



PIPELINE SAFETY ENHANCEMENT PLAN

Following the 2010 natural gas pipeline rupture in San Bruno, a city just south of San Francisco, the California Public Utilities Commission (CPUC) launched a pipeline safety rulemaking proceeding. The intent of the proceeding is to adopt new safety and reliability regulations for natural gas pipelines, based upon lessons learned.

As part of the proceeding, the CPUC ordered the state's four natural gas transmission pipeline operators – Pacific Gas & Electric, Southwest Gas and San Diego Gas & Electric, as well as Southern California Gas Company -- to develop plans to replace or pressure test all natural gas transmission pipelines that have not been tested to modern standards. Regulations specifying pressure testing were implemented after many of the transmission pipelines were installed.

In response, SoCalGas has submitted to the CPUC a Pipeline Safety Enhancement Plan, which covers all of our 3,640 miles of transmission pipelines. This will further enhance SoCalGas' pipeline system safety.

SoCalGas' plan was designed to meet four over-arching objectives: Enhancing public safety; complying with the requirements of the order and offering additional proposals for the CPUC's consideration that could help meet its pipeline safety objectives; minimizing customer impacts; and, maximizing the cost effectiveness of any infrastructure investments.

The plan will be implemented in two phases. Phase 1 will target transmission pipelines in populated areas of SoCalGas' service territory and be implemented over a 10-year period, from 2013 to 2022.

This first element of Phase 1 – to be completed over the next four years -- includes several components. We are proposing to pressure test about 360 miles of transmission pipelines. We are also proposing to replace about 246 miles of pipeline.

As an alternative, if the CPUC approves, we will use non-destructive examination techniques on pipeline segments that are less than 1,000 feet, rather than pressure testing or replacement. The use of these techniques, such as ultrasonic and radiographic inspection, will further reduce time, cost, customer impact and potential construction hazards. If our alternative is not approved, it typically is more cost-effective to replace these short segments, rather than pressure test them.

Customer impacts are a key consideration in deciding between testing or replacing. If a line cannot be taken out of service without impacting our customers, we would plan to replace it.

SoCalGas also is proposing over the next ten years to upgrade, replace or add about 487 valves on its system with remote control capability. These valves will increase our operational flexibility and enable employees to respond more quickly to transmission pipeline incidents.

There currently are about 700 valves on the transmission pipelines covered by our plan. The valves allow us to control the flow of natural gas through pipelines. Of these, over 200 already have automatic shut-off capability. The plan to add remote and automatic control valve capability will reduce the amount of time required to close valves as employees will no longer need to travel to the valve.

SoCalGas is further proposing to install new technologies – fiber optic and methane detection – that will help detect, avoid and better respond to potential incidents involving our pipelines.

A second phase will address transmission pipelines that are located outside of populated areas that are not addressed in Phase 1. Although high level planning has been completed for Phase 2, additional detailed planning is underway. The Phase 2 work may take place concurrently with the first phase and likely will continue beyond 2022.

The total cost estimate for Phase 1 is \$2.5 billion over a 10-year period. In this filing, we are asking the CPUC to authorize funding only for 2012 through 2015, which totals about \$1.4 billion.

We are proposing to request remaining plan funding as part of the General Rate Case process, during which the commission reviews and approves our operating expenses.

We are also proposing that the cost of the program be recovered through a surcharge, rather than by incorporating it into rates, on customers' bills.

The Pipeline Safety Enhancement Plan Surcharge will increase over time, as more project work is completed. If the CPUC approves our proposal as filed, in 2013 the surcharge for a residential customer would be 52 cents per month. This would increase to approximately \$2.89 per month in 2015.

We recognize the impact these added costs may have on our customers. However, we believe all customers will benefit from the added testing and safety validation of our transmission system, as is directed by the CPUC's order.

As outlined in our proposal, minimizing the impact on customers and maximizing the cost effectiveness of our proposed activities are two of the four key objectives of the filing.

While we believe that our pipeline system is safe, at the direction of the CPUC, we have developed a proposed Pipeline Safety Enhancement Plan that will enhance the safety of our system.