
Ratemaking Issues Relating to Pacific Gas and Electric Company's Pipeline Safety Enhancement Plan

**Rebuttal testimony of
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**CALIFORNIA PUBLIC UTILITIES COMMISSION
RULEMAKING 11-02-019
REBUTTAL TESTIMONY OF WILLIAM B. MARCUS**

Q Have you previously filed testimony in this case, Mr. Marcus?

A Yes.

Q What is the purpose of your rebuttal testimony?

A I respond to testimony of Mr. Beach on behalf of the Northern California Indicated Producers on cost allocation.

Q What did Mr. Beach propose?

A He proposed an allocation methodology similar to that of SoCal Gas, based on equal percentage of authorized transportation margin (“EPAM” the sum of transmission and distribution rates) – thereby charging the preponderance of the transmission system safety costs to the core. He claims that safety benefits “all customers equally,” and that most of the actual structures close to transmission pipelines likely belong to core customer, so that users of the transmission system should not pay to make their own system safe.

Q What is your evaluation of this proposal?

A If PG&E had kept proper records and done proper tests in the first place and done the work on system replacement that was forecast under previous Gas Accord cases, any capitalized costs of these activities would clearly be part of PG&E’s transmission rates today and any expensed costs since Gas Accord I would have been part of PG&E’s past transmission rates. There could have been no complaining by non-core customers that it is somehow unfair to have the original costs of a proper past maintenance program included in Gas Accord transmission rates.

The only difference now is that we have a proposed crash program to get the transmission system up to standard. But the work still involves transmission pipelines. It doesn’t involve any low pressure distribution lines on city streets, service mains for small customers, or meters. The costs are related solely to transmission and should be

recovered in transmission rates from transmission users, just as they would have been charged had the work been done at the right time in the first place.

I also expect that the non-core customers served at transmission who want core customers to pay disproportionately for transmission pipeline safety costs would be the first to be incensed if the shoe were on the other foot, and they were asked to pay for additional programs to fix leaks on the distribution system based on an equal percentage of all costs – transmission and distribution.

Q What is your comment on Mr. Beach’s claim that safety disproportionately benefits core customers?

A Mr. Beach’s factual basis for his assertion that core customers benefit disproportionately is that most of the “premises structures” found close to transmission pipelines are likely to be residential or commercial structures. (Beach, p. 15.) This fact is mostly irrelevant, given the fact that the vast majority of “structures” are residential homes, by definition those will always outnumber industrial “structures.”¹

Mr. Beach’s argument implicitly assumes that the safety issue is property destruction. But the reason that the prioritization of pipeline work is driven by High Consequence Area and Class locations is due to concern about the safety of human beings. Mr. Beach’s testimony ignores the fact that the executives and employees of the companies that make up “noncore customers” are human beings also, and most likely reside in one of those “residential premises,” since I doubt many of them live at corporate headquarters.

Just because a corporate user of the transmission system cannot die in a transmission accident (because it is by definition inanimate – even though the Supreme Court has classified it as a legal person) does not mean that the corporation should not pay for the costs that are related to the transmission system that it uses, including making that system safe enough to not kill real people or destroy its own facilities.

¹ Indeed, this fact is highly relevant in allocating the majority of customers, but is irrelevant for allocating transmission costs.

Q What is your conclusion on this issue?

A The assignment of all transmission safety costs to transmission users is completely appropriate. Any attempt to assign these costs using a metric like EPAM that includes distribution is contrary to the unbundling of transmission that has been in place since Gas Accord I. The Commission should therefore adopt PG&E's cost functionalization and allocation method, with the one modification proposed by TURN - to functionalize computer hardware and software asset management costs by total miles of line.

Q Does this complete your reply testimony, Mr. Marcus?

A Yes, it does. Thank you.