Pacific Gas and Electric Company

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Mr. Honesto Gatchalian
California Public Utilities Commission
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, CA 94102

Re: **Response of Pacific Gas and Electric Company to the Protest of Division of Ratepayer Advocates and the Joint Protest of The Utility Reform Network and Disability Rights Advocates to PG&E Advice 3171-G**

Dear Mr. Gatchalian:

Pacific Gas and Electric Company ("PG&E") hereby responds to the protest of the Division of Ratepayer Advocates ("DRA") and joint protest of The Utility Reform Network ("TURN") and Disability Rights Advocates ("DisabRA") to Advice 3171-G regarding PG&E's request to establish the Natural Gas Transmission Pipeline Safety Memorandum Account ("NGTPSMA-G").

Summary of DRA and TURN/DisabRA Protests:

On December 21, 2010, DRA and TURN/DisabRA protested PG&E's Advice 3171-G and ask that the request to establish a memorandum account be rejected. DRA and TURN/DisabRA protests argue:

1. Advice 3171-G is not specific enough about the costs and program elements that will be included in PG&E's future Pipeline 2020 application and tracked in the memorandum account. TURN/DisabRA further state that PG&E should file an application for its Pipeline 2020 program prior to establishing a memorandum account to track costs.

2. PG&E has already received funding from the California Public Utilities Commission ("Commission") for pipeline safety and reliability in existing gas transmission rates and PG&E's Gas Accord V Settlement provides PG&E with funding for integrity management, pipeline safety and reliability for the 2011-2014 period.

3. PG&E's request for a memorandum account is premature. Until the NTSB completes its investigation and/or new governmental or regulatory requirements are adopted, a memorandum account is unwarranted.

PG&E notes that part of DRA's protest was missing (see page 5); therefore PG&E cannot respond to DRA's protest in its entirety.

Response:

1. PG&E Seeks Authority Only To Track Costs Associated With New or Expanded Natural Gas Pipeline Safety Programs and Requirements. Rate Recovery Will Be Addressed In Connection With a Future Proceeding.

The protests filed by DRA and TURN/DisabRA express concern about potential cost recovery in rates for expenditures associated with natural gas pipeline safety enhancements to be undertaken following the San Bruno pipeline rupture. Yet, the express purpose of the NGTPSMA is merely to track and record expenditures on these programs. Establishing a memorandum account for this purpose will not and cannot authorize rate recovery. The Commission has found:

> Memorandum accounts record and track particular costs for capital projects, but do not provide a guaranteed authorization to meet expenditures using ratepayer funds. Ratepayer funds may be used at a later time, but only after Commission review and authorization of the project. Under a memorandum account, PG&E shareholders are at risk for any and all expenditures, should the Commission deny some or all parts of the project. (Resolution G-3432, pp. 3-4)

As stated in the advice letter, the Commission has previously authorized the tracking of costs in a memorandum account through the procedural device of an advice letter filing. (Advice 3171-G, p. 4)

The NGTPSMA is clear about its limited purpose. It states in section 1 of the proposed tariff that "This memorandum account shall only track costs associated with new or expanded natural gas pipeline safety programs and requirements. It does not authorize or address future recovery of these costs in customer rates. Issues surrounding cost recovery will be addressed in a future Commission proceeding or in conjunction with a future PG&E application."

The concerns raised in the protests about ultimate recovery in rates of costs tracked in the memorandum account are thus premature and can be raised, fully considered and addressed when (and if) PG&E seeks rate recovery of costs tracked in the NGTPSMA in connection with the Pipeline 2020 Application or other

Commission proceeding. The protesting parties suggest that authorizing the memorandum account may create some sort of momentum in favor of later recovery. However, Commission precedent is clear that recording a cost in a memorandum account provides no down steam assurance of rate recovery.

2. The Purpose and Scope of the NGTPSMA and Its Five Sub-Accounts Is Sufficiently Detailed to Provide for Comprehensive Commission Review In Connection With the Pipeline 2020 Application or Other Commission Proceeding.

DRA and TURN/DisabRA also express concern that the natural gas pipeline safety program enhancements to be tracked in the NGTPSMA are "vague" and "poorly defined." In fact, PG&E has clearly defined five separate sub-accounts all related to safety enhancements on the natural gas transmission pipeline system. These sub-accounts include: 1) Pipeline Modernization, 2) Automated Shut-Off Valves; 3) Pipeline Inspection and Retrofits; 4) Emergency Response and Public Safety; and 5) New Governmental and Regulatory Requirements not covered in accounts 1-4. Each sub-account includes a specific description of the program elements and eligible costs.

