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President Michael R. Peevey
Commissioner Timothy Alan Simon
Commissioner Michel Peter Florio
Commissioner Catherine J.K. Sandoval
Commissioner Mark K. Ferron

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: R.11-02-019 – Phase 1 Pipeline Safety Enhancement Plan (Item 50 on the 12/20/12 agenda)

Dear Commissioners:

Yesterday in a letter to you the Division of Ratepayer Advocates (DRA) labeled PG&E's assessment of the 2012 disallowance in the PSEP Proposed Decision a "gross mischaracterization." The Commission should not be confused. There is a massive disallowance for 2012 in the proposed decision. It is neither reasonable nor consistent with Commission precedent and policy to find safety work reasonable and necessary and then to disallow recovery of the associated costs.

Here are the facts:

- First, DRA misrepresents the proposed decision's treatment of 2012 expense. PG&E requested PSEP expenses of $231.1 million for 2012. While the proposed decision theoretically allows recovery of two months of expense of 2012, as a practical matter, a decision vote and effective date of December 20, 2012 means that, at most, less than two weeks of cost recovery are possible for 2012 without changes to the proposed decision. In terms of actual expense, the proposed decision disallows $231.1 million. In its comments on the proposed decision DRA acknowledged that 2012 expense would not be recoverable.

- The table below explains what PG&E requested in PSEP for 2012 and what the ALJ has recommended:

	2012
Expense	
Requested	$231.1 million
ALJ's Recommendation	$0
Difference	**$231.1 million**
Capital	
Requested	$384.3 million
ALJ's Recommendation	$265.2 million
Difference	**$119.1 million**
Total Disallowed for 2012	**$350.2 million**

*This $350.2 million represents the total expense and capital disallowed from PG&E's request. The $342.7 million was a combination of expense and capital expenditures ($265.2 million and $77.4 million, respectively), not revenue requirements. PG&E made that clear in its PG&E's Opening Comments. For reference, the 2012 expense and capital revenue requirement disallowed from PG&E's request is approximately $247 million (per Table 1-5 in PG&E's Testimony). The PD makes various disallowances, which, after being applied, result in a 2012 disallowed expense and capital revenue requirement of $84.1 million (per Table E-1 in the PD).

Above and beyond the approximately $350 million disallowed for 2012 from PG&E's request, the proposed decision disallows additional dollars in the capital revenue requirement for 2011 and 2012, all of the costs of the Gas Transmission Asset Management Project ($123.1 million), all contingency ($293.3 million), lowers ROE for five years ($130 million est.) and imposes lower escalation rate adjustments ($41.5 million). In its response to the proposed decision, PG&E has accepted as additional shareholder contributions approximately $179 million costs associated with strength testing of pipelines installed after 1955, pipeline replacement adjustment, and MAOP validation.

By any measure, the proposed disallowances for critically important pipeline safety expenditures are significant and unprecedented.

Very truly yours,

Brian K. Cherry
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cc: Via Email
Paul Clanon, Executive Director
Maribeth Bushey, Administrative Law Judge
Service list R.11-02-019