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)

OPENING BRIEF OF DYNEGY INC.

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The focus of this proceeding is on the need for new safety and reliability regulations for California's investor-owned natural gas utilities in the wake of the explosion on a portion of the gas transmission system of Pacific Gas and Electric Company (PG&E) in San Bruno. In compliance with the Commission's orders, PG&E proposed its Pipeline Safety Enhancement Plan (PSEP).[1] In addition to presenting PG&E's plan for improving the safety of its gas transmission system, PG&E's PSEP proposed to pass on much of the cost of implementing its PSEP to ratepayers, and PG&E also discussed how it proposed to allocate those costs among its various customer classes.

Because of this proceeding's focus on safety and reliability, many of the customers who will experience significant increases in gas transportation rates have not appreciated the potential rate effects resulting from the implementation of the PSEP and have not participated in this proceeding. In this brief, Dynegy Inc. highlights the

[1] Exh. 1.

implications of the cost allocation proposals presented in this proceeding on the electric generation customers who take gas transportation service from PG&E.[2] To the extent that the Commission concludes that the costs of the PSEP should be borne by gas transportation customers, it should avoid the disruptive transitional rate proposals that PG&E has presented. The equal percentage of authorized margin methodology proposed by Southern California Gas Company and San Diego Gas & Electric Company provide an available alternative methodology that results in more moderate transitional rate impacts that are also more closely linked with the benefits of PG&E's PSEP.

I. PG&E'S COST ALLOCATION PROPOSAL

PG&E's cost allocation proposal has several components. PG&E proposes to allocate both its Backbone Transmission revenue requirements and Local Transmission revenue requirements between core and noncore customers based on the annual percentage of Backbone Transmission and Local Transmission revenue requirement responsibility agreed to as part of the Gas Accord V settlement,[3] which resolved PG&E's most recent Gas Transmission and Storage rate case. For simplicity, PG&E develops two

[2] Through its subsidiaries, Dynegy Inc. owns and operates the 2529 MW Moss Landing Energy Facility and the 650 MW Morro Bay Energy Facility. Both of these gas-fired generating facilities receive gas transportation service from PG&E. (Dynegy also owns the 165 MW Oakland Energy Facility, which uses oil as its fuel.) Dynegy is thus directly affected by the safety and operation of PG&E's gas transmission system and by the proposals presented in this proceeding that call for PG&E's gas transportation customers to bear some of the costs of upgrading PG&E's system. Dynegy Inc. has filed a motion to become a party to this proceeding contemporaneously with this Opening Brief.

[3] Approved in Decision (D.) 11-04-031. Dynegy was a party to the Gas Accord V settlement.

average pipeline safety surcharges, one for core customer classes and another for noncore customer classes.[4]

The simplifications used to develop PG&E's proposed allocation, however, mean that the allocation is not intended or designed to directly relate to the costs each customer class will cause PG&E to incur under its PSEP. The transmission system enhancements proposed in the PSEP are not necessarily related to the cost allocation agreed to in Gas Accord V, which aggregated a variety of costs to arrive at the final agreement on allocation.

Moreover, the effects of PG&E's proposed allocation are particularly harsh on the few large electric generation facilities, like Dynegy's Moss Landing plant, that are served by pipelines classified as Local Transmission pipelines. The illustrative rate tables in PG&E's testimony show that electric generators on the Local Transmission system will receive an 86.0% rate increase in 2012 if PG&E's proposal is granted.[5] Those increased gas transportation costs will eventually be reflected in the costs ratepayers pay for electricity.

II. SOCALGAS AND SDG&E'S PROPOSAL

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) propose to allocate the costs of pipeline safety and reliability enhancements on an equal percentage of authorized margin (EPAM) basis,[6]

[4] See Exh. 123, p. 11 (Beach/NCIP).
[5] Exh. 2, Ch. 10, p. 10-7 (Blattner/PG&E).
[6] See Testimony submitted by SoCalGas and SDG&E on August 29, 2011, p. 22.

and the Northern California Indicated Producers support using this methodology for PG&E.[7] As SoCalGas and SDG&E point out, the EPAM methodology allocates costs equitably across different customer classes. Compared to some other methods, the EPAM approach allocates less cost to noncore ratepayers, an appropriate outcome because large noncore customers will realize little improvement in service from the safety enhancements. Some large noncore customers have the option of taking gas transportation from the interstate pipelines regulated by the Federal Energy Regulatory Commission (FERC) that extend well into California.[8] Rate impacts like those PG&E proposes could lead to a renewed migration of noncore customers to the FERC-regulated interstate pipelines, which will not incur the costs of the PSEP and whose rates will not reflect the costs of implementing the PSEP.[9] In addition, nearly all of the structures within the Potential Impact Radius of pipelines are structures for residential or small commercial customers.[10] Noncore customers will receive little of the direct safety benefit of the PSEP.

For all these reasons, the more equitable cost allocation resulting from the EPAM methodology is preferable to PG&E's proposed allocation.

The EPAM methodology still results in a significant, if somewhat more moderate, rate increase for noncore customers. Applying the EPAM methodology, the rate increase for noncore Local Transmission Electric Generation customers is about 40%

[7] Exh. 123, p. 14 (Beach/NCIP).
[8] Testimony submitted by SoCalGas and SDG&E on August 29, 2011, pp. 22-23.
[9] Testimony submitted by SoCalGas and SDG&E on August 29, 2011, pp. 22-23.
[10] Exh. 123, p. 15 (Beach/NCIP).

in 2014, less than half the increase PG&E is proposing. Compared to PG&E's proposal, the EPAM methodology results in less disruptive rate increases for noncore customers, which will also translate into less of a rate increase for electric ratepayers than under PG&E's proposal.

III. TRANSITIONAL RATES SHOULD AVOID LARGE DISRUPTIVE CHANGES

Any rates the Commission adopts to implement PG&E's PSEP will be in effect only for the interim period until PG&E files a new Gas Transportation and Storage rate case for 2015-2017[11] and the Commission acts on that proposal. Thus, any cost allocation and resulting rates adopted in this proceeding will be transitional. In addition, because the focus of this proceeding has been on safety and reliability, rather than on cost allocation and rates, the record in this proceeding has not explored the full implications of the significant rate increases, especially on noncore electric generation customers, resulting from implementation of the PSEP. Twenty six parties joined in the Gas Accord V settlement agreement,[12] but because of this proceeding's focus on safety and reliability, few of them have received adequate notice of the significant effect on gas transportation rates that could result from this proceeding.

For these reasons, the Commission should resist adopting rates that are dramatically different from the rates in effect today. Rather than adopting rates that are disproportionately high now (as PG&E proposes), only to lower them when the next rate

[11] Gas Accord V requires PG&E to file its next Gas Transmission and Storage rate case no later than February 3, 2014.
[12] See D.11-04-043, p. 4, fn.4.

case is adopted, the Commission should strive for a smooth transition as the reasonable costs of the enhancements needed for improved safety and reliability are added to the system. To the extent that the Commission concludes that the costs of the PSEP should be borne by gas transportation customers, the EPAM methodology results in more moderate transitional rate impacts that are also more closely linked with the benefits of PG&E's PSEP.

Respectfully submitted this 14th day of May, 2012 at San Francisco, California.

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