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

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

TURN
THE UTILITY REFORM NETWORK
Lower bills. Livable planet.

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I. INTRODUCTION AND RELIEF REQUESTED

The Utility Reform Network (TURN) submits this Motion to Strike Portions of Chapter Two of the Rebuttal Testimony of Pacific Gas and Electric Company ("PG&E"). Chapter 2 is titled "Principles to Align Safety and Regulatory Ratemaking Policy" and is presented by Dr. Susan Tierney, a consultant with Analysis Group, Inc. Although presented as rebuttal testimony, Dr. Tierney's testimony contains an eight-page Section D, titled "Assessment of PG&E's Proposed PSEP", that assesses the cost allocation proposal PG&E presented in its opening testimony under five principles espoused by Dr. Tierney. Such testimony could and should have been presented in PG&E's opening testimony and therefore constitutes unfair and improper rebuttal. Accordingly, TURN seeks to strike all of Section D of Dr. Tierney's testimony, Attachment 2B (which is referenced in Section D), and all other portions of her testimony that summarize her analysis or conclusions in Section D. The specific pages and lines that TURN seeks to strike are listed below and shown in Appendix A to this Motion.

II. DR. TIERNEY'S ASSESSMENT OF PG&E'S PLAN IS IMPROPER REBUTTAL TESTIMONY

The time and place for PG&E to present affirmative testimony supporting its Plan was its opening testimony. Rebuttal testimony is meant to be just that – testimony that rebuts testimony submitted by another party. PG&E should not be allowed to use rebuttal testimony to present a post-hoc justification for its proposed allocation of costs between shareholders and ratepayers. Had this testimony been properly presented in PG&E's opening testimony, TURN and other parties would have had an opportunity to present their own testimony in response. By waiting until rebuttal testimony, PG&E is attempting to foreclose this opportunity, to the detriment of TURN and other parties.

The Commission should not permit such an unfair result. Dr. Tierney's belated opinion supporting PG&E's proposal should not be allowed into the record. In addition, it would be particularly unfair to allow PG&E to use this improper rebuttal to introduce new information of a factual nature, such as is contained in Answer 33 and Attachment 2B.

IV. CONCLUSION

For all the reasons set forth above, the following portions of Chapter 2 (as shown in Appendix A) should be stricken:

ϕϕι p. 2-3, line 19

ϕϕι p. 2-4, lines 13-19 and 28-30

ϕϕι p. 2-5, lines 15-17

ϕϕι p. 2-22, line 12 to p. 2-30, line 3

ϕϕι p. 2-30, lines 5-19.

Date: March 13, 2012

Respectfully submitted,

By: __________/s/______________
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APPENDIX A

PORTIONS OF CHAPTER 2 REQUESTED TO BE STRICKEN

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 2

PRINCIPLES TO ALIGN SAFETY AND REGULATORY RATEMAKING POLICY

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 2
PRINCIPLES TO ALIGN SAFETY
AND REGULATORY RATEMAKING POLICY

TABLE OF CONTENTS

Q 7 How is your testimony organized?

A 7 After this introductory section that provides background and a summary of my overall conclusions, I describe in Section B five ratemaking principles that should be applied when weighing intervenors' recommendations and when assigning costs to shareholders versus customers for PG&E's compliance with new pipeline safety regulations. In Section C, I address the testimony of the following intervenor witnesses regarding these ratemaking and cost-responsibility issues:

- Pearlie Z. Sabino, Division of Ratepayer Advocates (DRA)
- Robert M. Pocta, DRA
- Thomas Roberts, DRA
- Thomas J. Long, The Utility Reform Network (TURN)
- Richard Kuprewicz, TURN
- William B. Marcus, TURN
- R. Thomas Beach, Northern California Indicated Producers (NCIP)
- David I. Marcus, Coalition of California Utility Employees (CUE)
- Peter A. Bradford, United Association of Plumbers, Pipefitters and Steamfitters Local Union Nos. 246 and 342 (UA)

~~In Section D, I evaluate PG&E's proposal in light of these principles,~~ followed by my conclusions in Section E.

