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, 2009)

NOTICE OF EX PARTE COMMUNICATION

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August 13, 2012

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Pursuant to Rule 8.4 of the California Public Utilities Commission's Rules of Practice and Procedure, the Northern California Indicated Producers (NCIP) and the Northern California Generation Coalition (NCGC), hereby give notice of the following ex parte communication.

On August 9, 2012, Seema Srinivasan, counsel to NCIP, Tom Beach, NCIP's consultant, Barry McCarthy, counsel to NCGC, and Mike Pretto, NCGC's consultant, met with Commissioner Florio and his advisor, Matthew Tisdale, in an equal time meeting, from approximately 11:05 a.m. to 11:40 a.m. at the Commission's office in San Francisco. This meeting was initiated by NCIP and NCGC.

At the meeting, Ms. Srinivasan noted that, while recognizing the need for pipeline safety improvements, noncore customers were concerned about rate impacts and impacts of service disruptions. Mr. Beach observed that noncore customers are generally aligned with DRA and TURN on issues regarding cost allocation between ratepayers and shareholders. Like DRA and TURN, noncore customers agree that pipeline safety is not a new obligation and that PG&E should bear the costs required to comply with pre-existing regulations such as Public Utilities Code 451, General Order 28, and General Order 112. Ms. Srinivasan pointed out that while the general orders have more specific requirements the general obligation to maintain safety memorialized in Public Utilities Code §451 should not be overlooked. Mr. McCarthy further noted that the Commission should consider its obligations under Public Utilities Code §463.

The parties also discussed cost allocation among customer classes. Mr. Beach noted the importance of using a gas pipeline surcharge to avoid implementation issues that could arise as a result of Gas Accord V settlement terms. He also explained that an equal percent authorized margin (EPAM) cost allocation approach would best allocate the pipeline safety enhancement plan revenue requirement based on benefits received. Mr. Beach then went on to explain the harm that could result if the Commission selected the wrong cost allocation method. As an example, Mr. Pretto observed that significant increases in noncore local transmission rates could lead customers to seek connections to PG&E's backbone system. Finally, Mr. McCarthy discussed the significant impact that PG&E's application would have on NCGC members, and explained that any cost allocation mechanism should be based on the safety benefits received.

Lastly, Ms. Srinivasan discussed the importance of requiring PG&E to provide minimum notice of service disruptions. She discussed the financial and operational concerns of noncore customers and provided details regarding NCIP's service disruption credit proposal.

A handout was provided and is attached.

Respectfully submitted,

Seema Srinivasan

/s/
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August 13, 2012

ATTACHMENT

PG&E Pipeline Safety Case

Overview of Issues

- General Position: San Bruno explosion demonstrates that safety improvements are needed but noncore customers are equally concerned about impacts on rates and financial and operational impacts of service disruptions
- Specific Concerns:
  - Allocation of PG&E PSEP costs between ratepayers and shareholders
  - Cost allocation of PSEP costs among ratepayers
  - Impacts of service disruptions

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Allocation of PSEP Costs Between Ratepayers and Shareholders

Key Principles

- Obligation to maintain safety of pipeline system is not new
  - Public Utilities Code 451 requires PG&E to act as prudent utility operator
  - General Order 28 requires retention of records that would have provided critical information about pipeline system
  - General Order 112 requires retention of records governing design, construction, testing, maintenance, and operation of system; also required hydrostatic pressure testing

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Recommended Findings

- PG&E has failed to demonstrate that recommended allocation between ratepayers and shareholder is equitable
  - A prudent utility operator would have maintained "traceable, verifiable, and complete" records
  - Shareholders should bear costs associated with bringing pipeline system into compliance with pre-existing regulations (PUC Code 451, GO 28, GO 112)
  - PSEP-related ROE should be lowered by 500 basis points to ensure that shareholders do not benefit from discovery of shortcomings and to account for the impacts of major investments over a short period
    - Affects only 4% of capital and lowers total ROE by roughly 20 basis points (in recently-filed cost of capital application, PG&E seeks 35 basis point reduction in overall ROE)
- PG&E must seek approval of all changes to proposed scope of work
- PSEP costs should be tracked in a one-way balancing account to ensure funds are used cost-effectively

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Cost Allocation of PSEP Costs Among Ratepayers

Key Principles

- PSEP costs are a significant and unanticipated category of costs
- Treat PSEP costs outside the scope of the GA V settlement
- PSEP costs should be allocated based on the safety benefits received

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Total Impact of PSEP on Rates

