

**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	)	Rulemaking 11-02-019
Regulations for Natural Gas Transmission and	)	(Filed February 24, 2011)
Distribution Pipelines and Related Ratemaking	)	
Mechanisms.	)	

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**OPENING BRIEF OF  
THE NORTHERN CALIFORNIA GENERATION COALITION  
ON PG&E'S PIPELINE SAFETY ENHANCEMENT PLAN**

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Pursuant to CPUC Rules of Practice and Procedure Rule 13.11 and the directions of Administrative Law Judge Bushey, the Northern California Generation Coalition (NCGC)<sup>1</sup> submits this Opening Brief on PG&E's August 26, 2011 *Pipeline Safety Enhancement Plan* (PSEP).

**I. INTRODUCTION**

Each NCGC member is a local publicly owned electric utility; and each owns and Operates gas-fired generation facilities for the benefit of their residential, commercial, and industrial customers. In the aggregate, the net installed capacity of these plants is approximately 1,417 MW, with an annual gas throughput of approximately 22.6 million decatherms. When the NCPA Lodi Energy Center goes online later this year, it will add 300 MW and 11 million decatherms to these totals. Each NCGC member receives gas transportation services from PG&E's local transmission system under PG&E's G-EG tariff and has a substantial interest in the rates charged for such services, which will increase approximately 91% under PG&E's proposal. This 91% rate increase would be on top of

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<sup>1</sup> The members of NCGC are the City of Redding, the City of Santa Clara (doing business as Silicon Valley Power), Modesto Irrigation District, the Northern California Power Agency, and Turlock Irrigation District, all of which own and operate gas-fired electric generation in Northern California and obtain gas transportation services from PG&E.

the 96% increase in G-EG rates that NCGC members have had to absorb since just 2005 – all without any increase in economically valuable services from PG&E.

In the aftermath of the September 2010 gas pipeline explosion in San Bruno, PG&E and other California gas pipeline operators were ordered to file proposed Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plans (Implementation Plan or PSEP). PG&E's PSEP was to include a rate proposal, including a cost allocation between shareholders and ratepayers.<sup>2</sup> While NCGC is supportive of the safety and reliability outcomes promised by the PG&E PSEP, it is clear that the cost allocation and rate design aspects of the PSEP, as proposed by PG&E, are wholly arbitrary, not supported by the record evidence in this proceeding, and would result in gas transportation rates, particularly for NCGC and other large noncore customers, that are unjust and unreasonable.

Despite the well documented errors and omissions of PG&E in the operation and maintenance of its gas transportation system, which have already resulted in significant fines and penalties, the proposed PSEP would have customers, rather than shareholders, bear at least 90% of the PSEP that PG&E has incurred (or proposes to incur) from 2011 through 2014 to bring costs to bring its gas transportation system into compliance with current standards. All of these PSEP costs that PG&E proposes to collect from its ratepayers would be in addition to the pipeline safety and integrity management costs that the GA V settlement agreement authorized PG&E to recover in rates from 2011 through 2014.

For the reasons stated herein, NCGC urges the Commission to reject the PSEP cost allocation and ratemaking proposals of PG&E. If the Commission determines that any PSEP costs should be borne by PG&E's ratepayers, the Commission should order PG&E to allocate such costs to end-user rate classes based on the direct PSEP safety benefits actually received by each such class, as determined by means of a Potential Impact Radius (PIR) study. Alternatively, NCGC recommends use of the Equal Percentage of Authorized Margin (EPAM) methodology originally proposed by Southern California Gas and San Diego Gas & Electric (collectively, the Sempra Utilities) in their Implementation Plan, originally filed in this proceeding, and more fully described in the unchallenged testimony

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<sup>2</sup> D.11-06-017, OP 4 and 10.

of Thomas Beach on behalf of the Northern California Indicated Producers. Under an EPAM allocation, all end-user customers would bear rate increases that are an equal percentage increase in the base margin portion of their transportation rates. In addition, *“an EPAM allocation will moderate the impact of the PSEP costs paid by electric generators, and thus will significantly reduce the impact of these costs on electric ratepayers, compared to PG&E’s proposal”*.<sup>3</sup>

## **II. THE PROPOSED ALLOCATION OF PSEP COSTS BETWEEN RATEPAYERS AND SHAREHOLDERS IS INEQUITABLE AND LACKS ANY EVIDENTIARY SUPPORT; COST RECOVERY ISSUES CAN BE DEFERRED UNTIL THE ALLOCATIONS AND SAN BRUNO INVESTIGATION DOCKETS ARE COMPLETE**

PG&E requests that this Commission approve PG&E’s actual and forecast capital expenditures and expenses for Phase 1 of the PSEP, from 2011 through 2014, and find that such costs are reasonable and eligible for full recovery in rates.<sup>4</sup> The total of Phase 1 costs is estimated to exceed \$2.183 billion through 2014.<sup>5</sup> PG&E proposes that ratepayers pay the lion’s share of this total, (\$1.963.2 million; or nearly 90%), and that PG&E shareholders be responsible only for the costs incurred in 2011, less than \$221 million.<sup>6</sup> PG&E further proposes that its shareholders’ \$221 million share be offset against any fines imposed in the investigation and enforcement proceedings.<sup>7</sup> PG&E argues that it is entitled to immediately begin recovery from ratepayers of nearly all of its PSEP outlays because such outlays are being incurred (or will be incurred) solely as a result of Commission Decision 11-06-017 which, according to PG&E, requires it to invest in pipeline safety enhancements that in almost every instance raise the safety standard of its gas transmission and distribution systems to a level not previously required by the Commission or other laws and regulations. Clearly implicit in this argument is the assertion by PG&E that, but for

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<sup>3</sup> Ex. 123; Prepared Testimony of NCIP witness Beach, at p. 19.

<sup>4</sup> Ex. 2; PG&E Prepared Testimony, p. 8-1.

<sup>5</sup> PG&E Prepared Testimony, p. 8-3, Tables 8-1 and 8-2.

<sup>6</sup> PG&E Prepared Testimony, p. 8-4, Tables 8-3 and 8-4.

<sup>7</sup> Ex. 21; PG&E Rebuttal Testimony, p.1-16, lines 29-31.

D.11-06-017, it would not need to incur any PSEP costs to meet the basic statutory requirement that it operate a safe gas system. This implied argument is not supported by the facts.

The San Bruno explosion and the findings of the NTSB and other investigations into that tragic accident (plus facts brought to light in investigations into PG&E's pipeline safety practices) demonstrate that PG&E needs to make significant PSEP investments now just to meet the statutory requirement that it operate a safe gas system. In other words, many PSEP investments will not deliver a level of safety to PG&E's customers that they were not heretofore entitled by law to be provided with; rather, such investments will merely help assure that the system is being operated at the level of safety required by statute: *"PG&E's responsibility to maintain its system in a manner that ensures safety is not a new obligation."*<sup>8</sup> PG&E acknowledged this fact in its rebuttal testimony where it asserts that the Commission "needs to act now" and approve its proposed PSEP program in order to, among other things, ensure "a safe and reliable gas system."<sup>9</sup>

PG&E's proposed allocation of PSEP costs between shareholders and ratepayers has no basis in fact, and is contrary to well-established ratemaking principles and the record evidence in this proceeding. Clearly, PG&E has failed to satisfy its burden of demonstrating that its proposed allocation of PSEP costs is equitable and will result in just and reasonable rates.

NCGC supports the recommendations of parties with respect to the range of appropriate shareholder responsibility for PSEP costs. One obvious example of the appropriate ratemaking principles to be applied is advanced by TURN witness Long; ratepayers should not be required to pay for any PSEP work until PG&E has demonstrated, and the Commission has found, that the need for such work is not remedial in nature or the direct or indirect result of PG&E errors or omissions.<sup>10</sup>

The notion of disallowances for costs incurred as a result of unreasonable errors and omissions of PG&E in the operation of its gas system is codified in Public Utilities Code section 463. The extent of PG&E's past errors and omissions, under spending, or other improper conduct with respect to such operations is well chronicled in a number of reports,

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<sup>8</sup> Ex. 123; Opening testimony of NCIP witness Beach, p. 7, lines 13-14.

<sup>9</sup> Ex. 21; Rebuttal Testimony of PG&E; p.1-24, lines 22-24.

<sup>10</sup> Ex. 121; Prepared Testimony of TURN witness Long; App. A, paragraph 6

but can only be finally determined by this Commission in accordance with the evidence and findings in the pending investigation dockets relating to the San Bruno incident (I.11-02-016, I.11-11-009, and I.12-01-007). Consequently, any determination of cost disallowances or shareholder responsibility for PSEP costs is premature until findings are made based on the fully developed evidentiary records in such dockets. In response to questions from ALJ Bushey with respect to the record in other proceedings concerning PG&E's past conduct, and whether there were errors or omission that would, under principles contained in section 463 of the Public Utilities Code, deny PG&E cost recovery of some, or all PSEP costs, TURN witness Long suggested that "*And then after those records have been made, then I think we need to come back to this [PSEP] proceeding and have a phase where we address cost responsibility issues.*"<sup>11</sup>

### **III. THE PROPOSED PSEP RATES ARE THE RESULT OF A LIMITED AND INADEQUATE ANALYSIS OF IMPACTS ON CUSTOMERS, ARE NOT JUST AND REASONABLE, AND SHOULD BE REJECTED**

If the Commission approves any PSEP rates, such rates should reflect the cost of providing PSEP's safety benefits to each end-user customer class. PG&E's rate proposal fails to achieve this objective. For example, PG&E witness Tierney asserts in her testimony that one of the "relevant and appropriate" ratemaking principles is that rates should fully reflect the cost of providing the goods and services used.<sup>12</sup> However, Dr. Tierney testified that she did not look at the question of whether large, noncore customers cause PSEP costs to be incurred.<sup>13</sup> In fact, there is no evidence in the record that the proposed PSEP rates fairly allocate PSEP costs across the various customer classes. Although all gas customers will receive *indirect* benefits from some PSEP outlays (e.g., IT investments that increase the effectiveness and decrease the cost of pipeline integrity management activities), almost all of the *direct* benefits of the PSEP work will accrue to

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<sup>11</sup> Tr. Vol. 14; p.2068, lines 16-20.

<sup>12</sup> Ex. 21; Rebuttal Testimony of PG&E witness Tierney, at p. 2-9.

<sup>13</sup> Tr. Vol. 9; p.1071, lines 8-12.

core customers who are more likely to be located within the Potential Impact Radius (PIR) of PG&E's transmission pipelines.<sup>14</sup>

The evidentiary record herein clearly demonstrates that PG&E's analysis of the impacts on various customer classes of its proposed rates was inadequate or non-existent, and fails to support a finding of just and reasonable, cost-based rates. PG&E's cost allocation and rates witness Blatter testified that he did not consider any other cost allocation methodologies other than that adopted in Gas Accord V,<sup>15</sup> did not consider the potential for bypass by large customers due to the proposed rates,<sup>16</sup> and was unaware of whether the demand for increased safety for residential and commercial customers was the driving force behind the PSEP work.<sup>17</sup> Mr. Blatter viewed his assignment as simple and straightforward, without giving consideration to the factors that would justify the proposed rate design. *"I was given a revenue requirement. I was told to allocate it and create rates. That's my job."*<sup>18</sup>

When asked whether allocating the PSEP cost[s] using the Gas Accord V throughputs achieved an equitable allocation of such costs, Mr. Blatter responded that the Gas Accord V method was equitable because it was determined to be equitable in the Gas Accord V settlement *"...so I have to assume that the parties and the Commission determined that it was an equitable way to allocate [costs]."*<sup>19</sup> In approving the Gas Accord V Settlement Agreement, this Commission recognized that a number of competing interests were at stake, and stated that *"...various parties have negotiated concessions and compromises on a number of different issues in order to arrive at a settlement that is acceptable to most of the parties to this proceeding."*<sup>20</sup> Without question, the scope and funding of projects for pipeline safety was only one of many contentious issues addressed in the Gas Accord V proceeding.

The Gas Accord V settlement agreement explicitly states that no party signing the agreement would be deemed to have accepted "any fact, principle, or position" contained

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<sup>14</sup> Ex. 123; Opening Testimony of NCIP witness Beach, at p. 15.

<sup>15</sup> Tr. Vol. 14; p. 2024, lines 3-7.

<sup>16</sup> Tr. Vol. 14; p.2026, lines 14-17.

<sup>17</sup> Tr. Vol. 14; p.2024, lines 21-27.

<sup>18</sup> Tr. Vol. 14; p.2025, lines 5-7.