3. Summary of Conclusions

Q 8 What are the main themes and conclusions of your testimony?

A 8 As the Commission evaluates the testimony of the intervenors with respect to PG&E's ratemaking proposals in *this* proceeding, I urge the Commission to focus on what this rulemaking proceeding intends to do: As distinguished from the other dockets where "PG&E's conduct and any penalties will take place",[2] *this* docket focuses on the future, and the gas utilities' ratemaking proposals should be designed with that in mind.

[2] February 2011 OIR, p. 1.

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 recommendations about it. These ratemaking principles draw a fairly bright line between use of one-time mechanisms (such as penalties, fines and cost disallowances) to hold shareholders accountable for past actions, on the one hand, and properly designed, forward-looking rates to align utility companies' future actions and financial incentives with accomplishment of the state's safety goals, on the other. Inherently, rulemakings like this one are about companies' actions in the future. As such, the ratemaking policies in this docket should build on traditional ratemaking principles designed to fully fund investments that the Commission finds are needed for safety.

~~Using these five principles, I conclude that PG&E's plan fares well.~~ Like the Commission's own purpose in this proceeding, PG&E's PSEP distinguishes between past performance and what it will take in the future to achieve a new level of safety and performance that the Commission thinks is appropriate for Californians. PG&E's PSEP also properly assigns post-2011 costs for meeting the Commission's new safety standards to ~~customers.~~

The PSEP operates in parallel with other processes and proceedings that have held and will hold PG&E's shareholders responsible for any past errors and omissions. Building penalties into future rates would introduce conditions precisely the opposite of those the Commission would hope for in establishing "a new model" of pipeline safety regulations and for creating "incentives to elevate safety considerations."[3] Thus, the Commission should reject recommendations by certain intervenors who would have the Commission build on-going adjustments into PG&E's cost of capital or other rate elements to account for past performance. ~~By contrast, PG&E's PSEP aligns ratemaking and safety policies and encourages markets to support PG&E in satisfying the Commission's new safety requirements.~~

[3] February 2011 OIR, pp. 1, 4. In making this statement, I affiliate myself with the conclusion statements in the Prepared Testimony of Mr. David Marcus, CUE, January 31, 2012, pp. 4-5.

Approving the PSEP's ratemaking approach in this docket—as distinct from whatever penalties, fines or disallowances the Commission might adopt in other dockets—would also support the important public policy goal of setting comparable regulatory policies toward all jurisdictional utility companies, and applying regulatory changes prospectively, not through retroactive ratemaking.

The Commission's February 2011 OIR has invited a debate on what constitutes appropriate ratemaking for utilities' future investments and operations for safety. Now that the parties have offered opinions about the options, the Commission should make ratemaking decisions in this docket that send appropriate signals to all California companies to fund safety improvements in the future. Like several of the intervenors,**[4]** I conclude that in *this* proceeding, the Commission should create strong alignment between utility companies' financial incentives and funding work that the Commission finds is needed for safety. ~~In my opinion, PG&E's PSEP (in conjunction with the outcomes of various other investigations) does just that.~~

B. Principles of Utility Ratemaking to Apply in This Docket That Establishes New Safety Standards for Natural Gas Pipelines

Q 9 Does the Commission's requirement in this proceeding—that gas pipeline utilities file pipeline safety enhancement plans—present unique

