BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Pacific Gas and Electric Company for Recovery of Costs of Gas Compressor Station Compliance with AB 32 U 39 G	A.12-06-010 (Filed June 18, 2012)

RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) IN COMPLIANCE WITH ADMINISTATIVE LAW JUDGE'S RULING INSTRUCTING PARTIES TO SUPPLEMENT THE RECORD

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PACIFIC GAS AND ELECTRIC COMPANY

Dated: January 18, 2012

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Pursuant to the Administrative Law Judge's January 17, 2012, Ruling instructing the parties to supplement the record with responses to specific questions, Pacific Gas and Electric Company (PG&E) hereby provides its responses in the attached declaration of Christopher J. Warner, attorney for PG&E.

Respectfully Submitted,

CHRISTOPHER J. WARNER

By: */s/ Christopher J. Warner*
CHRISTOPHER J. WARNER

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Dated: January 18, 2012

Declaration of Christopher J. Warner

I, Christopher J. Warner, hereby declare under penalty of perjury:

A. I am Chief Counsel for Pacific Gas and Electric Company ("PG&E").

B. To the best of my knowledge and belief, the following responses to the questions in the Administrative Law Judge's Ruling ("ALJ Ruling") dated January 17, 2012 in A.12-06-010 are true and correct.

C. The following responses to the ALJ Ruling were prepared under my direction.

1. Why is this Application a request for the "recovery" of costs of gas compressor station compliance with Assembly Bill (AB) 32 when it does not appear that the costs have yet to be incurred for 2013 and 2014?

RESPONSE: The statewide cap on GHG emissions associated with the AB32 Cap-and-Trade Program went into effect on January 1, 2013. The compliance obligation for covered entities, including natural compressor stations emitting more than 25,000 metric tons of carbon dioxide equivalent per year, is based on GHG emitted from January 1, 2013 to December 31, 2014 for the first compliance period. PG&E is required to track GHG emissions and surrender one permit (allowances or offsets) for each ton of GHG emitted during this period on a schedule required by ARB. Pursuant to D.12-04-046 and PG&E's conformed Long Term Procurement Plan, PG&E already has incurred costs to procure allowances, and is required under AB 32 to hold GHG emissions allowances for the compressor stations beginning January 1, 2013. PG&E participated in the GHG auction in November 2012 to obtain sufficient credits to cover the emissions anticipated from our natural gas compressor stations and will participate in quarterly auctions throughout 2013 and 2014. PG&E incurs costs according to the actual volume of gas that is managed within the PG&E transmission system beginning January 1, 2013. PG&E requested a memorandum account on June 18, 2012 in anticipation of a delay in a final decision by the CPUC prior to the beginning of 2013. Now that the new year has begun, PG&E is unable to recover costs already incurred.

2. Is this Application, in fact, a request to track costs that PG&E will attempt to seek the recovery of at a future date in another proceeding? If so, what is the proceeding?

RESPONSE: No, PG&E does not intend to seek recovery of these costs in another proceeding. The purpose of this application is to obtain approval to include in rates costs associated with compliance with cap-and-trade attributable to the gas compressor stations for 2013 and 2014.

3. What is the Annual Gas True-up rate change filing and how does that relate to this Application?

RESPONSE: PG&E's Annual Gas True-Up filing is an annual advice letter provided to Energy Division, which trues up the balance of previously authorized balancing accounts into rates for the next year, as well as consolidates all other previously authorized gas rate changes that will be effective on January 1 of each year.

4. What is the Energy Resource Recovery Account (ERRA) filing and how does that relate to this Application?

RESPONSE: The ERRA Filing does not relate to this application. The ERRA filing is an annual filing in which PG&E seeks cost recovery of its forecasted electric procurement costs for the following year. There is no overlap between the ERRA filing and the present application. The 2013 ERRA filing (filed in June 2012) included a forecast of 2013 cap-and-trade compliance costs for electric operations only; it did not include a forecast of cap-and-trade compliance costs for the six gas compressor stations identified in this application.

5. Why won't the 2013 and 2014 gas compressor station costs be covered as part of PG&E's General Rate Case that was filed on November 15, 2012 (Application (A.) 12-11-009)?

