

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the
Commission's Own Motion to Adopt New
Safety and Reliability Regulations for Natural
Gas Transmission and Distribution Pipelines
and Related Ratemaking Mechanisms.

R.11-02-019
(Filed February 24, 2011)

**PACIFIC GAS AND ELECTRIC COMPANY'S RESPONSE TO
THE UTILITY REFORM NETWORK MOTION TO STRIKE
PORTIONS OF CHAPTER TWO OF THE REBUTTAL
TESTIMONY OF PACIFIC GAS AND ELECTRIC COMPANY**

WILLIAM V. MANHEIM
KERRY C. KLEIN

Pacific Gas and Electric Company
Law Department
77 Beale Street, Mail Code B30A
San Francisco, CA 94105
Telephone: (415) 973-3251
Facsimile: (415) 973-5520
E-mail: KCK5@pge.com

Dated: March 15, 2012

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the
Commission's Own Motion to Adopt New
Safety and Reliability Regulations for Natural
Gas Transmission and Distribution Pipelines
and Related Ratemaking Mechanisms.

R.11-02-019
(Filed February 24, 2011)

**PACIFIC GAS AND ELECTRIC COMPANY'S RESPONSE TO
THE UTILITY REFORM NETWORK MOTION TO STRIKE
PORTIONS OF CHAPTER TWO OF THE REBUTTAL
TESTIMONY OF PACIFIC GAS AND ELECTRIC COMPANY**

The Utility Reform Network's (TURN) motion to strike portions of the rebuttal testimony of Dr. Susan Tierney should be denied. The portions of Dr. Tierney's testimony that TURN seeks to strike (primarily Section D) are proper subjects for rebuttal testimony. Dr. Tierney's testimony responds to nine witnesses that have offered testimony and proposals for assigning cost responsibility to PG&E shareholders rather than customers, including numerous proposals to reduce PG&E's rate of return, to adopt incentives or penalties designed to punish PG&E for past conduct or encourage PG&E to operate more safely, and asking the CPUC to follow their recommended principles for cost responsibility allocation.^{1/}

As a basis for responding to and rebutting these proposals, Dr. Tierney suggests that the Commission should evaluate these proposals by applying five guiding principles for effective regulation. In her opening summary, Dr. Tierney states "In response to intervenors recommendations, I offer five fundamental principles of rate regulation that the Commission should use in this rulemaking when evaluating PG&E's PSEP and the intervenors' ratemaking

^{1/} Dr. Tierney's rebuttal testimony responds to the testimony sponsored by DRA witnesses Sabino, Pocta and Roberts, TURN witnesses Long, Kuprewicz and Marcus, NCIP witness Beach, and UA witness Bradford. (PG&E Rebuttal Testimony, Chapter 2, p. 2-3.)

recommendations about it.” (PG&E Rebuttal Testimony, Chapter 2, p. 2-4, lines 1-3). She explains her principles, contrasts them with the cost responsibility principles offered by intervenors, and then evaluates how these principles apply to PG&E's plan. In so doing, she contrasts the impacts that the intervenors' rate of return or penalty proposals would have on PG&E and its ability to attract capital, with how PG&E's own ratemaking proposals fare under Dr. Tierney's five principles for effective ratemaking.

This is clearly proper rebuttal. Dr. Tierney is directly responding to intervenor proposals to reduce PG&E's return or otherwise assign cost responsibility. She addresses the following fundamental question: is it good, principled public policy to apply cost responsibility the way the intervenors have proposed, or the way PG&E has proposed? She then discusses and compares the impacts on PG&E, its customers and the financial markets if intervenors' proposals are adopted as compared to PG&E. She concludes that PG&E's way of addressing costs allocation is preferable from a public policy perspective than TURN or the Division of Ratepayer Advocates' (DRA) proposals to address the cost responsibility issue; this is a direct response to the TURN and DRA testimony. Dr. Tierney could not have offered this testimony as direct testimony last August because she would not have had any intervenor proposals to assess, compare and contrast.

It is proper rebuttal for Dr. Tierney to apply her five principles, which were developed to assess the multiple intervenor proposals, to both the intervenor proposals and PG&E's proposals. Her assessment would be incomplete if she didn't take the same principles that she thinks should guide the Commission in assessing the intervenor ROE, penalty and cost allocation proposals and apply the same criteria to PG&E cost allocation proposal as part of her assessment.

In addition, TURN's proposed redactions to Dr. Tierney's testimony would eliminate several pages of rebuttal testimony in Section D that are not within the scope of TURN's objection. TURN has objected to Dr. Tierney's testimony that "assesses the cost allocation proposal presented by PG&E in opening testimony under five principles espoused by Dr. Tierney." (TURN Motion, p. 1) The testimony in question and answer ("Q&A") 33 on pages 27 through 30 of Dr. Tierney's testimony assesses the "larger financial context" in which the **intervenor** proposals should be evaluated. It provides important information about how the financial markets have reacted to the San Bruno accident and evaluates how the financial markets would react if intervenor proposals are adopted. This testimony does not address or assess the PG&E cost allocation proposal at all. Similarly, Q&A 31 on pages 2-25 to 2-26 of Dr. Tierney's testimony assesses proposals offered by DRA, TURN and Northern California Indicated Producers under Dr. Tierney's principles two and three.^{2/}

Finally, TURN's claim that it has no opportunity to respond to Dr. Tierney's testimony is not correct. TURN has submitted several data requests directed to Dr. Tierney's testimony which PG&E has answered. Dr. Tierney will be available for cross-examination at the hearings scheduled to begin on March 19, 2012; TURN and other intervenors can cross-examine Dr. Tierney, including exploring Dr. Tierney's application of her five ratemaking principles to PG&E's proposals. That is the purpose of hearings.

PG&E respectfully requests that the Commission deny TURN's request to strike portions of Dr. Tierney's testimony that respond to intervenors' ratemaking proposals by comparing those

^{2/} Question 31 states "In light of that, do you think that the Commission should reject the recommendations of intervenor witnesses that, in effect, would ignore important ratemaking principles two and three?" (PG&E Rebuttal Testimony, p. 2-15) See Footnote 39, "I refer here to the previously referenced testimony of DRA's witnesses Ms. Sabino, Mr. Pocta and Mr. Roberts), TURN's witnesses (Mr. Long, Mr. Kuprewicz and Mr. William Marcus) and NCIP's witnesses (Mr. Beach).

proposals to PG&E's proposals, and evaluating how all ratemaking making proposals fare under Dr. Tierney's guiding principles.

Respectfully Submitted,

KERRY C. KLEIN

By: /s/ Kerry C. Klein

Pacific Gas and Electric Company
Law Department
77 Beale Street, Mail Code B30A
San Francisco, CA 94105
Telephone: (415) 973-3251
Facsimile: (415) 973-5520
Email: KCK5@pge.com

Dated: March 15, 2012

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY