**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015-2017. (U 39 G)	A.13-12-012 (Filed December 19, 2013)

PROTEST OF GILL RANCH STORAGE, LLC TO APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY PROPOSING COST OF SERVICE AND RATES FOR GAS TRANSMISSION AND STORAGE SERVICES FOR THE PERIOD 2015-2017

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Pursuant to Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission" or "CPUC"), Gill Ranch Storage, LLC ("GRS") files this Protest to Application of Pacific Gas and Electric Company ("PG&E") Proposing Cost of Service and Rates for Gas Transmission and Storage Services ("GT&S") for the Period 2015-2017 ("Application").

1. Introduction.

GRS is an Oregon limited liability company formed in 2007 for the purpose of developing the Gill Ranch Gas Storage Facility ("Facility"), located primarily in Madera, California. GRS owns a 75% undivided interest in the Facility, and PG&E owns a 25% undivided interest. The Commission granted GRS' and PG&E's consolidated applications for certificates of public convenience and necessity on October 29, 2009, in Decision ("D.") 09-10-035.

The Facility consists of an approximately 20 billion cubic foot ("Bcf") underground natural gas storage field, a compressor station and associated dehydration and control facilities, an approximately 27-mile pipeline extending from the storage reservoirs to an interconnection with PG&E's Line 401, and an electric substation that is connected to an approximately 9-mile 115 kV electric power line, which is owned and operated by PG&E and serves the compressor station. GRS' 75% ownership interest includes 15 Bcf of storage capacity. GRS offers competitive gas storage services at market-based rates from its 75% interest in the Facility.[1]

GRS generally supports the Gas Accord structure. In its current Application, PG&E proposes to maintain the basic Gas Accord structure for transmission and storage service.[2] However, PG&E proposes to eliminate the revenue sharing mechanism in the approved Gas Accord V Settlement Agreement and to replace it with full balancing account protection for all transmission and storage revenues, except for Gill Ranch storage revenues.[3] Another key difference from prior GT&S cases is that PG&E has structured its forecast around "asset families," which PG&E asserts will help it better manage its assets, and with risk assessment and management.[4]

GRS' main goals in this proceeding are to ensure that (1) operating and balancing rules recognize and accommodate the potential of storage resources to help the state achieve renewable procurement standard ("RPS") and greenhouse gas ("GHG") emission reduction goals, and (2) GRS is able to fairly compete in the provision of storage services with PG&E, the three existing independent storage providers ("ISPs"), Central Valley Gas Storage, LLC, Lodi Gas Storage, L.L.C., and Wild Goose Storage, Inc., and any new independent providers that may begin operations on PG&E's system. GRS supports PG&E's proposal to add an additional gas scheduling cycle late in the gas day (*i.e.*, the "fifth nomination" or "late cycle"), because it is consistent with RPS goals and the related need for gas-fired generation to support variable renewables.[5]

GRS presently has identified the following issues with PG&E's Application:

- Whether tighter balancing system rules, including daily balancing, should be adopted;
- Whether existing rules regarding the pro-rata allocation of as-available Redwood and Mission path capacity among all potential subscribers remain adequate as California's policy objectives and electricity market evolve; and

[1] GRS and PG&E each separately market its share of capacity from the Facility and, therefore, are competitors in the provision of storage services in California.

[2] PG&E Application, p. 13.

[3] *Id.*

[4] *Id.* at pp. 8-9, 11.

[5] PG&E Prepared Testimony, pp. 10-40 – 10-41.

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- Whether PG&E's proposed balancing account treatment for transmission and storage revenues should be modified to protect against the potential for subsidization of PG&E's Market Storage customers by transmission customers.

GRS continues to evaluate the potential impacts of PG&E's proposal for core and non-core backbone rates that are undifferentiated by path,[6] and whether PG&E's rates for Market Storage are adequate. Finally, GRS recently began discovery to try to clarify its understanding of PG&E's proposed Customer Nomination Redirect Project,[7] and regarding other issues discussed herein. GRS reserves the right to address these issues, and other issues as appropriate, in this proceeding.