<sup>19</sup> *Id.*, at lines 14-19.

<sup>20</sup> D.11-04-031, at p. 58.

therein.<sup>21</sup> This language is typical of compromise settlement agreements like Gas Accord V because the signatory parties do not want any element of a compromise settlement agreement to be pulled out and used against them in any subsequent negotiation or proceeding. When Mr. Blatter asserts that the Gas Accord V allocation methodology was appropriate to use in allocating PSEP costs because “the parties...determined that it was...equitable”, he is making an assertion that PG&E and all Gas Accord V settling parties explicitly agreed not to make.

In designing the proposed PSEP rates, PG&E also failed to analyze the potential for bypass of the PG&E system by electric generator and other large noncore customers. When asked whether PG&E considered the bypass implications of its proposed rate increases, PG&E witness Blatter responded that *“Well, you know, we were looking at an equitable way to allocate these costs. You know, if there are ---if there ends up being bypass concerns, then we would address those at that time...for the time being we would use the method that was agreed upon by the parties in the Gas Accord Settlement.”*<sup>22</sup> And elsewhere, in response to the same question about competitive alternatives, Mr. Blatter reiterated, without explanation, *“ But the question of ---of what might happen in terms of competitive options that customers have is something that I think we would have to address if and when those types of competitive options make themselves available to customers. I think it’s unlikely that that would happen during the next couple of years at least.”*<sup>23</sup>

NCGC believes that all PSEP charges that the Commission determines to be allocable to PG&E’s ratepayers should be allocated amongst such ratepayers based on PIR studies similar to those conducted by the Sempra Utilities. Allocating ratepayers’ share of PSEP in this manner will assure that ratepayers pay for PSEP in proportion to the incremental safety benefit they derive from the program.

In addition, the PSEP rates adopted herein for the various customer classes should mirror, to the extent possible, the rates as calculated in A.11-11-002, the Triennial Cost Allocation Proceeding, where the ratemaking for the PSEP costs of the Sempra Utilities, based on the EPAM methodology, will be determined. Otherwise, similarly situated customers in Northern and Southern California will pay significantly divergent rates for

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<sup>21</sup> Gas Accord Settlement Agreement, paragraph 1.4.

<sup>22</sup> Tr. Vol. 14; p.2026, lines 20-28.

<sup>23</sup> Tr. Vol. 14; p.2013, lines 12-19.



essentially the same service. Rate discrimination of this kind runs contrary to established ratemaking principles and is the polar opposite of just and reasonable rates.

**IV. THE COMMISSION SHOULD GIVE SPECIAL ATTENTION TO MR. BEACH’S TESTIMONY THAT ANY RATE INCREASE IMPOSED ON ELECTRIC GENERATORS (EG) CONNECTED TO PG&E’S LOCAL TRANSMISSION SYSTEM WILL HAVE A “MULTIPLIER EFFECT” ON THE COST OF ELECTRICITY PAID BY MILLIONS OF CALIFORNIA CITIZENS**

NCGC encourages the Commission to review with particular care Mr. Beach’s uncontested testimony that PG&E’s proposed large rate increases on EGs connected to PG&E’s LT system will increase the cost of wholesale electricity in PG&E’s service territory by \$240 million per year while generating just \$100 million per year.<sup>24</sup> The inescapable conclusion is that if the Commission were to reject PG&E’s proposed PSEP surcharge on EGs and exempt EGs from such charges, it would save PG&E’s ratepayers \$140 million (\$240 million less \$100 million) per year on their combined gas and electric bills.

**V. CONCLUSION**

For the reasons stated herein, NCGC urges the Commission to (i) reject the PSEP cost allocation and ratemaking proposals of PG&E, (ii) adopt a more equitable cost allocation methodology that reflects the culpability of PG&E in the failures to maintain a safe gas pipeline system, and (iii) require that PG&E calculate end-user rates based on the direct safety benefits received by the various end-user customer classes, or alternatively utilize the Equal Percentage of Authorized Margin (EPAM) methodology. If the Commission is unable to take these actions now, then a new phase of this proceeding should follow completion of the investigation dockets.

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<sup>24</sup> Ex. 123; Opening Testimony of NCIP Witness Beach; page 17, line 18 through page 19, line 13.

Respectfully submitted,

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