TURN asks for clarification as to whether the program includes only costs associated with natural gas transmission or also include potential gas distribution pipeline costs. While PG&E believes it is clear that each sub-account limits eligibility to costs associated with gas transmission pipelines, it clarifies that the intent of the memorandum account is to limit eligibility in each sub-account to gas transmission-related costs. Any retrofits to gas distribution pipelines are outside the scope of the NGTPSMA. The one exception to this is the Emergency Response and Public Safety Memorandum Subaccount ("ERPSMS"). It is conceivable that enhancements to the emergency response programs could facilitate public safety associated with incidents or ruptures on the distribution system as well.

DRA also asks for clarification with respect to tracking costs for the R&D activities that will be part of the Pipeline 2020 Program (DRA Protest, p. 4). While in the background section of the advice letter PG&E described the establishment of a non-profit research and development entity to evaluate next-generation pipeline inspection and diagnostic tools, PG&E was clear to state that the program would be funded by $10 million in shareholder funds and that the program would be "at no cost to customers." In fact, PG&E did not propose a sub-account to track costs associated with this program element in the NGTPSMA.

DRA and TURN also point out that, while new regulatory or governmental pipeline safety requirements are expected as a result of the San Bruno incident, they are not yet known and the NTSB is still investigating the cause of the pipeline rupture (DRA Protest, p. 4). The implementation details and cost forecasts of each sub-category of the gas pipeline safety enhancement program are still in development and will require consultation and alignment with anticipated new governmental and regulatory mandates once they are known and implemented. In recognition that certain new requirements may fall outside the proposed elements of the Pipeline 2020 Program, PG&E included a sub-account in the NGTPSMA to track the costs associated with implementing other new pipeline safety mandates not covered by the other sub-accounts. This catch-all will ensure that PG&E can move forward quickly with implementation of new safety requirements and track the associated costs, even if the new requirement is outside the scope of the Pipeline 2020 Program. Accordingly, there is sufficient detail in the NGTPSMA to understand the purpose and scope of the program and sub-accounts and to implement new pipeline safety mandates.

3. Approving the Memorandum Account Serves the Best Interests of Customers By Expediting the Implementation of New and Enhanced Gas Transmission Safety Programs.

The protests imply that PG&E should not begin to track costs until after program details have been fully established and authorized by the Commission. However, PG&E is making expenditures on these program elements currently and expects to continue spending next year as it defines the program scope, design criteria, implementation schedule, and cost estimate. The protesting parties' proposal to delay establishment of a memorandum account would, under the rule against retroactive ratemaking, preclude recovery of costs incurred on the pipeline safety program prior to CPUC approval of the program.

Rejection of the memorandum account at this time, as the protesting parties request, would result in a de facto Commission decision at the outset to prohibit recovery of costs being incurred now to shape, evaluate and design the program. In effect, DRA and TURN/DisabRA want the Commission to rule on the merits now and deny cost recovery rather than allow PG&E to merely track and record costs now so that the Commission can fully consider cost recovery issues down the road when PG&E submits its Pipeline 2020 Application or in connection with other regulatory proceedings.

DRA states that it "supports efforts to ensure the safety and reliability of the PG&E gas transmission and storage system particularly in light of the San Bruno incident" (DRA Protest, p. 4) and TURN says it "absolutely agrees with PG&E that the utility may be properly required to change its practices related to gas transmission pipeline safety to fulfill its obligation to provide safe and reliable natural gas service to its customers . . ." (TURN Protest, p. 1). However, rejecting the memorandum account to track costs as these parties urge would thwart and delay PG&E's efforts to comply with new pipeline safety requirements and implement new and enhanced safety programs on its transmission system.

4. PG&E Will Only Seek Recovery Of Costs If Authorized By the Commission Under the Gas Accord V Settlement Which Specifies PG&E's Ability to Adjust Rates During the Settlement Period.