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[4] I agree with former utility regulator, Mr. Bradford, who concludes that the "allowed rate of return on future investments should be calculated in the proceeding appropriate for developing the cost of capital for PG&E. It is difficult to see any justification for applying a different rate of return gas [sic] on system investments. Using the cost of capital calculation for future investments as a vehicle for penalizing past imprudence is likely to have a perverse effect on system improvements." Prepared Testimony of Mr. Peter A. Bradford, February 6, 2012, p. 6. I also agree with CUE's witness, Mr. David Marcus, when he states that "CUE, the Commission and the public have a strong desire for a safe gas delivery system, and in providing incentives to make sure utility shareholders feel the same way. . . . CUE also strongly supports, and believes all other parties do as well, the need for PG&E (and the other California gas utilities) to make substantial investments to improve the safety of their gas systems. But there is a real risk that in trying to achieve one goal (don't pay twice for the same work), the other goal (get the needed work done) will be undermined. . . . Ultimately, the Commission can impose penalties for past errors without unintentionally providing incentives for PG&E to avoid doing all of the needed future work." Prepared Testimony of Mr. David Marcus, CUE, January 31, 2012, pp. 1-2.

PG&E's revenue requirements.[34] Both of these come across as cherry-picking in the context of this rulemaking. The Gas Safety OIR is not the proper venue for deciding on the many assumptions that need to be made when determining gas transmission utility's revenue requirements. Such assumptions should be considered in a full rate case, such as the PG&E Gas Transmission and Storage rate case. PG&E has used a method that conforms to the assumptions/approaches approved by the CPUC in the most recent rate case,[35] and (as I describe in Section D, below) has proposed a principled funding mechanism that allows for allocation of cost responsibility between shareholders and consumers that does not require cherry-picking of expense items in the cost of service.

~~D. Assessment of PG&E's Proposed PSEP~~

Q 28 In Section B, you described five principles that the Commission should apply in this rulemaking docket and in evaluating intervenors' recommendations about PG&E's PSEP. How do you think that the PSEP fares, when such principles are applied?

A 28 Let's start with the first principle—that *regulators should set appropriate standards to assure investment in and operations of a system capable of providing reliable service and having high integrity to protect public and worker health and safety, at reasonable cost.* Was PG&E's high-pressure gas transmission pipeline system subject to laws or regulations aimed at the safety of its operations prior to the San Bruno accident? Yes.

As described in Chapter 2 (Gas Transmission Pipeline System and Regulatory Overview) of PG&E's August 2011 filing and in Chapters 1 and 2 of PG&E's rebuttal testimony, PG&E's pipeline operations and systems have been and remain subject to a combination of federal and state safety regulations. While many requirements pre-dated the San Bruno accident, additional requirements have been adopted since then and further requirements are being contemplated in the Gas Safety OIR, including the ~~requirement that utilities develop and implement the pipeline safety~~

[34] Prepared Testimony of William B. Marcus, TURN, January 31, 2012, pp. 10-11.

[35] PG&E August 2011 PSEP, Chapter 9, Results of Operations, pp. 9-3, 9-4.

~~enhancement plans. Although there are disagreements among the parties~~ in this proceeding with regard to which, if any, of the elements of PG&E's PSEP are being performed in conformance to new regulatory requirements versus satisfaction of the old, the Commission made it clear on the first page of its February 2011 OIR that the current "rulemaking is a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines. . . . The result of this proceeding will be new rules for the safe and reliable operation of natural gas pipelines in California."**[36]**

Q 29 Please go on to your other principles.

A 29 I turn next to another principle, number 4: as it conducts proceedings to hold individual utilities accountable for past failures to meet regulatory standards, the Commission should separate such proceedings from rulemaking proceedings addressing the future behavior of all regulated companies. If, as a result of investigations into and assessments of past performance, the Commission were to find that a utility failed to satisfy prior requirements, the Commission should impose any penalties, fines or disallowances through ratemaking mechanisms that do not undermine appropriate going-forward ratemaking incentives. Clearly, much effort has been undertaken (with considerably more to come in the future) since the San Bruno accident to hold PG&E accountable for past behavior and to impose appropriate penalties, fines or cost disallowances. Again, the Commission stated in the February 2011 OIR in this docket that "[s]pecific investigations of PG&E's conduct and any penalties will take place in a different docket." These other dockets are the appropriate place to hold PG&E accountable for past actions and omissions, and to impose whatever remedies and penalties as are appropriate. As I stated earlier, though, penalties/fines/other requirements for "remedial" compliance differ from ratemaking to support forward-looking compliance to meet new standards. Thus, responsibility for past non-compliance or negligence should be achieved, to the extent possible, through one-time financial consequences that require the utility to bear the consequences of its actions but that do not

~~**[36]** February 2011 OIR, pp. 1-2.~~

~~become a hindrance to making future expenditures needed to achieve the~~ Commission's new safety requirements.

PG&E's proposed PSEP is consistent with this distinction among different forms of Commission actions applicable to the utility's compliance with past standards and ratemaking mechanisms appropriate to support compliance with new standards. In it, and as now further described in the company's rebuttal testimony, PG&E lays out a technical plan for testing and replacing portions of its gas transmission pipeline system. The PSEP and Chapter 1 of the rebuttal testimony describe the proposed framework for allocating between shareholders and customers the incremental costs to meet the new safety requirements set forth in the Gas Safety OIR. This proposed allocation assumes that shareholders will bear $535.2 million in costs.**[37]**

Taking into consideration these shareholder commitments by PG&E in its PSEP, along with the potential financial outcomes of the many regulatory proceedings that are examining PG&E's responsibility for past actions, I conclude that the PSEP is consistent with ratemaking principle four.

Q 30 How does PG&E's PSEP comport with your ratemaking principles two (*regulators should establish and use ratemaking mechanisms and rate levels to support a level of capital investment and operations/maintenance expenditures that is fundamentally supportive of achievement of regulatory goals (such as safety standards)* and three (*customers should pay prices (or rates) that fully reflect the cost of providing them the goods and services used*)?

A 30 PG&E's proposed cost recovery of various forward-looking costs is consistent with principles two and three. The Commission has proposed a "new model" for pipeline safety, and the PSEP requests that the Commission approve recovery in rates of the post-2011 going-forward expenditures and capital investments needed to meet the new level of safety performance sought by the Commission. PG&E has indicated that its requests are limited only to changes in operations and systems needed to meet this new regulatory standard, and these requests assume that PG&E

~~[37] PG&E's August 2011 PSEP, Table 8-5 and PG&E's Rebuttal Chapter 1.~~

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~~shareholders will bear the cost of all revenue requirements associated with~~ actions already taken in 2011.[38]

PG&E's proposal is both well-aligned with principles two and three, by proposing rates that would cover the incremental cost of satisfying new regulatory requirements not anticipated at the time rates were last set. The proposed revenue requirements to be recovered in rates would help support achievement of the Commission's objectives in this proceeding, create appropriate incentives for PG&E to undertake needed changes to its operations and systems, provide customers with the appropriate price signals about the true costs of their energy use, and allow PG&E to avoid deterioration of its financial health and maintain sufficient financial capacity to implement policy objectives, including (but not limited to) the improvements in safety sought in the Gas Safety OIR.

Q 31 In light of that, do you think that the Commission should reject the recommendations of those intervenor witnesses[39] that, in effect, would ignore important ratemaking principles two and three?

A 31 Yes. By contrast, PG&E's proposed approach to determining its allowed cost of capital reflects the traditional *Hope* and *Bluefield* standards aimed at providing it with the capability to successfully attract capital to fulfill its service obligations. It would retain the ratemaking decisions established by the Commission in PG&E's most recent General Rate Case and Gas Accord V, and apply it to incremental investment needed to meet new regulatory safety standards.[40] It maintains current cost-of-capital determinations, pending any change in a forthcoming cost-of-capital proceeding. The Commission's decisions in such proceedings aim to set the cost of capital at a level that allows the utility to compete successfully in

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~~[38] See Table 7-3 from PG&E's August 2011 PSEP.~~

[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 witness (Mr. Beach).

