Docket:	:	R.11-02-019
Exhibit Number	:	DRA-14
Commissioner	:	Florio
ALJ	:	Bushey
Witness	:	Sabino

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA Rebuttal Testimony on the Pipeline Safety Enhancement Plan of Pacific Gas and Electric Company

Cost Allocation Issues

San Francisco, California
February 28, 2012

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I. INTRODUCTION

The Division of Ratepayer Advocates (DRA) submits this rebuttal testimony on cost allocation issues pursuant to the Amended Scoping Memo and Ruling of the Assigned Commissioner dated November 2, 2012 setting the submission of PG&E and all parties' rebuttal testimonies on February 28, 2012. DRA's rebuttal testimony addresses a specific issue raised in the direct opening testimony of witness Thomas Beach submitted on behalf of the Northern California of Indicated Producers ("NCIP"). The NCIP supports the equal percent of authorized transportation margin ("EPAM") methodology, which the NCIP notes, is a method also recommended by the Southern California Gas Company ("SoCalGas") and San Diego Gas and Electric ("SDG&E"), collectively referred to as the "Sempra utilities"[1] The Commission should give no weight to the unsupported assertions of the NCIP for adoption of the EPAM methodology, and reject the proposal. If the Commission decides to allocate any costs associated with this rulemaking to customers then it should be as proposed by DRA in its testimony.[2]

DRA notes that while the Sempra utilities recommend the EPAM methodology, these utilities recommend EPAM to apply only to themselves, and not to any other utility such as the Pacific Gas and Electric Company ("PG&E"). PG&E does not propose using the EPAM methodology in this rulemaking proceeding.

Mr. Beach asserts that the EPAM methodology is a more appropriate way to allocate PG&E's pipeline safety costs to customers.[3] This testimony asserts that "Under an EPAM allocation, all customers would bear rate increases that are an equal percentage increase in the base margin portion of their transportation rates."[4] Using the Sempra utilities' testimony in R.11-02-019 to support its own proposal, Mr. Beach

[1] See Prepared Direct Testimony of R.Thomas Beach on behalf of the Northern California Indicated Producers in R.11-01-019 dated January 31, 2012 , p.3 .

[2] DRA has recommended that ratepayers should not be responsible for any incremental costs, expenses, or return on investment associated with PG&E's PSEP prior to PG&E's next Gas Transmission and Storage (GT&S) rate case. See DRA 02, page 2.

[3] Beach Testimony, p.14.

[4] Id.

states that "SDG&E/SoCalGas observe that an EPAM allocation mechanism would be appropriate because enhancing the safety of its gas transmission pipelines will benefit all customers equally."[5] Mr. Beach quotes the Sempra utilities' testimony saying "They note that an EPAM mechanism allocates costs in a manner that results in a percentage rate increase that is "relatively equitable across our different customer classes."[6] The NCIP proposal to allocate costs using EPAM deviates from the current cost-based method of allocating backbone transmission, local transmission and storage costs that was most recently adopted by the Commission in D.11-04-031. DRA explains in the next section why it recommends that the Commission reject this proposed change to the backbone transmission, local transmission, and storage cost allocation methodology for PG&E.

The testimony of NCIP suggests that the SoCalGas proposed EPAM cost allocation methodology is a preferable means to allocate the pipeline safety costs among PG&E's customers. This testimony makes assertions regarding the Sempra utilities' opening testimony in this proceeding, and DRA explains why relying on these assertions is inappropriate for determining the allocation of PG&E costs.

II. DISCUSSION

On behalf of the NCIP, Mr. Beach proposes using the EPAM cost allocation methodology for PG&E's customers.[7] However, the testimony relies heavily upon the Sempra utilities' testimony in R.11-02-019 in support of the EPAM. Mr. Beach states:

> SDG&E/SoCalGas observe that an EPAM allocation mechanism would be appropriate because enhancing the safety of its gas transmission pipelines will benefit all customers equally. They note that an EPAM mechanism allocates costs in a manner that results in a percentage rate increase that is "relatively equitable across our different customer classes."[8] They also use this mechanism to allocate cost increases that occur between cost allocation proceedings. This mechanism when compared to the methods with which other backbone transmission, local transmission, and storage costs are allocated, results in shifting less costs to noncore customers, but the Sempra

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[5] Id.

[6] Id.

[7] See Beach Testimony, p.14.

