To be clear, these adjustments are provided for illustrative purposes only, to show quantitatively the impact of adjustments to the PSEP Pipeline Plan recommended by DRA’s consultants, BEAR and Delfino Engineering, and this witness. DRA is not recommending that these specific cost adjustments be the

1 basis for authorizing any cost recovery at this time. Shortcomings discussed  
2 throughout this testimony lead DRA to make more general recommendations,  
3 including rejecting the current PSEP Pipeline Plan, as fully discussed below in  
4 Section 10.

5  
6 Also note that Table 17 and DRA’s analysis includes costs for all four years  
7 for which PG&E included costs in the PSEP Pipeline Plan, 2011-2014, even  
8 though PG&E has stated that its ratepayers will absorb costs incurred in 2011 (see  
9 Section 6.2)

10  
11 **10. DRA Recommendations for alternative to current PSEP Pipeline Plan**

12 ***10.1 Reject the current pipeline modernization plan***

13 Section 4 of this testimony details many failings of the proposed PSEP Pipeline  
14 Plan Pipeline Plan, particularly as the basis of a request for ratepayer funding. The  
15 current plan should be rejected for the following reasons:

- 16  
17 1. The PSEP Pipeline Plan includes a “conceptual” AACE Class 4 cost  
18 estimate, not the type of detailed cost estimate required for cost-recovery of  
19 a multi-billion dollar project<sup>207</sup>  
20 2. The PSEP Pipeline Plan is based on out-of-date and incomplete MAOP and  
21 HCA data  
22 3. PG&E’s DT is flawed, resulting in excessive replacement, and excessive  
23 Phase 1 testing  
24 4. PG&E’s DT is poorly reflected in the PSEP Pipeline Implementation Plan ,  
25 leading to increased costs and safety risks  
26 5. Numerous errors or unjustified deviations from the PG&E’s Testimony  
27 were identified  
28 6. Unit costs are excessive

---

<sup>207</sup> PG&E Testimony, p. 7-23.

1 7. PG&E’s quantitative risk analysis (QRA) does not quantify real risks; the  
2 resulting contingency request is basically an educated guess, and inflates  
3 overall program costs  
4

5 ***10.2 Use DRA’s recommendations and adjustments for future***  
6 ***revisions of the PSEP Pipeline Plan***

7 DRA provides a critique of many aspects of PG&E’s PSEP Pipeline Plan in  
8 this exhibit, and offers alternatives. The CPUC should require PG&E to correct  
9 these deficiencies as recommended by DRA, and to provide a sounder plan in the  
10 future.

11 The CPUC and PG&E should use DRA’s alternative recommendations and  
12 cost adjustments, contained in this exhibit when PG&E delivers a revised PSEP  
13 Pipeline Plan.  
14

15 ***10.3 Expedite a revised and fully vetted test plan for 2012***

16 PG&E initiated hydrotesting and replacement in 2011 and “[a]s of  
17 December 30, 2011, about 144.5 of the 152 Priority 1 transmission pipeline miles  
18 have been hydrostatically tested and tied in, replaced, or have had strength test  
19 pressure records verified.”<sup>208</sup> The current PSEP Pipeline Plan includes \$198  
20 million in 2012 for pipeline replacement and \$93.7 million for hydrotesting.<sup>209</sup>  
21 “PG&E has delayed eight tests representing 5.7 Priority 1 miles into 2012 until  
22 after the winter cold season or permits are obtained. Seven of these tests were  
23 delayed because they could not be completed before November 15 and would have  
24 risked PG&E’s ability to serve core customers. One test, T-57 on Line 300A, has  
25 been delayed because of an environmental permit, which we hope to obtain by  
26 early January to allow testing early in 2012.”<sup>210</sup>

---

<sup>208</sup> PG&E Hydrotest status report dated 12/30/2011 in R.11-02-019, p.6.

<sup>209</sup> PG&E Testimony, p. 3-6, Table 3-1. This is in addition to projects planned for 2011, but which were delayed.

<sup>210</sup> PG&E Hydrotest status report dated 12/30/2011 in R.11-02-019, p.5.