[40] PG&E's PSEP states that it uses the allowed ROE approved in its cost of capital proceedings, reflecting an approved capital structure, long-term debt and preferred stock costs, and return on common equity. These include authorized cost of capital determined in A.07-05-008 (Decision 07-12-049), and modified through the implementation of a multi-year cost of capital ~~mechanism (Decision 08-05-035), and extended in Decision 09-10-016.~~

~~capital markets to obtain the funds required to make needed investments,~~ and provide a sufficiently sound financial footing for the company to maintain its credit quality and take on debt at a reasonable price.

To allow PG&E to compete successfully in capital markets, these rates must reflect market realities; thus, for example, the return on PG&E's equity approved in these proceedings should reflect the returns offered by other investments with corresponding risks. Use of the same cost of capital in this rulemaking proceeding as the one last approved by the Commission for each utility helps to accomplish that objective. Thus, I agree with UA's witness, Mr. Bradford, that the "allowed rate of return on future investments should be calculated in the proceeding appropriate for developing the cost of capital for PG&E. It is difficult to see any justification for applying a different rate of return gas [sic] on system investments."**[41]**

These standards are also beneficial to customers, not just to the utility's shareholders. It is in customers' interest to set rates at levels that allow the utility to sustainably attract reasonably priced capital necessary to provide service at least-cost to customers.

Q 32 Is there another feature of PG&E's proposed PSEP that you think aligns with ratemaking principles two and three?

A 32 Yes. PG&E's proposal also includes balancing accounts intended to ensure that PG&E undertakes forecast amounts of operations and maintenance (O&M) activities needed to accomplish the changes in operations and investments laid out in the PSEP. Under the proposed Gas Pipeline Expense Balancing Account (GPEBA), if actual O&M expenditures during Phase I of the PSEP are less than forecast expenditures, PG&E would automatically credit customers for the amount under spent.**[42]** In Phase I, if PG&E spends more than forecast amounts, then it would need to apply to the Commission for approval to include such additional amounts in rates.

~~**[41]** Prepared Testimony of Mr. Peter A. Bradford, UA, February 6, 2012, p. 6.~~

[42] PG&E's proposal also includes Gas Pipeline Safety Balancing Accounts designed to true-up any differences between actual revenues and allowed revenue requirements (reflecting forecasts and any subsequent modifications allowed by the Commission). In effect, these accounts fix the costs that customers will face for Phase I of the PSEP, as well as fixing the amounts that shareholders will recover from Plan implementation, aside from ~~adjustments due to the GPEBA.~~

~~Customers will only pay what the company spends (and the Commission~~ approves), under PG&E's PSEP.

The proposal also provides incentives for PG&E to avoid under-spending on O&M aimed at accomplishing the Commission's objectives in this proceeding. The Commission has already adopted a similar mechanism for gas pipeline Integrity Management expenses for gas transmission and storage recovered through PG&E's Gas Accord V.**[43]** As recognized by the Commission's Independent Review Panel, asymmetrical, "one-way" balancing accounts for pipeline integrity expenses have not been widely used in other state or federal regulatory contexts.**[44]** This type of mechanism may be appropriate for an interim period under particular circumstances.

PG&E has also explicitly proposed that it be given the opportunity to request modifications to revenue requirements needed to achieve the PSEP's objectives in the event that there are changes to the scope, schedule or cost that would cause Phase I expenditures to exceed anticipated amounts. This proposal seems sensible in light of the particular circumstances of the proposal pipeline activities, which include potential changes in law or regulatory requirements, delays in local permitting, and the aggressive schedule of planned testing and replacement.

Q 33 How does PG&E's proposed PSEP align with your principle five—that *while it is important for regulators to ensure that utilities bear financial consequences from failures to comply with regulatory standards, regulators should also be mindful of the cumulative effect of their ratemaking decisions, in order to ensure that the utility has the financial resources to carry out service obligations in the future*?

