

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

Senate Bill 606 (Senator Zirkin)
 Finance

Public Service Companies - Gas - Prohibition on Purchase from Unsafe Company

This bill prohibits a public service company from purchasing gas for distribution through its system from a company that (1) has not installed automatic shutoff valves or remote controlled sectionalized block valves on gas transmission lines under its ownership or control; (2) does not employ best practices and technology, including in-line inspection devices, for monitoring the safety of gas transmission lines under its ownership or control; or (3) does not comply with all applicable State and federal safety standards and reporting requirements.

Fiscal Summary

State Effect: Public Service Commission (PSC) special and federal fund expenditures increase by a total of \$84,400 in FY 2014 for staff and related expenses to enforce the bill. Future year expenditures reflect annualization and the elimination of one-time costs. Special and federal fund revenues for PSC increase correspondingly from assessments imposed on public service companies and additional federal funds.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SF Revenue	\$33,800	\$35,200	\$36,700	\$38,400	\$40,100
FF Revenue	\$50,700	\$52,800	\$55,100	\$57,600	\$60,100
SF Expenditure	\$33,800	\$35,200	\$36,700	\$38,400	\$40,100
FF Expenditure	\$50,700	\$52,800	\$55,100	\$57,600	\$60,100
Net Effect	\$0	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

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 *intrastate* pipeline transportation if a state agency regulates the safety standards and practices applicable to *intrastate* 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 *intrastate* gas facilities, and has statutory authority to establish and enforce safety standards for *intrastate* 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, which include a system for classifying gas leaks similar to that proposed by the bill. 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 *intrastate* 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

intrastate 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: It is assumed that, in order to enforce the bill's prohibition, PSC needs to conduct inspections of gas transmission companies. Thus, PSC special and federal fund expenditures increase in total by \$84,438 in fiscal 2014, which accounts for the bill's October 1, 2013, effective date. This estimate reflects the cost of hiring one pipeline safety engineer to enforce the bill's prohibition. It includes a salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and vehicle costs.

Position	1
Salary and Fringe Benefits	\$58,795
Vehicle Expenses	20,597
Other Operating Expenses	<u>5,406</u>
Total FY 2014 State Expenditures	\$84,438

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses and the elimination of one-time costs. Special and federal fund revenues for PSC increase correspondingly from assessments imposed on public service companies and additional federal revenue for PSC's pipeline safety program. This assumes a 60% federal reimbursement rate for pipeline safety staff and vehicle expenses.

Additional Information

Prior Introductions: None.

Cross File: HB 1027 (Delegate Cardin, *et al.*) - Economic Matters.

Information Source(s): Public Service Commission, U.S. Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2013
mc/lgc

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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 *intrastate* 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 *intrastate* 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.