

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 20A-0284G

IN THE MATTER OF THE APPLICATION OF COLORADO NATURAL GAS, INC. FOR AN ORDER AUTHORIZING IT TO PUT INTO EFFECT A SYSTEM SAFETY AND INTEGRITY RIDER.

**INTERIM DECISION REFERRING APPLICATION TO
ADMINISTRATIVE LAW JUDGE AND PROVIDING
ADDITIONAL INFORMATION REQUIREMENTS**

Mailed Date: August 19, 2020

Adopted Date: August 12, 2020

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I. BY THE COMMISSION

A. Statement

1. This Decision refers the Verified Application (Application) for approval of a System Safety and Integrity Rider (SSIR) that Colorado Natural Gas (CNG or Company) filed on June 26, 2020, to an Administrative Law Judge (ALJ) for a hearing.

2. As part of the Commission's consideration of the Application, we direct the ALJ to address the information CNG must present to justify projects eligible for cost recovery through the SSIR.

B. Background

3. CNG began gas utility operations in Colorado in 1997.¹ Today, CNG serves approximately 17,300 customers in its Mountain District and about 4,200 customers in its Eastern Colorado Division, for a total of approximately 21,500 customers.² The Mountain District consists of areas such as Cripple Creek, Pine, Jefferson County, and Teller County. The Eastern Colorado Division was acquired by CNG in 2011 when it purchased an older system from Eastern Colorado Utility Company. CNG previously sought approval for an SSIR in Proceeding No. 12A-1140G but withdrew its request as part of the settled resolution of that proceeding.³

4. CNG seeks Commission approval of an SSIR to recover the costs of certain system safety and integrity projects through rate riders on customer bills. CNG filed its Application in accordance with the Settlement Agreement in Proceeding No. 19A-0352G between CNG, Commission Staff (Staff), and the Office of Consumer Counsel, that sets forth CNG's Quality of Service Plan (QSP).⁴ The QSP requires CNG to improve such things as its damage prevention performance, the time CNG takes to repair Grade 2 Leaks, and its tracking of

¹ Direct Testimony of Matthew Kaply at page 4.

² *Id.* at 4-5.

³ *Id.* at 5.

⁴ Proceeding No. 19A-0352G, Decision No. R20-0057 issued January 27, 2020, at pages 4-6.

customer owned yard lines.⁵ The QSP also requires CNG to file an application for an SSIR by the end of the second quarter of 2020.⁶

5. CNG argues that an SSIR is warranted, in part, because the Company recently reviewed its system and processes in connection with a Notice of Probable Violation and identified system safety and integrity projects to address.⁷ CNG asserts that even though most of its system is less than 25 years old, portions of it date back 50 years, and industry practices regarding both the materials used and the installation methods have improved.⁸ Additionally, CNG argues that the near-term recovery of safety and integrity expenditures that an SSIR allows helps “a company the size of CNG. . . to ensure the financial viability and cost recovery of those investments to the benefit of system reliability and customer safety.”⁹

6. CNG requests that the proposed SSIR be approved for an initial period of three years, through December 31, 2023.¹⁰ CNG’s proposed SSIR rates will be based on the “eligible annual projected system safety and integrity project costs, plus or minus the SSIR True-Up Amount (starting year two).”¹¹ The SSIR true-up amount will be the difference, positive or negative, between the projected SSIR costs and the actual SSIR costs incurred by the Company, and it will be determined annually.¹²

⁵ *Id.*

⁶ *Id.*

⁷ Direct Testimony of Matthew Kaply at pages 8-9.

⁸ *Id.* at 6.

⁹ *Id.* at 7.

¹⁰ *Id.* at 7-8.

¹¹ *Id.* at 8.

¹² *Id.*

7. In addition, under CNG's proposed SSIR program, all SSIR costs will be subject to an annual prudence review.¹³ CNG will submit a report each year by April 1 describing the SSIR project costs incurred during the previous year and any deviations between actual and budgeted costs. An intervening party that wishes to challenge any of the Company's SSIR projects or incurred costs can request a hearing within 60 days of the April 1 report.¹⁴

8. CNG's proposed SSIR would be comprised of the following six safety and integrity programs: (1) data collection; (2) at risk equipment/installations; (3) cathodic protection and coating; (4) exposed pipe/depth of cover; (5) over pressure protection; and (6) system integrity upgrades.¹⁵ CNG evaluates all identified SSIR projects using a risk ranking methodology that calculates a threat value based on aspects such as material, age, condition, location factors, performance history, and direct knowledge from subject matter experts.¹⁶ This methodology creates a probability score and consequence factor, which are combined to create a total risk score.¹⁷ Projects with total risk scores that fall into the "high" or "very high" range are added to the SSIR project list.¹⁸

9. CNG notes that the Company has already initiated certain safety and integrity projects to mitigate risk and ensure the continued safe operation of its distribution system.¹⁹ CNG's SSIR revenue requirements in 2020 are \$150,700 for the Mountain Division and

¹³ Direct Testimony of Harry Di Domenico at page 12.