A 33 To answer this question, it is useful to situate the PSEP within the larger ratemaking context in which PG&E operates. As discussed above, PG&E has identified $535.2 million in costs that would be absorbed by

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[43] ~~Gas Accord V Settlement Agreement, Pacific Gas and Electric Company, 2011 Gas~~ Transmission and Storage Rate Case, D.11-04-031.

[44] Report of the Independent Review Panel, San Bruno Explosion, prepared for the California Public Utilities Commission, Revised Copy, June 24, 2011, ~~Appendix Q, pp. 9-11~~

~~shareholders as part of the PSEP. These costs likely reflect only a fraction~~ of the full financial impact that the accident will likely have upon PG&E. For example, Kent Harvey, PG&E's Chief Financial Officer, recently stated that shareholders will have incurred $1.2 to $1.3 billion in unrecovered costs by the end of 2013, including an accrual of $200 million for a potential penalty. In addition, the Company has committed to spend an additional $200 million in 2012 and $200 million in 2013 for all its operations entirely at shareholder expense, resulting in a total shareholder cost of $1.6 to $1.7 billion. He further stated that the gas pipeline business is authorized to earn about $100 million annually, and the $1.6 to $1.7 billion represents 15 to 20 years of earnings from that business.**[45]**

PG&E's shareholders have already absorbed some of the financial consequences of the tragic San Bruno accident. Since the accident, PG&E's share price has significantly underperformed compared to other electric utilities, as shown in Attachment 2B, which compares PG&E's share price to an energy utility share price index (the SNL Energy Large Diversified Index).**[46]**

Also, in December 2011, both Standard & Poor's (S&P) and Fitch downgraded PG&E reflecting their view that PG&E faced increased financial exposure to regulatory risk. S&P downgraded PG&E's corporate credit rating from "BBB+" to "BBB", two notches above speculative grade, and Fitch downgraded PG&E from "A-" to "BBB+", three notches above speculative grade.**[47]** These downgrades reflect the view that the on-going regulatory proceedings following on the San Bruno accident create both

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[45] ~~See the Q4 2011 PG&E Corporation Earnings Conference Call, Thursday,~~ February 16, 11:30 a.m. ET, available on the PG&E Corporation web site at: http://www.pgecorp.com/investors/investor_info/presentations/index.shtml.

[46] Attachment 2B shows that immediately after the accident, PG&E's share price dropped by over 7 percent, wiping out approximately $1.6 billion in shareholder value. While the share price soon recovered, it has gradually fallen since the start of 2011 as the process of resolving the regulatory fallout from the accident, including the Gas Safety OIR and investigations into PG&E's conduct, have dragged out and suggested higher levels of shareholder costs than originally anticipated. In comparison to the SNL index, PG&E shares have lost $4.5 billion (20 percent) of shareholder value since the San Bruno incident.

[47] Specifically, Fitch lowered its Long-Term Issuer Default Rating (IDR) from "A-" ~~to "BBB+".~~

uncertainty and the likelihood of significant shareholder costs that, all else equal, place the utility in a more precarious financial position.[48] In early February 2012, an S&P analyst stated that, "So far in 2012, PG&E is still experiencing repercussions from the incident, reaffirming Standard & Poor's Ratings Services' decision to downgrade the credit rating of both the utility and its parent company, PG&E Corp., in early December 2011."[49]

My intention in pointing out this larger financial context is not to render an opinion about the outcomes of any regulatory investigations, court proceedings, or other determinations that may hold PG&E accountable for its past actions. Nor is it to suggest that PG&E shouldn't be held accountable. Rather, my point is to describe the larger setting in which PG&E's financial responsibility will be assessed. Those other venues are the appropriate settings for determinations regarding penalties for PG&E past conduct, not the current rulemaking. Doing it here would not only be unnecessary and inappropriate for the reasons I've stated in my testimony, but it also could serve to further worsen the company's credit rating and in so doing, raise costs to customers. In this safety-related rulemaking, the Commission should focus on the types of changes in standards that are appropriate to a "new model of safety regulations," and the establishment of