2. PG&E's Fifth Nomination or Late Cycle Nomination Proposal Should Be Adopted.

PG&E explains that it has been active with the California Independent System Operator, the Federal Energy Regulatory Commission, and other parties to evaluate the impacts of increasing levels of variable electric generation resources, such as intermittent wind and solar resources, on PG&E's system.[8] While PG&E believes these impacts generally can be managed within the existing market structure and physical and operational resources, PG&E identifies one necessary change, the addition of a gas scheduling cycle late in the gas day.[9] As PG&E notes, this fifth nomination or late cycle ("Late Cycle") will allow shippers to change their gas supplies as the dispatch of electric generation is known throughout a day.[10]

California law requires that at least 25% of its electric supply is generated by renewable resources by 2016, and 33% by 2020.[11] California law additionally requires that GHG emissions be reduced to 1990 levels by 2020, which further emphasizes the importance of renewable resources.[12] The availability and quantity of renewable resources on any day is largely based on natural conditions, including whether the wind blows or the sun shines. Natural gas-fired generation resources are used to stabilize the electric grid in the face of this variability, which can result in dramatic increases or decreases in demand for gas.

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6 PG&E Application, p. 15.

7 PG&E Prepared Testimony, pp. 10-41 – 10-42.

8 PG&E Prepared Testimony, p. 10-40.

9 *Id.*

10 *Id.*

11 Pub. Util. Code §§ 399.11 – 399.32.

12 Cal. Health & Safety Code § 38550.

It is vital that California's gas pipeline system be able to accommodate this increasing load variability as California implements its RPS and GHG emission reduction goals. PG&E states that there are times when it is not able to accommodate changes in load "without either additional supply being brought onto the system or having excess supply redirected to storage or to other markets."[13] Accordingly, PG&E proposes to add a fifth nomination cycle, the Late Cycle, following the Intraday 2 cycle.[14] The nomination deadline for the Late Cycle would be 9:00 pm on the Gas Day.[15] Late Cycle nominations would be limited to transactions with on-system storage providers and at PG&E Citygate, and transmission customers would be able to access injection or withdrawal service from any on-system provider.[16] Late Cycle nominations would otherwise be similar to the current four nomination cycles.[17]

Approximately two years ago, the Commission approved PG&E's request to revise its Gas Rule 21 to add a manual nomination modification process.[18] GRS views that process as a valuable tool to help avoid operational flow order ("OFO") situations caused by intraday changes in demand. While it was an important first step, it included stringent eligibility and participation parameters,[19] such that it did not receive much, if any, interest from transporters. As California moves towards its 33% RPS standard, more flexible gas-fired generation will be required to balance the grid effects of variable renewable generation. Increased gas supply flexibility will be required for this gas-fired generation. This increasing need for flexible gas supply can be met in large part by the ISPs already connected to PG&E's system under PG&E's proposed Late Cycle.[20] The proposed Late Cycle is a critical next step towards full intraday scheduling flexibility, which can be used by transportation customers with firm storage (and other storage) rights to inject or withdraw gas as need to balance their accounts on a daily basis. The proposed Late Cycle should be approved.

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13 PG&E Prepared Testimony, pp. 10-40 – 10-41.

14 *Id.*

15 *Id.* at p. 10-41.

16 *Id.*

17 *Id.*

18 PG&E Advice Letter 3240-G; Resolution G-3466.

19 *See* PG&E Rule 21, Section B.3.i.

20 GRS observes that ISP participation in the Late Cycle appears to be optional as the Late Cycle is proposed by PG&E.

3. Daily Balancing Should Be Required.

In addition to the intraday flexibility that the proposed Late Cycle would provide, daily balancing should be required, in place of the current monthly balancing system (and the existing self-balancing option). PG&E is proposing a $1.28 billion revenue requirement for 2015, which is approximately $555 million higher than the authorized 2014 revenue requirement.[21] A significant portion of the increase is attributable to PG&E's proposals for replacing or rebuilding its gas transmission system.[22]

Requiring daily balancing and implementing the Late Cycle would increase the effective capacity of PG&E's system to meet the expected sharp fluctuations in gas demand caused by gas-fired generation required to integrate highly variable renewable generation into the electric grid. This would potentially allow PG&E to avoid or defer some of the infrastructure expenditures it proposes, which in turn would reduce the impact of PG&E's revenue requirement and rate increase proposal on its customers.[23] Further, daily balancing could potentially improve safety, by minimizing dramatic swings in pipeline inventory that can occur under monthly balancing where OFOs are called only when linepack is very high or very low.