1 PG&E should initiate priority mitigation measures as soon as winter gas  
2 demands allow, but only if priority and need are accurately determined. DRA  
3 recommends the following steps to reliably determine priorities quickly and  
4 accurately for the highest-priority segments remaining:  
5

6 **1. Review hydrotests that were delayed from 2011 to ensure they are**  
7 **consistent with CPUC safety objectives.** The Commission's CPSD  
8 division should review the December, 30, 2011 hydrotest report and issue  
9 an evaluation and recommended changes.<sup>211</sup> Since PG&E has stated that its  
10 shareholders will absorb the costs of 2011 hydrotesting, even if they are  
11 delayed, the CPUC need not review the reasonableness of these costs in  
12 advance.<sup>212</sup> The CPSD report should be issued by March 1, 2012.  
13

14 **2. Re-evaluate the mitigation outcomes for pipeline segments in HCA**  
15 **areas using better data and criteria.** PG&E's June 30, 2011 class  
16 location study report provided revisions to its HCA classifications which  
17 were not used in creating the PSEP Pipeline Plan.<sup>213</sup> Since HCA  
18 classification is a key factor in prioritizing projects in both PG&E and  
19 DRA's DT, this new and existing information should be used.<sup>214</sup> DRA  
20 recommends that non HCA Class 2 segments not be considered as HCA for  
21 this task, since PG&E's inclusion of Class 2 as HCA is not consistent with  
22 the Commission's directions.<sup>215</sup> In addition, PG&E's October 14, 2011  
23 MAOP validation report stated that the verification process will be  
24 completed for 1,805 miles of high priority segments as of January 31,

---

<sup>211</sup> PG&E Hydrotest status report dated 12/30/2011 in R.11-02-019.

<sup>212</sup> As discussed in Section 6.2 of this exhibit.

<sup>213</sup> As discussed in Section 3.3 of this exhibit.

<sup>214</sup> Ongoing findings, orders, and decisions in OII I.11.11.009 should also be incorporated.

<sup>215</sup> D.11-06-017 in R.11-02-019, Ordering Paragraph 4, p.31.

1 2012<sup>216</sup> As with HCA classification, the status of test records is a key  
2 factor in determining project priority for both PG&E and DRA. For this  
3 evaluation, DRA recommends using “then current” test requirements to  
4 establish priority. Alternatively PG&E’s criteria of using only Sub-part J  
5 tests can be used.<sup>217</sup> DRA generally recommends that its DT be used for  
6 this assessment. If PG&E does not use the DT recommended by DRA, we  
7 recommend including only segments with DT outcomes F1, F2, and C2,  
8 where PG&E and DRA concur on the required action.

9

10 **3. Develop a new PSEP Pipeline Implementation Plan for priority HCA**  
11 **segments that require early 2012 action.** PG&E should Identify projects  
12 which do not rely on incomplete MAOP validation, and where parties  
13 concur that priority action is required, as priorities for 2Q 2012. Only  
14 hydrotests should be considered for inclusion, unless PG&E can provide  
15 compelling evidence that specific replacement projects have more urgent  
16 need for mitigation. PG&E should identify and provide justification for  
17 any and all of the following: inclusion of lower priority segments which are  
18 adjacent to the high priority segments; OD increases; line re-routing; and  
19 anticipated cost variances from their cost models. The PSEP Pipeline  
20 Implementation Plan should be reviewed by CPSD and DRA, and modified  
21 by PG&E until both divisions are satisfied that the plan is reasonable.

22

23 **4. Direct the MAOP validation team to prioritize evaluation of segments**  
24 **included in the 2012 PSEP Pipeline Implementation Plan.** The PSEP  
25 Pipeline Implementation Plan may include segments which are not in HCA  
26 areas (included due to proximity to HCA segments) and which might not  
27 have completed MAOP validation. The MAOP validation team should be

---

<sup>216</sup> October 14, 2011 MAOP report filed in R.11-02-019, p.2.

<sup>217</sup> The industry, state, and federal requirements at the time of installation or re-testing.

1 directed to prioritize its assessment of these segments to ensure their  
2 inclusion is based on the complete and final assessment of their records.

3

4 **5. Provide a final 2012 PSEP Pipeline Implementation Plan, using final**  
5 **MAOP and HCA data, by June 30, 2012.** This plan should also be  
6 reviewed by CPSD and DRA, and modified by PG&E until both divisions  
7 are satisfied that the plan is reasonable.

8

9 ***10.4 Initiate ground work early in 2012 required to support a long-***  
10 ***term PSEP Pipeline Plan***

11 In parallel with the activities above, PG&E, parties, and the CPUC need to lay  
12 the groundwork required to develop an accurate, safe, and cost-effective plan to  
13 evaluate all transmission line segments. DRA recommends that three tasks in  
14 particular be completed by September 2012:

15

16 1. **Continue the OIR process to resolve contentious** issues – This testimony  
17 has revealed many issues where DRA disagrees with key elements of  
18 PG&E’s PSEP Pipeline Plan. Other parties will likely find other issues,  
19 and may disagree with DRA’s findings. DRA recommends that the current  
20 OIR schedule, including hearings in March 2012, continue to enable the  
21 CPUC to rule on contentious issues before PG&E performs a second  
22 iteration of the PSEP Pipeline Plan. The Assigned Commissioner and  
23 Assigned ALJ should also establish a process to vet PG&E’s revised PSEP  
24 Pipeline Plan on an expedited basis.