[8] Beach testimony at p.14 citing SDG&E/SoCalGas Testimony in R.11-02-019 at p.22.

> utilities note that this result is justified. They observe that the Commission has committed to a gas pipeline safety program that goes well beyond current Federal safety standards for pipelines (including the interstate pipelines that compete with the California utilities for customers), and that the proposed improvements will not result in a significant improvement in CPUC-regulated transmission service for large noncore customers. On the other hand, the use of the existing transmission cost allocation would result in very large rate increases for noncore customers, which, the Sempra utilities state, "would likely encourage most, if not all, of these customers to eventually seek service from FERC-regulated transmission pipelines that are not required to recover the additional pipeline safety costs being ordered in this California proceeding."[9]

At this stage, the above are mere assertions, not supported by facts, from NCIP and/or the Sempra utilities, since such claims remain to be proven before the Commission. Absent any concrete facts to support these assertions, the testimony relies upon a scare tactic by quoting the Sempra utilities stating that the existing transmission cost allocation "would likely encourage most, if not all, of these customers to eventually seek service from FERC-regulated transmission pipelines that are not required to recover the additional pipeline safety costs being ordered in this California proceeding."[10] This is referring to the potential bypass of the gas utilities' systems. The testimony suggests that the Commission should deviate from the appropriate cost-based allocation of transmission related costs because of competitive purposes. The statements further suggest that in order to alleviate competitive issues, the Commission should adopt a cost allocation method that allocates more costs to more captive customers in order to protect the market share of the utility. However, PG&E has not identified these issues in its testimony and has not proposed a deviation from the cost allocation for transmission costs adopted in D. 11-04-031.

Mr. Beach then goes on to quote a data request response that Watson-SCIP obtained from SCG-SDG&E.[11] In that response, the Sempra utilities allegedly said that 97% of the premises structures found within the Potential Impact Radius (PIR) of their transmission pipelines are typically those associated with core residential and

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[9] Beach Testimony at page 15 citing SDG&E/SoCalGas Testimony in R.11-02-019 at p.23.

[10] Id.

[11] Id.

commercial customers.[12] The NCIP testimony states that "customers who live or work within the PIR of a gas transmission line will receive the direct benefits of enhanced safety, in terms of reducing their own risk of harm from a pipeline incident." The testimony then cites a PG&E data response stating it does not record building types when surveying the PIRs surrounding its pipelines. Without any in depth analysis, NCIP concludes in the same paragraph of testimony that "This data demonstrates that almost all of the direct safety benefits of the utilities' plans will accrue to core customers. Thus, the EPAM methodology is more appropriate given that core customers will realize almost all of the direct safety benefits of a reduced likelihood of catastrophic harm from incidents such as San Bruno."[13] On the one hand, NCIP quotes Sempra saying "enhancing the safety of its gas transmission pipelines will benefit all customers equally," and then on the other hand concludes that "almost all of the direct safety benefits of the utilities' plans will accrue to core customers." The testimony concludes that EPAM is appropriate given that core customers will realize most of the direct safety benefits. However, the EPAM proposal will actually serve to deviate from proper cost-based allocation and shift the burden of pipeline transmission related costs to core customers because the EPAM results in allocating more costs to core customers.

In its testimony, DRA described the underlying reason for the having the PG&E PSEP costs integrated into PG&E's GT&S rate case and treated as part of PG&E's normal backbone, normal local transmission, and normal storage costs. As stated in DRA's testimony: "The work activities in the PSEP programs would have been a normal part of PG&E's gas pipeline operations and maintenance revenue requirements. A separate PSEP program would not have been necessary if PG&E had done its job properly as a prudent gas pipeline operator."[14] The pipeline safety costs should be allocated in the same manner as the normal backbone transmission, normal local transmission, and normal storage costs are allocated. The gas pipeline enhancement plan is for work primarily associated with gas transmission to support that function and

[12] Id.

[13] Id.

[14] DRA Prepared Testimony in R.11-02-019 Exhibit 09, p.51.

should be allocated like their normal operations for gas transmission and storage. The arguments of NCIP should be rejected and the Commission should not adopt the proposed EPAM methodology.

III. CONCLUSION

DRA requests that the Commission adopt DRA's recommendations regarding the PG&E PSEP and reject the NCIP's proposed adoption of the EPAM methodology as discussed herein.