¹⁴ *Id.* at 12-13.

¹⁵ Direct Testimony of Stanwood Given at page 10.

¹⁶ *Id.* at 12-13.

¹⁷ *Id.* at 13.

¹⁸ *Id.*

¹⁹ *Id.* at 10.

\$284,824 for the Eastern Colorado Division.²⁰ The 2020 revenue requirements are intended for recovery under the SSIR beginning in January of 2021.²¹

10. CNG proposes to have a separate SSIR rate for its Eastern Colorado Division and its Mountain District.²² CNG notes that more than half of the total 2020 budget is attributable to one large pipeline replacement project located in the Eastern Division that was installed in 1970.²³ The Company asserts that there are no cross-subsidization issues between its Eastern Colorado Division and its Mountain District because costs have been split between the divisions.

C. Staff Intervention

11. In its Notice of Intervention filed on July 30, 2020, Staff requests a hearing to address several issues. For instance, Staff questions whether operations and maintenance costs should be included in the proposed SSIR given that “the rider is meant to recover expenses for replacing parts of CNG’s existing system and... [O&M] costs are within the utility’s control.”²⁴ Also, Staff intends to investigate the costs associated with CNG’s proposed replacement of customer-owned yard lines and the steel upgrade replacement project for Bennett and determine whether such costs are appropriate for the SSIR.²⁵ In addition, Staff wants to examine whether the different bill impacts between the Eastern and Mountain divisions raise equity issues for customers. And finally, Staff intends to address CNG’s risk ranking methodology and the risk ranking scores for projects beyond the initial two-year period.²⁶

²⁰ Testimony of Harry Di Domenico at page 13.

²¹ *Id.* at 4, 13.

²² *Id.* at 10.

²³ *Id.*

²⁴ Staff Intervention at page 1.

²⁵ *Id.* at 2.

²⁶ *Id.*

D. Discussion and Findings

12. On August 13, 2020, by operation of Rule 1303(c)(III) of the Rules of Practice and Procedure, 4 *Code of Colorado Regulations* 723-1, the Application was deemed complete for purposes of § 40-6-109.5, C.R.S.

13. We agree with Staff that this matter should be set for a hearing.

14. We refer the matter to an ALJ.

15. As part of the Commission's review of the Application, the ALJ shall address the minimum information required in CNG's SSIR filings to facilitate a robust evaluation and determination of eligible projects and spending. In addition, CNG's proposed SSIR program appears not to be permanent, and thus it is important for the Commission to understand how the Company plans to return to investments and expenditures made in the ordinary course of business after the implementation of the proposed SSIR in accordance with a defined timeline. Moreover, the Commission must be able to assess when a project is eligible for SSIR recovery and when a project arises in the normal course of business. Ultimately, the Commission wants to ensure that any SSIR project is sufficiently justified and presents the best available option.

16. The ALJ therefore shall address what information CNG must present to justify its SSIR projects, in consideration of, but not limited to:

- Long range planning costs and schedules;
- Project locations and costs;
- Project schedules;
- The number of customers downstream of each improvement;
- The age of the affected asset and the original expected life of the affected asset (*e.g.*, an asset being replaced);

- Changes to system capacity resulting from the project; and
- The transparent identification and evaluation of viable alternatives.

II. **ORDER**

A. **It Is Ordered That:**

1. The Verified Application filed by Colorado Natural Gas (CNG) on June 26, 2020, is referred to an Administrative Law Judge (ALJ).
2. The Verified Application was deemed complete on August 13, 2020, by operation of Rule 1303(c)(III) of the Rules of Practice and Procedure, 4 *Code of Colorado Regulations* 723-1, for purposes of § 40-6-109.5, C.R.S.
3. The ALJ assigned to this matter shall address the information CNG must present to justify projects eligible for cost recovery through the proposed System Safety and Integrity Rider, consistent with the discussion above.
4. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
August 12, 2020.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JEFFREY P. ACKERMANN

JOHN GAVAN

MEGAN M. GILMAN

Commissioners