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[48] Fitch notes that: "Specifically, the downgrade reflects uncertainty regarding CPUC investigations into the utility's natural gas operational practices and a nascent criminal investigation into the San Bruno disaster. Notwithstanding financial pressure from the San Bruno pipeline explosion and fire, PG&E's credit metrics remain strong." Fitch Ratings, "Fitch Downgrades PCG & PG&E's IDRs to 'BBB+'; Outlook Stable," December 16, 2011); S&P notes that, "Our rating action reflects what we view will be a multiyear rebuilding of the company's natural gas operations, customer reputation, and regulatory relationships following the 2010 San Bruno, Calif. gas transmission explosion that resulted from the utility's inadequate controls." S&P PG&E Research Update, "PG&E Corp. And Utility Ratings Lowered to 'BBB'; Outlook Stable," December 8, 2011.

[49] "S&P credit analyst Anne Selting said in an interview with S&P's CreditMatters TV [that] PG&E is looking at the possibility of further fines, as CPUC has opened a third investigation into the San Bruno incident. The company could face fines ranging from $500 to $20,000 per violation per day. 'On balance, this is not a favorable development,' Selting said. 'The scope of the investigation is much wider even than when we downgraded in December.'" Quoted in February 8, 2012 SNL article: Sarah Smith, "PG&E's credit profile still dominated by 2010 pipeline explosion," http://www.snl.com/InteractiveX/article.aspx?id=14170132&Printable=1 2/9/2012

appropriate cost responsibility for investments and expenditures needed to ~~accomplish those safety standards in the future. Such would be consistent with all five ratemaking principles.~~

E. Conclusion

Q 34 ~~In sum, do you believe that the PG&E ratemaking proposal is consistent with~~ the Commission's objectives of improving the safety of gas transmission pipelines in California?

A 34 Yes. The cost-sharing in PG&E's proposed PSEP appropriately holds the company responsible for past actions, consistent with the Commission's statement in its OIR that "[s]pecific investigations of PG&E's conduct and any penalties will take place in a different docket." Along with anticipated fines, penalties, and potential disallowances that are being considered in other proceedings, and the repercussions in financial markets, PG&E's PSEP proposal here provides appropriate incentives to avoid future noncompliance with safety standards. The proposal also provides customers with the improvements in safety sought by the Commission, while requiring that they face the cost of such improvements in service. And PG&E's proposal accomplishes these goals in a way that will enable the ~~company to fulfill its future service obligations in a reasonable way.~~

I encourage the Commission to reject the ratemaking recommendations of intervenors (Ms. Sabino, Mr. Pocta, Mr. Roberts, Mr. Long, Mr. Kuprewicz, Mr. William Marcus, and Mr. Beach) that would establish inappropriate incentives for full compliance with the Commission's "new model" of gas pipeline safety regulation.

