

**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.)

**OPENING COMMENTS OF
THE NORTHERN CALIFORNIA GENERATION COALITION
ON ALJ BUSHEY'S PROPOSED DECISION REGARDING PG&E'S
PIPELINE SAFETY ENHANCEMENT PLAN**

Barry F. McCarthy
McCarthy & Berlin, LLP
100 W. San Fernando St., Ste. 501
San Jose, CA 95113
(408) 288-2080
E-mail: bmcc@mccarthyllp.com

November 16, 2012

Attorneys for the
Northern California Generation Coalition

**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)	R.11-02-019
Regulations for Natural Gas Transmission and)	
Distribution Pipelines and Related Ratemaking)	
Mechanisms.)	

**OPENING COMMENTS OF
THE NORTHERN CALIFORNIA GENERATION COALITION
ON ALJ BUSHEY'S PROPOSED DECISION REGARDING PG&E'S
PIPELINE SAFETY ENHANCEMENT PLAN**

Pursuant to CPUC Rules of Practice and Procedure Rule 14.3 and the directions of Administrative Law Judge Bushey, the Northern California Generation Coalition (NCGC)¹ submits these Opening Comments on the October 12, 2012 Proposed Decision (PD) of Administrative Law Judge Bushey regarding PG&E's Pipeline Safety Enhancement Plan (PSEP).

I. INTRODUCTION

From NCGC's perspective, the PD has much to commend it, including a reasonable reduction in PG&E's proposed revenue requirements, disallowance of PSEP costs that are a direct result of PG&E's imprudent operation of its natural gas transmission system, rejection of PG&E's proposal for a 21% contingency adder, and a reduced rate of return on shareholders' equity. In addition, the PD appropriately denies recovery of PSEP costs incurred prior to the effective date of the final PSEP decision.

¹ 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.

These comments are limited to the PD's erroneous determination that the cost allocation and rate design principles for recovery of PSEP costs should be based on the methodology used to calculate Gas Accord V rates (D.11-04-031), as originally proposed by PG&E (*see*, PD at pp.109-110). Although supportive of the safety and reliability outcomes promised by the PG&E PSEP, NCGC maintains that the cost allocation and rate design aspects of the PSEP, as proposed by PG&E and adopted in the PD, are not supported by the record evidence in this proceeding, would result in Noncore gas transportation rates that are unjust and unreasonable, and would place gas-fired electric generation facilities located in Northern California at a competitive disadvantage.

Because the PSEP cost allocation is not legally sustainable, NCGC urges the Commission to reject the PSEP cost allocation and ratemaking proposals approved in the PD, and order PG&E to allocate such costs to end-user rate classes based on the direct PSEP safety benefits actually received by each customer class, as determined by means of a Potential Impact Radius (PIR) study. Alternatively, the Commission should adopt 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. 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 and importantly, consistent with the transportation rates proposed to be adopted in the Sempra Utilities' Implementation Plan.

II. THE PD'S ALLOCATION OF PSEP COSTS AMONG RATEPAYER CLASSES IS IN ERROR; THE COST ALLOCATION SHOULD REFLECT COSTS AND BENEFITS TO VARIOUS RATEPAYER CLASSES

According to the PD, cost allocation issues "are better handled in general rate cases, not a proceeding of limited ratemaking review, such as this one." (PD, at p. 110). While this may be true, it is important to note that the relevant "general rate case" proceeding that the ALJ wants to rely on for PSEP ratemaking through 2014 is the Gas Accord V settlement – was a limited scope rate case that was never intended to have any precedential value, but was rather a negotiated compromise of many complex issues – issues that did not include PSEP costs since the Gas Accord V settlement predated PG&E's PSEP proposal. The evidentiary record in this proceeding is devoid of any support – legal or factual – for the proposition that the Gas Accord V cost allocation and rate methodologies are appropriate for the instant proceeding. Rather, PSEP

rates should reflect the cost and benefits of providing PSEP's safety benefits to each end-user customer class. The PD fails to achieve this objective.

