

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 13, 2011
POSITION: Neutral, note concerns

BILL NUMBER: AB 56
AUTHOR: J. Hill
RELATED BILLS: SB 44 (Corbett), SB 216 (Yee), SB 705 (Leno), SB 879 (Padilla)

BILL SUMMARY: Public Utilities: Rate Recovery: Pipeline Safety

Existing law requires the California Public Utilities Commission (PUC) to regulate gas transmission, investor-owned utilities, master-metered mobile home parks, storage facilities, and propane operators. The PUC sets requirements for utility gas gathering, transmission, and distribution piping systems.

This bill would create the Natural Gas Pipeline Safety Act of 2011. The bill would prohibit a gas corporation from recovering any fine or penalty in any rate approved by the PUC and would require a gas corporation to file semiannual gas transmission and storage safety reports with the PUC containing specified information. The bill also would require if the PUC safety division determines there is a deficiency in a gas corporation's prioritization or administration of the storage or pipeline capital projects or operation and maintenance activities, to bring the deficiency to the immediate attention of PUC management.

The bill would specify the PUC is the state authority responsible for administration of a state pipeline safety program for natural gas pipelines. Finally, the bill would require the PUC, unless preempted under federal law, to require the installation of automatic shutoff or remote controlled sectionalized block valves on certain intrastate transmission lines.

FISCAL SUMMARY

According to the PUC, implementation of the bill would require \$776,000 PUC Utilities Reimbursement Account and Federal Trust Fund and 6.0 positions to develop and enforce new safety standards and administer a one-way balancing account to ensure ratepayer funds are either used for authorized purposes or returned to ratepayers. Any additional resource requests related to this bill would be subject to review and approval based on workload justification during the annual budget development process.

Section 2 of the bill contains an appropriate "crimes and infractions" state mandated-cost disclaimer, recognizing that a violation of the bill's provisions would be a crime or infraction.

COMMENTS

Finance is neutral on the bill, but notes concern that authorizing statutory changes and requirements for this program may be premature at this time given a forthcoming report from the National Transportation Safety Board (NTSB) due in September 2011. Further, Finance notes concern related to potential chaptering issues between this bill and related bills listed below, which also seek to enhance gas transmission safety.

On September 9, 2010, a 30-inch Pacific Gas and Electric Company natural gas transmission pipeline in San Bruno exploded, claiming the lives of eight residents, injuring others, and destroying and/or damaging 55 homes.

(Continued)

Analyst/Principal Date Program Budget Manager Date
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Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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**COMMENTS** - Continued

This bill is one of at least five introduced in response to the San Bruno pipeline explosion, and is intended to ensure California develops new regulations and standards for safe and reliable operation of natural gas pipelines. After the San Bruno explosion, questions arose regarding how PG&E spent funds authorized for pipeline maintenance and repair, and whether those funds were redirected for non-safety purposes or company profits.

While investigation found no evidence PG&E redirected the funds from pipeline safety as approved by the PUC, PG&E did use some of those funds for other repairs for pipeline segments that, at the time, PG&E deemed more critical. This incident has cast doubt on budgeting for critical pipeline safety needs, and the bill is intended to improve the transparency of that funding process.

In addition to the requirements noted in the bill summary, the bill would require, if the PUC authorizes a gas corporation to recover expenses incurred for public safety, the gas corporation to maintain a one-way balancing account to record the difference between the approved public safety revenue requirements and actual public safety utility expenditures. The bill would require a gas corporation to return moneys approved for expenditure for public safety to the balancing account, and then to the ratepayer, if those funds are not expended within a reasonable time.

The bill also would require each gas corporation to submit to the PUC a pressure testing implementation plan for all intrastate transmission lines either to pressure test those lines or to replace all segments of intrastate transmission lines that were not pressure tested or lack sufficient pressure testing performance information. The implementation plan must provide for testing or replacing all intrastate transmission lines as soon as practicable, set criteria on which pipeline segments were identified for replacement instead of pressure testing, include a completion timeline, and include interim safety enhancement measures, such as increased patrols and leak surveys.

While these requirements could improve pipeline and gas operation safety, the federal government and the PUC are evaluating the circumstances leading up to the San Bruno tragedy and should identify specific areas where improvement is needed that may or may not be inclusive of the requirements in this bill. NTSB Investigators are examining pipeline controls and operations, regulation and oversight, human performance, survival factors, and pipeline maintenance and records. The final report is due in September 2011.

**Related Legislation**

SB 44 (Corbett) would require natural gas operators to improve communication and coordination with first responders (i.e., police, fire, public works, or other emergency response personnel who initially secure disaster sites and render aid). The bill would require the PUC, in consultation with the California Emergency Management Agency, the State Fire Marshall, and members of California's first responders' community, to adopt stricter emergency response standards.

SB 216 (Yee) would create the Natural Gas Pipeline Safety Act of 2011. This bill would require the PUC, unless preempted under federal law, to require the installation of automatic shut-off or remote controlled sectionalized block valves on specified intrastate transmission lines located in high consequence areas, as defined, or extending across active seismic earthquake faults. The bill would require the owner or operator of a commission-regulated gas pipeline facility that is an intrastate transmission line to provide the PUC with a valve location plan, along with any recommendations for valve locations.

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**COMMENTS** - Continued

SB 705 (Leno) would create the Natural Gas Pipeline Safety Act of 2011. The bill would designate the PUC as the state authority over gas corporations, but not over local public agencies, responsible for regulating and enforcing intrastate gas pipeline transportation and pipeline facilities pursuant to federal law. This responsibility would include the development, submission, and administration of a pipeline safety program for natural gas pipelines. The bill would require each gas corporation to develop and update plans for safe and reliable operation of commission-regulated gas pipeline facilities. The bill would require the PUC to accept, modify, or reject the plan for each gas corporation by December 31, 2012, and to build flexibility into an approved plan to redirect activities to respond to safety requirements. The bill would require the plans be periodically updated.

SB 879 (Padilla) would create the Natural Gas Pipeline Safety Act of 2011. The bill specifies the PUC as the state entity responsible for regulating and enforcing intrastate gas pipeline transportation and pipeline facilities pursuant to federal law, including developing, submitting, and administering a state pipeline safety program certification for natural gas pipelines. The bill would define "Commission-regulated gas pipeline facility" to include intrastate distribution lines, intrastate transmission lines, intrastate gathering lines, mobilehome park master-metered natural gas distribution systems, and propane distribution systems..

Code/Department Agency or Revenue Type	(Fiscal Impact by Fiscal Year)									Fund Code
	SO LA CO RV	PROP			2011-2012		2012-2013		2013-2014	
		98	FC	FC	FC	FC	FC			
8660/PUC	SO	No	C	\$504	C	\$504	C	\$504	0462	
8660/PUC	SO	No	C	\$272	C	\$272	C	\$272	0890	
<u>Fund Code</u>	<u>Title</u>									
0462	Publ Utilities Comm Utilities Reimb Acct									
0890	Trust Fund, Federal									