



U.S. Department  
of Transportation  
**Pipeline and Hazardous  
Materials Safety  
Administration**

1200 New Jersey Ave., S.E.  
Washington, DC 20590

December 1, 2014

Mr. Michael R. Peevey, President  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102-3298

Dear President Peevey:

Sections 60105(e) and 60106(d) of the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (Act) provide for the monitoring of state pipeline safety programs by the Pipeline and Hazardous Materials Safety Administration (PHMSA). This annual monitoring is to ensure compliance with the Act requirements for state pipeline safety programs and provides information for determining the state's total performance point award for the PHMSA pipeline safety grant for next year.

During the weeks of August 11th, September 8th, and September 22nd of 2014, representatives of PHMSA's Office of State Programs evaluated the CY 2013 Pipeline Safety program activities conducted by the California Public Utilities Commission (CPUC). The evaluation encompassed the validation of annual Progress Report documents submitted to PHMSA, review of the pipeline program procedures and records, and the observation of on-site inspections of two pipeline operators conducted by your staff. Thank you for the courtesies extended to Mr. Rex Evans and Mr. Michael Thompson, PHMSA State Programs, by your staff.

Based on the Program Evaluation and the validation of Progress Report information, it appears the pipeline safety program is improving, but there remains important work to be accomplished. If an item has not been corrected from the previous evaluations it will result in a loss of grant funding. As a result of this evaluation, I would like to bring the following items to your attention:

- 1) As mentioned in past correspondence, during review of the CPUC 2013 Progress Report, five points were deducted for not having safety authority over all intrastate pipeline facilities. PHMSA understands it is a long term goal for the CPUC to obtain safety authority over all intrastate gas pipeline operator types and that program improvement is needed to move forward; however, until the safety program has improved and the additional safety authority is obtained the CPUC will continue to lose points for this issue.
- 2) There continues to be a two-point deduction in the CPUC Progress Report score for the CPUC civil penalty levels not being equal to or greater than a maximum penalty level of \$100,000 per day per violation up to a maximum of \$1,000,000 for a related series of violations. PHMSA recognizes the CPUC is issuing large civil penalties in

some instances, but we continue to encourage the CPUC to take action to achieve or exceed the maximum civil penalty levels as stated above or PHMSA's levels of \$200,000 per violation per day up to a maximum of \$2,000,000 for a related series of violations.

- 3) Part of the annual Program Evaluation is a review of documentation submitted on the CPUC annual Progress Report. Our review identified improvement is needed in the accuracy of information listed in Attachment 4 of the Progress Report, as an incorrect operator was reported on the list of incidents reported to PHMSA. This resulted in a one-half point deduction on the Program Evaluation due to this reporting error. Please take action to assure all information reported in your annual Progress Report to PHMSA is accurate.
- 4) An essential part of operating a pipeline safety program includes having well-organized and accessible records. Our review found the San Francisco Office and the Los Angeles Office have different methods of record keeping. Inspection notes were not included in many of the inspection files reviewed and records were difficult to analyze. This item was discussed in the previous evaluation and it is recognized that the CPUC management in November of 2013, issued a Gas Safety Audit Guideline and Best Practices document for performance of inspections including requirements for maintaining clear inspection documentation. The importance of clear inspection documentation should continue to be reinforced with inspection staff and CPUC management. A total of three points were deducted on the Program Evaluation for this issue which includes a review of the completeness of inspection forms. Please take action to improve the organization of record keeping, accessibility of records, and inspection documentation.
- 5) The CPUC's inspection procedures were reviewed during the Program Evaluation. During the previous evaluation PHMSA's evaluators discussed the need to make sure an adequate amount of construction activities are reviewed that encompass all types of construction - including new and replacement service lines. A one point deduction resulted on the Program Evaluation due to improvement still being needed in this area. Please take action to increase the amount of inspection time dedicated to the construction of new and replacement service lines.
- 6) The previous Program Evaluation noted inspection units were in need of being reviewed and amended to ensure field inspection activities are comprehensive in all geographic areas of California. While progress is being made in this area, the CPUC needs to continue the review of inspection unit size and analyze inspection approaches to ensure an adequate amount of inspection time is being spent in all geographic areas. The continued need for improvement in this area resulted in a one point deduction on the Program Evaluation.
- 7) States are required to input information regarding various Operator Qualification (OQ) inspections into a federal database to track progress in this area. As mentioned in last year's letter, PHMSA found that information was inconsistently uploaded and