25

26 2. **Complete MAOP validation for all transmission segments** – The current  
27 PSEP Pipeline Plan includes many segments in Phase 1 based on  
28 incomplete results from the MAOP validation process. Many of these  
29 segments are not classified as HCAs. MAOP validation will be completed

1 for 1,805 miles of high priority segments as of January 31, 2012<sup>218</sup> The  
2 Commission should direct PG&E to complete the MAOP validation for all  
3 segments to be included in the PSEP Pipeline Plan, accounting for HCA  
4 classification changes, by September 31, 2012.

5

6 **3. Coordinate with the HCA OII 11-11-009** – As noted above, HCA  
7 classification is an important criteria in determining the correct threat  
8 mitigation measure. A CPUC press release regarding its investigation into  
9 PG&E’s classification of pipelines, I.11-11-009, stated: “The CPUC will  
10 review and determine whether PG&E has failed to classify its pipelines  
11 correctly and whether PG&E failed to comply with federal standards  
12 requiring that it regularly study, patrol, and survey these locations for  
13 increased population density.”<sup>219</sup> While DRA recommends using PG&E’s  
14 revised HCA classifications from the June 30, 2011 class location study  
15 report, we also recommend monitoring and coordinating the PSEP Pipeline  
16 Plan development with the record developed in the HCA OII.<sup>220</sup>

17

18 **4. Perform a more detailed review of a sample of PG&E’s project**  
19 **groupings, and determine criteria for including non-priority segments**  
20 **in Phase 1 projects.**

21

22 **5. Survey hydrotest costs** – per BEAR recommendations in Exhibit DRA-6

23 **6. Determine the cost and time required to prepare a AACE Class 1, 2, or**  
24 **3 cost estimate for all required pipeline mitigation work** – Since PG&E  
25 is requesting over \$270 million in contingency based primarily on the

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<sup>218</sup> October 14, 2011 MAOP report filed in R.11-02-019, p.2.  
<sup>219</sup> CPUC press release dated November 10, 2011, available at  
[http://docs.cpuc.ca.gov/PUBLISHED/NEWS\\_RELEASE/151457.htm](http://docs.cpuc.ca.gov/PUBLISHED/NEWS_RELEASE/151457.htm).  
<sup>220</sup> DRA disagrees with PG&E’s default treatment of Class 2 segments as high priority segments  
requiring Phase 1 treatment, and discussed in Exhibit DRA-4.

1 AACE Class 4 cost estimate prepared by Gulf, the cost and feasibility of a  
2 more detailed estimate should be considered.

3 ***10.5 Redo DT assessment and define a new PSEP Pipeline***

4 ***Implementation Plan for all transmission segments***

5 DRA recommends that PG&E revise and re-file the PSEP Pipeline Plan and  
6 incorporate the following:

- 7 • Final MAOP validation results
- 8 • CPUC approved HCA classification<sup>221</sup>
- 9 • CPUC approved DT,
- 10 • CPUC approved data source for test records used by the DT and for use in  
11 cost allocation,
- 12 • CPUC approved criteria for grouping segments into projects
- 13 • CPUC approved unit costs and cost models
- 14 • CPUC approved shareholder/ratepayer allocation criteria
- 15 • A QRA analysis that actually quantifies risks in each PSEP Pipeline Plan  
16 program element, and establishes a contingency accordingly
- 17 • Findings and lessons learned from 2011 hydrotest program
- 18 • One schedule/plan which shows *how* all PSEP Pipeline Plan elements (ILI,  
19 valve replacement, etc.) will be integrated
- 20 • One schedule/plan which shows *how* PSEP Pipeline Plan tasks will be  
21 integrated with TIMP activities
- 22 • A method of highlighting and justifying capacity upgrades and line  
23 relocation.

24 DRA further recommends that PG&E include details on the Phase 2 schedule  
25 and costs, which should result in a plan for all transmission segments. This plan  
26 should be filed by October 2012 to allow review prior to 2013 implementation.<sup>222</sup>

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<sup>221</sup> Including CPUC direction on the treatment of Class 2 locations,

<sup>222</sup> Cost recovery based on this plan is addressed in Exhibit DRA-2.

1 **1. CONCLUSION**

2 This testimony presents the results of a detailed analysis of PG&E's  
3 proposed PSEP Pipeline Plan, and incorporates the analysis of DRA's consultants.  
4 Based on shortcomings described herein, the Commission should reject the current  
5 proposal and order PG&E to issue a revised proposal per DRA's  
6 recommendations. Interim measures per DRA recommendations should be  
7 implemented while this revised plan is being generated and vetted. DRA is not  
8 recommending that the specific costs adjustments provided in this testimony be  
9 implemented, but rather used to highlight flaws in PG&E's PSEP Pipeline  
10 Implementation Plan, and to illustrate the benefits provided by DRA's  
11 recommendations.