DRA asserts that "PG&E already has funding for integrity management, pipeline safety, and reliability work for the rate period 2011-2014" and that "DRA recommends that the Commission not approve PG&E's request in Advice 3171-G to record costs for any safety-related functions that it already has a duty to provide" (DRA Protest, pp. 3, 5). PG&E does not intend to seek recovery of costs for programs or activities already addressed in its gas transmission rates. PG&E stated that the purpose of the NGTPSMA is to track costs associated with "1) programs to implement new governmental and regulatory mandates and requirements applicable to natural gas transmission pipeline safety and 2) new or enhanced PG&E transmission safety programs" (AL 3171-g, p. 1). Thus, the scope of the account is limited to incremental costs not already covered by existing transmission rates or the Gas Accord V rate settlement because they pertain to new regulatory requirements or new or enhanced programs that were not included in the rate forecast for Gas Accord V.

DRA expresses concern that the existing Gas Accord V settlement provides PG&E with funding for integrity management, pipeline safety, and reliability work for the rate period 2011–2014 and that "PG&E is seeking to track costs over and above what has already been given to them without the appropriate scrutiny regarding the need and justification of these programs" (DRA Protest, p. 3). In its comments dated September 20, 2010, in Application ("A.") 09-09-013, PG&E stated that 1) the Gas Accord V settlement provides sufficient funds to conduct the integrity management and pipeline safety and reliability work that had been forecast in the case for the period 2011 to 2014; 2) PG&E is committed to spending all funds included in the Gas Accord V settlement for Integrity Management and Pipeline Safety and Reliability and we included a one-way balancing account with respect to the O&M spending in these major work categories to ensure the funding is spent on these activities; and 3) The Gas Accord V settlement "does not include sufficient funds for any specific additional work the Commission may direct PG&E to perform." Thus, to the extent that the Commission authorizes PG&E to undertake new or expanded safety programs to enhance the safety of the gas transmission pipeline system above and beyond that contemplated in the Gas Accord V settlement, there is no funding to cover such activities in the current settlement rates.

The purpose of the memorandum account is to track the incremental expenditures on these programs in order to preserve for a later day the cost recovery issue. PG&E anticipates that in connection with any request for recovery of program cost in rates that there will be a full accounting of costs and that PG&E will be required to demonstrate the incremental nature of the costs to support any request for recovery. In fact, the NGTPSMA will provide a useful accounting mechanism for tracking and verifying the incremental nature of these costs.

In addition, PG&E will fully honor its commitments under Section 12 ("Rate Certainty and Adjustments During Term of Settlement") of the Gas Accord V Settlement Agreement (A.09-09-013), which specifies the agreed-upon standard for recovery of costs in excess of settlement rates during the settlement period. The advice letter states "PG&E will seek recovery of costs tracked in the NGTPSMA in its natural gas transmission rates only to the extent that it is authorized to do so by the Commission consistent with its obligations under [the Gas Accord V Settlement]." This commitment addresses DRA's concern that costs of gas pipeline safety enhancements should be covered by existing gas transmission rates. PG&E notes that, other than DRA and TURN, no other parties to the Gas Accord V Settlement Agreement or gas transmission customers have protested PG&E's request to establish the NGTPSMA.

Conclusion

While DRA and TURN/DisbRA are concerned with rate recovery questions that may arise and would be addressed down the road, there are a number of compelling reasons right now to approve the NGTPSMA as soon as possible:

1. The NGTPSMA enables PG&E to be proactive and move quickly in response to governmental or regulatory mandates. Under the protesting parties' proposal, six months to a year would be forgone if PG&E held off on making any expenditures until after a commission proceeding or action on an application was completed.

2. PG&E fully acknowledges that all expenditures made prior to CPUC authorization of program elements are at risk. The NGTPSMA merely preserves the opportunity to ask for rate recovery, if warranted, at a later date. PG&E is neither asking for nor expects an assurance of rate recovery at this time.

3. The NGTPSMA will provide a mechanism to record detailed accounting and cost tracking at the outset. This will facilitate transparent Commission and third party review of expenditures down the road in connection with the Pipeline 2020 Application or other related Commission proceeding.

4. PG&E will fully honor its commitments under Section 12 ("Rate Certainty and Adjustments During Term of Settlement") of the Gas Accord V Settlement Agreement (A.09-09-013), which specifies the agreed-upon standard for recovery of costs in excess of settlement rates during the settlement period. This commitment addresses DRA's concern that costs of gas pipeline safety enhancements should be covered by existing gas transmission rates.

For these reasons, PG&E respectfully requests that the Commission reject the protests of DRA and TURN/DisabRA and timely approve Advice 3171-G.

Sincerely,

Jane Yura /emt

Vice President, Regulation and Rates

cc: Mark Pocta, DRA
Julie Fitch, Director, Energy Division
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Service Lists A.09-09-013 and A.09-12-020