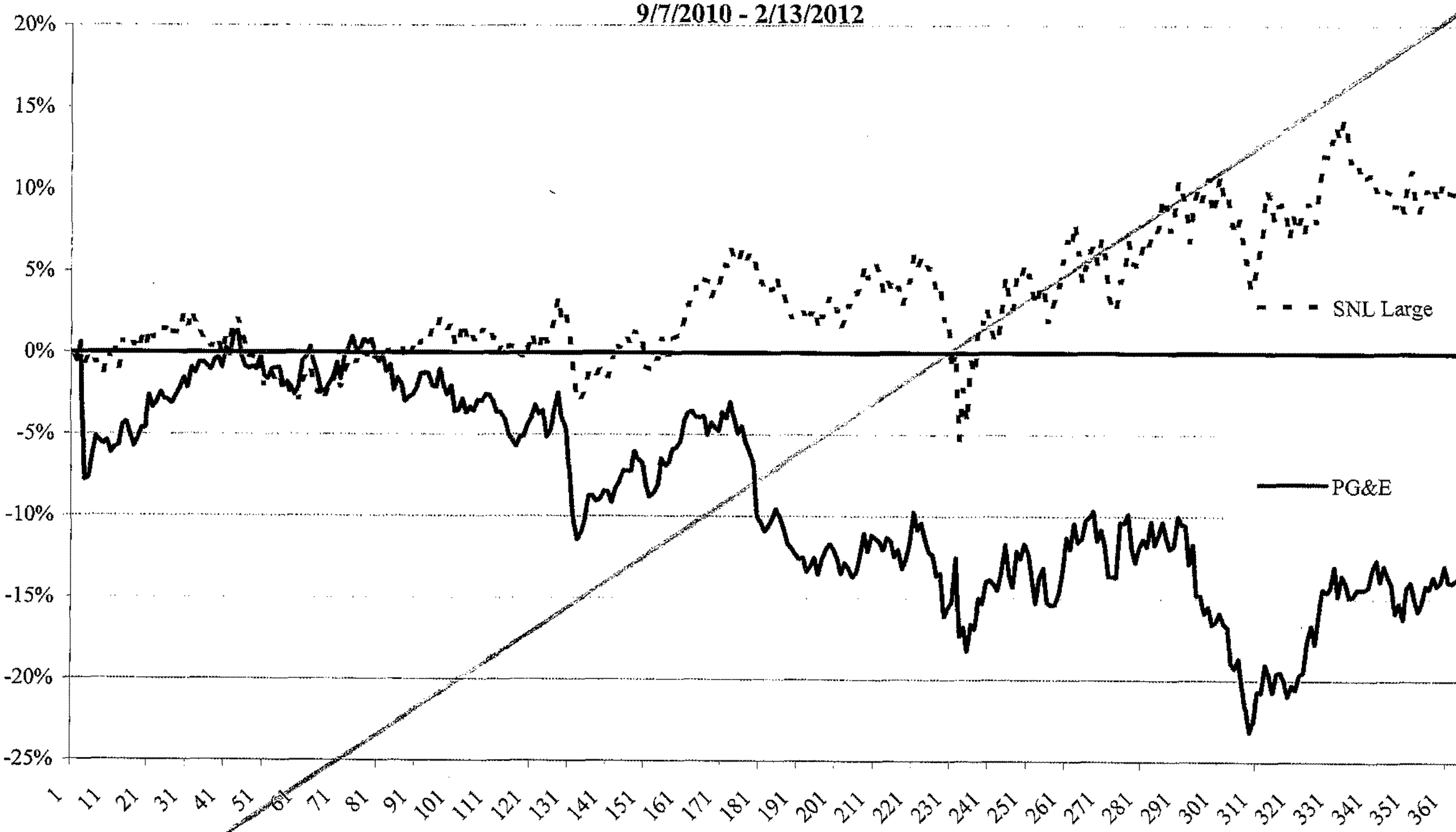
Q 35 Does this conclude your testimony?

A 35 Yes, it does.

~~PACIFIC GAS AND ELECTRIC COMPANY~~

~~ATTACHMENT 2B~~

Attachment 2B
Normalized PG&E and SNL Energy Large Diversified Index Prices
9/7/2010 - 2/13/2012



Notes:

[1] SNL Energy Large Diversified index includes all publicly traded (NYSE, NYSE Amex, NASDAQ, OTC BB, Pink Sheets) Diversified companies in SNL's coverage universe with a market cap greater than $4B, as of the most recent financial data.

[2] Data are daily close prices but are unavailable on weekends and holidays.

Sources: SNL Financial and Yahoo Finance.