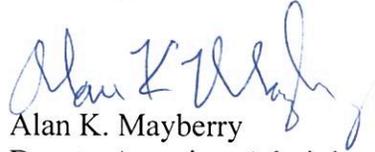
improvement is needed in this area. This resulted in a one point deduction on the Program Evaluation for failure to make improvement in this area. Please take action to assure the timely entry of OQ inspection data into the federal database.

- 8) During the review of the CPUC compliance activities, it was found various compliance actions issued throughout the past two years continue to be in need of resolution. While it appears progress is being made, there is still a lack of compliance resolution within a reasonable time frame. There was a total of three points deducted on the Program Evaluation due to improvement being needed with the timely processing of compliance actions. Please take action to bring open compliance actions to closure.
- 9) CPUC Incident investigations were reviewed during the Program Evaluation. It was found improvement is needed in the overall process and documentation of incidents from the initial report through the investigation, enforcement actions, and finally the closure of the investigations and follow-up actions with the pipeline operator. Specific information on the incidents reviewed has been relayed to the CPUC Pipeline Safety Program Manager for further follow-up. This resulted in a four point reduction for the Program Evaluation.
- 10) During the incident investigation review mentioned above, it was noted a great deal of incidents in the State of California were a result of damage due to various underground excavation issues. Please advise what actions the CPUC is taking to reduce damages to pipelines caused by excavation.
- 11) The field inspection portion of the Program Evaluation encompassed a review of two pipeline operator inspections by the CPUC. The field inspections were conducted for Pacific Gas and Electric (PGE) in San Francisco the week of August 11th and San Diego Gas and Electric (SDGE) in Miramar, CA the week of September 22nd. A great deal of discussions took place between Mr. Evans and the CPUC inspection staff on approaches to inspections of these large operators. Overall there is improvement needed in the documenting of field inspection results along with a need to analyze the quantity of field verification activities being conducted throughout the various geographic areas of these operators. There was a three point deduction in this area on the Program Evaluation.
- 12) The Program Evaluation includes a review of previous issues identified as needing improvement and outlined in our correspondence to the CPUC and the CPUC actions to correct them. Due to various issues still being outstanding and needing improvement a one point deduction was made on the Program Evaluation.

We look forward to working with Mr. Kenneth Bruno who was recently named Program Manager of the CPUC pipeline safety staff. It appears the CPUC has the staff and structure in place now to make great strides with your inspection and enforcement program. We intend on continuing to work closely with the CPUC pipeline safety staff to make sure any items in need of improvement are accomplished.

Please provide your comments regarding the above items 1-12 within 60 days of your receipt of this letter to avoid losing performance points in next year's evaluation. The response should be addressed to Mr. Zach Barrett, PHMSA Director of State Programs, at the following address: 3700 S. MacArthur Blvd, Suite B, Oklahoma City, OK 73179-7612. Thank you for your contributions and continuing support of the pipeline safety program.

Sincerely,

A handwritten signature in blue ink, appearing to read "Alan K. Mayberry".

Alan K. Mayberry  
Deputy Associate Administrator for Policy and Programs  
Office of Pipeline Safety

cc: Mr. Kenneth Bruno, State Program Manager  
Mr. Chris Hoidal, PHMSA/OPS Western Region Director  
Mr. Rex Evans, State Liaison – PHP50