HB 1124

Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1124 (Delegate Stein, *et al.*)
Economic Matters Finance

Public Safety - Gas Pipelines - Implementation of Federal Pipeline Safety Laws

---

This bill requires the Public Service Commission (PSC), by December 1, 2013, to (1) evaluate the process and criteria the U.S. Secretary of Transportation would use to review an application for certification or agreement with the Secretary under federal law with respect to interstate pipelines located within the State and (2) determine whether it is in the public interest to apply for certification or agreement. PSC must apply for certification or agreement with the Secretary by January 1, 2014, if the commission determines that it is in the public interest for the commission to act for the Secretary. On completion of the evaluation and determination required under the bill, PSC must report to the Governor and the General Assembly on its findings and conclusions.

Fiscal Summary

State Effect: PSC can complete the required evaluation and meet the bill's reporting requirement with existing budgeted resources. The effect on PSC finances if PSC enters into a certification or agreement with the U.S. Secretary of Transportation to act for the Secretary to implement specified federal law with respect to interstate pipelines located within the State cannot be reliably estimated at this time, as discussed below.

Local Effect: Minimal.

Small Business Effect: None.

Analysis

Bill Summary: For purposes of the bill, "gas" means natural gas, flammable gas, or toxic or corrosive gas, and a "gas pipeline" means an *intra*state transmission line or any portion of an interstate transmission line located within the State that (1) transports gas from a gathering line or storage facility to a distribution center, storage facility, or large-volume customer that is not downstream from a distribution center; (2) operates at a specified hoop stress; or (3) transports gas within a storage field. It does not include any transmission line or distribution line constructed, owned, or operated by a public service company. A "gas transmission company" means a person who owns or operates a gas pipeline regulated under the bill, and does not include a person that is primarily in the business of local gas distribution.

If PSC enters into a certification or agreement with the U.S. Secretary of Transportation to act for the Secretary to implement specified federal law with respect to interstate pipelines located within the State, PSC must, in accordance with federal regulations (1) make periodic certifications and reports to the U.S. Department of Transportation and (2) take any other actions necessary to carry out its responsibilities under a certification or agreement with the Secretary under the bill. PSC may accept funding made available to the State to implement federal pipeline safety laws or other federal law, and may charge an owner of an interstate gas pipeline a fee to recover the balance of inspection costs not funded through the federal government.

Current Law: The Federal Natural Gas Pipeline Safety Act of 1968 requires the Secretary of the U.S. Department of Transportation to establish minimum federal safety standards for the transportation of gas and for pipeline facilities.

The Secretary's authority to prescribe and enforce gas pipeline safety standards does not apply to *intra*state pipeline transportation if a state agency regulates the safety standards and practices applicable to *intra*state pipeline transportation and submits certification to the Secretary each year meeting specified criteria. PSC has adopted the applicable federal safety standards established under the Act and has established the required inspection, documentation, and enforcement program outlined in the Act.

The Act requires the establishment of minimum federal safety standards and provides that any state agency may adopt additional or more stringent regulations that are not incompatible with the minimum federal standards. Those standards may affect the design, installation, inspection, testing, construction, extension, operation, replacement, and maintenance of pipeline facilities. Standards affecting the design, installation, construction, initial inspection, and initial testing do not apply to preexisting pipeline facilities.

PSC, under certification from U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA), assumes safety responsibility with respect to *intra*state gas facilities, and has statutory authority to establish and enforce safety standards for *intra*state gas facilities. PSC regulations regarding gas safety require each gas company to exercise reasonable care to reduce the hazards of gas distribution and transmission.

Each gas company must adopt and execute a safety program, odorize the gas, and bury pipe according to specified standards. The gas company must also respond promptly to all reports of gas leaks and investigate the reports in accordance with the Gas Piping and Technology Committee standards. For additional information related to the federal and state regulation of pipeline safety, see the **Appendix – Pipeline Regulation and Safety**.