RESPONSE: PG&E's General Rate Case establishes forward looking costs related to PG&E's electric distribution system, its electric generation plants and its gas distribution system. The compressor stations are not part of PG&E's gas distribution system, they are part of PG&E's gas transmission system. Costs associated with gas transmission are included in the Gas Transmission and Storage Rate Case. The next GT&S rate case will be effective in 2015. Compliance costs associated with cap-and-trade for 2015 onwards will be included in the Gas Transmission and Storage Rate case; this application covers the gap years of 2013 and 2014.

6. Have the gas compressor station costs for 2013 and 2014 been identified in A.12-11-009?

RESPONSE: No. A.12-11-009 is PG&E's General Rate Case. Costs relating to PG&E's gas transmission and storage systems are not filed in GRCs but instead in GT&S Rate Cases.

7. Is the Gas Transmission and Storage Rate Case different from the Gas True-up and ERRA filings?

RESPONSE: Yes, these are three different proceedings with different objectives.

i. The Gas Transmission and Storage Rate Case adopts the gas revenue requirement for providing gas transmission and storage service, sets the marketplace design, and determines cost allocation and rate design for the revenue requirements adopted in the case.

ii. PG&E's Annual Gas True-Up is an advice letter used to update gas rates each year with items that are approved in other forums: it updates previously authorized balancing accounts as well as consolidates all other previously authorized gas rate changes effective on January 1 of each year

iii. The ERRA filing forecasts are electric procurement costs one year forward and does not show cost related to the operation of gas generation.

8. If PG&E underestimates its revenue requirements for the first two years of AB 32 compliance, is PG&E proposing to cap its recovery by the amounts identified in its Application and Joint Motion? Is PG&E proposing that it be allowed to recover the gas compressor station costs that exceed the estimates for 2013 and 2014?

RESPONSE: PG&E will only recover its actual costs of AB 32 compressor station compliance. PG&E has requested approval of its proposed revenue requirement, as well as approval to establish a balancing account. The purpose of the balancing account is to allow for an annual true-up through the Annual Gas True-Up (in which other balancing account balances are updated) at year end. If PG&E has underestimated the revenue requirements in the first year, the resulting under collection in the balancing account will be trued up and entered into rates in the next year. Conversely, if PG&E has overestimated its revenue requirements, the over collection in the balancing accounts will be returned to customers in the next year, reducing rates. This is balancing account treatment is consistent with how PG&E's other commodity related costs are treated. Like other commodity costs, these costs are passed through to customers. PG&E does not make a profit on these costs. AB 32 compliance costs are mandatory state costs which vary based on the volume of gas used and AB 32 price conditions. These factors are determined by customer demand and by market price conditions, and these factors are not within PG&E's control. Therefore, it is not appropriate for caps to be imposed on the cap-and-trade costs.

9. What is the Electric Cost Balancing Account and why would gas costs be tracked in an electric balancing account?

RESPONSE: The Electric Cost Balancing Account (ECBA) is actually a gas balancing account; it tracks the electric costs of operating PG&E's gas compressor stations with compressors that are run on electricity. PG&E proposes to rename the account to Gas Operational Cost Balancing Account (GOBA) and have it track both the electric operating costs of the compressor stations as well as the emission allowance costs related to the compressor stations on PG&E's gas transmission system.

10. Why wouldn't the gas compression station compliances costs be tracked in the Gas Operational Cost Balancing Account?

RESPONSE: PG&E's proposal is to expand the usage of the ECBA to cover not just electric operating costs but also cap-and-trade compliance costs associated with its compressor stations. If PG&E's proposal is adopted, then PG&E would change the name of ECBA to GOBA to better reflect the costs tracked there. If PG&E's proposal is not adopted, the GOBA will not exist- it does not exist currently as a balancing account.

11. Has DRA withdrawn its protest by virtue of the Joint Motion?

RESPONSE: Although DRA has not formally withdrawn its protest, in the Joint Motion DRA has stated that they do not oppose both PG&E's forecasted costs and PG&E's ratemaking proposals. There are no additional disputed items with DRA, nor are there any other parties to the proceeding.

Christopher J Warner

CHRISTOPHER J. WARNER
January 18, 2012