In addition, PSEP rates should be based on cost causation principles; a basic ratemaking tenet that is ignored in the PD. 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.² However, Dr. Tierney testified that she did not look at the question of whether large, noncore customers cause PSEP costs to be incurred.³ 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 of the PSEP safety improvements, such as a safer and more reliable gas system, almost all of the *direct* benefits of the PSEP work will accrue to core customers who are more likely to be located within the Potential Impact Radius (PIR) of PG&E's transmission pipelines.⁴ Accordingly, the PD errs in ignoring this important tenant in its final recommendations.

The evidentiary record herein clearly demonstrates that PG&E's analysis of the impacts on various customer classes of its proposed PSEP 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 in developing PG&E's PSEP rates proposal he did not consider any other cost allocation methodologies other than those used to calculate Gas Accord V rates,⁵ and was unaware of whether the demand for increased safety for residential and commercial customers was the driving force behind the PSEP work.⁶

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].*"⁷ This assumption is wrong. 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*

² Ex. 21; Rebuttal Testimony of PG&E witness Tierney, at p. 2-9.

³ Tr. Vol. 9; p.1071, lines 8-12.

⁴ Ex. 123; Opening Testimony of NCIP witness Beach, at p. 15.

⁵ Tr. Vol. 14; p. 2024, lines 3-7.

⁶ Tr. Vol. 14; p.2024, lines 21-27.

⁷ *Id.*, at lines 14-19.

*different issues in order to arrive at a settlement that is acceptable to most of the parties to this proceeding.*⁸ PSEP did not exist at the time the Gas Accord V settlement was negotiated and a negotiated settlement based on compromises by the participating parties that excluded a material cost like PSEP does not form an appropriate factual or legal basis for allocating the PSEP costs in this proceeding.

Furthermore, 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 therein (ref: Gas Accord V Settlement Agreement, paragraph 1.4).⁹ 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 taken in isolation 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 [the Gas Accord V allocation methodology] was...equitable*”, he is making an assertion that PG&E and all Gas Accord V settling parties explicitly agreed not to make.

NCGC believes that all PSEP charges that the Commission determines to be allocable to PG&E’s ratepayers should be allocated among such ratepayers based on PIR studies similar to those conducted by the Sempra Utilities, which will demonstrate that the vast majority of structures found in the PIR of gas transmission pipelines are typically those associated with core residential and commercial customers. 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 PSEP work.

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 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. Contrary to Judge Bushey’s statement in the PD

⁸ D.11-04-031, at p. 58.

⁹ Gas Accord Settlement Agreement, paragraph 1.4.

(p.110), no re-opening of the Gas Accord V rate case is necessary to design and implement PSEP rates that are based on cost causation principles.

Finally, if the Commission adopts the PSEP rates recommended in the PD, or adopts alternative PSEP rates based substantially on the same rate design procedures or cost allocation methodologies used to compute the PSEP rates recommended in the PD, NCGC urges the Commission to explicitly state that the rate design procedures and cost allocation methodologies used to calculate the adopted PSEP rates are not precedential.

III. CONCLUSION

The PD commits legal and factual errors in adopting a PSEP cost allocation and ratemaking proposal that fails to take into account the cost of service and benefits received by various rate classes, and that relies on an unrelated, negotiated settlement as the underlying basis for such cost allocation and ratemaking. For the reasons stated herein, NCGC urges the Commission to reject the PD's PSEP cost allocation and ratemaking proposals in favor of a more equitable cost allocation methodology 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 to allocate PSEP costs. Accordingly, Ordering Paragraph 4 of the PD should be revised by recalculating the rates set forth in Exhibit F to reflect an appropriate cost allocation and rate methodology.

Respectfully submitted,



Barry F. McCarthy
McCarthy & Berlin, LLP
100 W. San Fernando St., Ste. 501
San Jose, CA 95113
(408) 288-2080
E-mail: bmcc@mccarthyllaw.com

November 16, 2012

Attorneys for the
Northern California Generation Coalition