	2011	2012	2013	2014	Total
Total Capital Expenditures (in millions)	$68.9	$384.3	$480.3	$499.9	$1,433.4
Total PSEP Revenue Requirement Requested by PG&E (in millions)	n/a	$247	$220	$300	$768
Total GT&S Revenue Requirement	$514.2	$541.4	$565.1	$581.8	$2,202.5

Phase II will involve incremental expenditures that range from $6.8 to $9 billion

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Recommendations

1. PSEP costs should be recovered in gas pipeline safety (GPS) surcharge

- Avoids practical implementation issues
  - GA V revenue sharing mechanism would require PG&E to track GA V and PSEP revenues separately
  - Backbone rate design would have to be re-opened
  - Discounted local transmission costs would have to be adjusted
- Allows more transparency
  - Important to those purchasing gas at the Citygate
  - Required to allow adoption of intervenors' recommendations to lower return on equity for PSEP-related investments

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Recommendations (2)

2. PSEP costs (if any) should be allocated to customer classes based on benefits received, not methodology used in GA V settlement (NCGC recommends use of PIR study and EPAM as acceptable alternative; NCIP recommends use of EPAM)

- PSEP are a significant and unanticipated category of costs and GA V settlement cost allocation method is result of settlement (parties agreed not to accept any fact, principle or position)
- Use of EPAM shifts about 16.5% of PSEP costs to core customers:

	PG&E GA V Allocation Method	NCIP EPAM Method
Core	60%	76.5%
Noncore	40%	23.5%

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Recommendations (3)

- Core customers will get primary <u>direct</u> benefit of Phase I pipeline work. Many of the proposed changes will also improve distribution-level safety.
- EPAM will <u>not</u> exempt noncore customers from PSEP charges; percent increases to noncore customers remain higher than increases to core customers

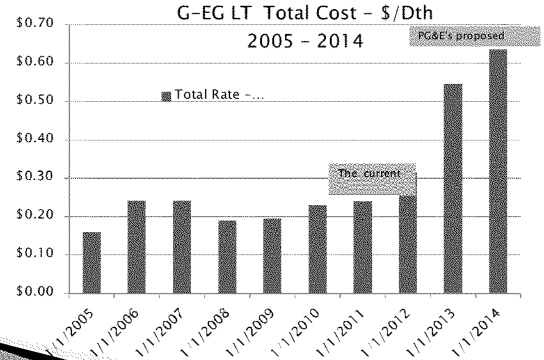
Customer Class	% Increase Under GA V Allocation Method	% Increase Under EPAM Method
Core Retail-Residential Non-CARE (Transport Only)	9.2	12.1
Industrial Distribution	18.6	23.5
Industrial Transmission	45.9	24.2
Electric Generation-Transmission	109.8	55.6

Harm of Selecting the Wrong Cost Allocation Method

- Significant increase in noncore rates can increase potential for bypass of PG&E system
  - Bypass to interstate or non-utility pipelines
  - Bypass by wire (shift of electric generation to generators connected to interstate pipelines)
- Significant increase in noncore rates can increase electricity rates by 2.4 times the increase in the noncore transportation rate ("multiplier effect")
  - wholesale electric market prices will be based on a more expensive marginal resource,
  - pricing of roughly 85% of electricity imports will be impacted by higher electricity market prices,
  - prices paid to some generators based on tariffed EG transportation rates

Harm of Selecting the Wrong Cost Allocation Method (2)

- Rate increase will impact ability of electric generators to compete
  - Aggregate impact on all NCGC members will exceed $10 million on an annual basis



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Impacts of Service Disruptions

Key Principles

- Service disruptions will have financial and operational impacts on noncore customers
  - Can prevent customers from using firm transportation rights, limit noncore customers from meeting contractual obligations, and create operational hazards
  - Scope of disruptions will be greater with PSEP work
- PG&E has no protocols in place to provide a minimum amount of notice of disruptions to customers
- NCIP's proposed credit will mitigate financial impact of service disruption when adequate notice cannot be provided

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Recommendations

- PG&E should provide 30 days' notice prior to scheduled pipeline enhancement activities that can result in pressure reductions or minor service disruptions
- PG&E should provide at least 6 months notice to large noncore customers operating critical energy infrastructure (refinery or electric generator) when complete service curtailment is required
  - Notice needed to allow safe wind down or change in operations
- Where PG&E is unable to provide recommended amounts of notice, it should provide following credits:
  - Credit of backbone reservation charges when customers are unable to use full firm capacity due to pipeline safety work
  - $0.25/therm credit (for gas curtailed or diverted) for local transmission disruptions when PG&E is unable to provide minimum levels of notice
  - Credits will not impact PG&E's ability to respond to emergency situations

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