Background: The bill affects natural gas transmission pipelines – high-pressure pipes designed to move large volumes of natural gas across long distances. Natural gas transmission pipelines are a separate system from hazardous liquids pipelines. In general, natural gas is brought into the State through the interstate transmission system and then allocated as needed through the *intra*state natural gas distribution systems of the State's gas companies for customer use. These interstate natural gas transmission pipelines are under the regulatory authority of PHMSA. However, three gas companies operate *intra*state gas transmission systems that transport natural gas from the interstate transmission system to their franchised distribution systems: Baltimore Gas and Electric Company, Washington Gas Light Company, and Columbia Gas of Maryland.

PSC currently manages two pipeline safety programs, one for natural gas and the other for hazardous liquids pipelines. The natural gas pipeline safety program includes the inspection of 77 jurisdictional natural gas and propane pipeline operators. The hazardous liquids pipeline safety program includes the inspection of one jurisdictional hazardous liquids pipeline operator.

State Fiscal Effect: PSC special and federal fund expenditures increase beginning in fiscal 2014 to the extent that PSC enters into a certification or agreement with the U.S. Secretary of Transportation to act for the Secretary to implement federal law with respect to interstate pipelines located in the State. Because the details of any future certification or agreement is unknown, the impact on PSC expenditures cannot be estimated at this time. However, costs could increase for PSC to hire staff to conduct regulatory activities such as inspections.

Special and federal fund revenues for PSC increase correspondingly from assessments imposed on public service companies, any fees assessed on owners of interstate gas pipelines to cover inspection costs, and additional federal revenue. The federal reimbursement rate for PSC's current pipeline safety program is approximately 60%.

Additional Information

Prior Introductions: None.

Cross File: SB 863 (Senators Zirkin and Glassman) - Finance.

Information Source(s): Public Service Commission, Judiciary (Administrative Office of the Courts), U.S. Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2013
ncs/lgc Revised - House Third Reader - April 8, 2013

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Pipeline Regulation and Safety

The regulation of pipeline safety occurs at both the federal and state levels. The State's Public Service Commission (PSC) regulates *intra*state pipeline safety. PSC may enter and inspect, at reasonable times and in a reasonable manner, the pipeline facilities and the pipeline procedures of those involved with them and books, records, papers, and other documents relevant to determining compliance with regulations. Whenever PSC finds a particular facility to be hazardous to life or property, it is empowered to require the person operating such facility to take the steps necessary to remove such hazards.

The Pipeline and Hazardous Materials Safety Administration (PHMSA) within the U.S. Department of Transportation is the primary federal agency responsible for ensuring that pipelines are safe, reliable, and environmentally sound. PHMSA oversees the development and implementation of regulations concerning pipeline construction, maintenance and operation, and shares these responsibilities with state regulators. PHMSA comprises two safety divisions, the Office of Pipeline Safety (OPS), and the Office of Hazardous Materials Safety. In overseeing approximately 2.3 million miles of natural gas and hazardous liquid pipelines, OPS:

- administers a national pipeline inspection and enforcement program;
- administers pipeline safety regulatory programs and establishes the regulatory agenda;
- oversees pipeline operator implementation of risk management and risk-based programs;
- develops regulatory policy options and initiatives, and researches, analyzes, and documents social, economic, technological, environmental, safety, and security impacts upon existing and proposed regulatory, legislative, or program activities involving pipeline safety;
- develops and maintains partnerships with other federal, state, and local agencies as well as other stakeholders to address threats to pipeline integrity, service, and reliability and to share responsibility for the safety of communities;
- provides technical and resource assistance for state pipeline safety programs to ensure oversight of *intra*state pipeline systems at the local level; and
- supports the development and conduct of pipeline safety training programs for federal and state regulatory and compliance staff and the pipeline industry.

According to PHMSA, pipelines are by far the safest method for transporting energy products. However, when pipeline incidents occur, they can present significant risks to the public and the environment. There were 30 "significant incidents" in Maryland from 2002 through 2011, totaling $12 million in property damage and causing one fatality and 16 injuries.