By taking some of the burden off of PG&E's system, daily balancing also could help alleviate a potential ratepayer subsidy issue. PG&E proposes to allocate more storage assets to balancing, stating that this action is required to manage fluctuating intraday demands.[24] Additionally, GRS observes that the current balancing system does not appear to appropriately reward transportation customers who closely manage their accounts through the use of storage services provided by ISPs, which encourages dependence on PG&E's ratepayer-funded assets to balance individual variances. These existing circumstances and PG&E's proposal to allocate more storage assets to balancing to address fluctuating intraday demand raise the question whether ratepayers are subsidizing PG&E's transportation customers. Not only is this a problem for PG&E's ratepayers, it also puts ISPs at a competitive disadvantage. PG&E identifies daily balancing as an alternative to increasing the storage capacity dedicated to balancing. GRS

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[21] PG&E Application, p. 12.

[22] *See, e.g.*, PG&E Prepared Testimony, Chapters 4, 4A and 4B.

[23] A switch to daily balancing could also be accomplished as part of the other extensive administrative system changes PG&E proposes. (*See, e.g.*, PG&E Prepared Testimony, p. 11-5, Table 11-3.)

[24] *Id.*

recommends that daily balancing be required to address system changes resulting from implementation of state RPS and GHG goals, and to avoid ratepayer subsidy issues.

4. The Commission Should Evaluate Backbone Transmission Service Issues.

In the Gas Accord V proceeding, GRS noted concerns regarding the adequacy of capacity on PG&E's backbone, in light of anticipated increases in demand. For example, since the last Gas Accord, California has codified a requirement that 33% of the state's electric demand must be met by renewable resources. Additionally, the Legislature presently is considering requiring the California Air Resources Board to set, by 2016, an interim 2030 GHG emissions reduction target, indicating an increased role for renewables.[25] As discussed in PG&E's Application and above, variable renewable resources require gas-fired generation to stabilize the electric grid.

Pursuant to PG&E's Gas Storage Rule 14, a pro rata allocation of as-available transportation capacity among all potential subscribers is required when there is not sufficient as-available capacity to satisfy all requests for it. In the Settlement Agreement approved in the Gas Accord V decision, if the allocation method in PG&E's Gas Rule 14 is applied five or more times between any April and March (*i.e.*, a storage year), and in two of these applications at least 10% of the volumes are curtailed, PG&E must propose specific solutions to reduce constraints in its next GT&S rate case.[26] GRS is not aware that PG&E applied the Rule 14 allocation and curtailed 10% of volumes more than once or twice since the Settlement Agreement was implemented. Nonetheless, given the expected increases in renewable generation and the related potential for increased gas-fired generation, and other demands on PG&E's transmission system, GRS requests that the Commission consider in this proceeding whether the existing allocation rules remain adequate to address capacity needs, or if modifications are necessary.

5. Proposed Modifications to GT&S Cost Recovery Should Not Provide PG&E With a Competitive Advantage Over ISPs.

PG&E explains that its GT&S revenue requirements are allocated between core and non-core customers.[27] Revenue requirements allocated to core customers are recorded and recovered through balancing accounts, which PG&E states means that PG&E collects no more or less than GT&S revenue requirements allocated to core customers.[28]

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25 *See* AB 177 (Pérez).

26 D.11-04-031, App. A, Section 11.1.2.

27 PG&E Prepared Testimony, p. 18-2.

28 *Id.*

GT&S revenue requirements allocated to non-core customers presently are subject to a revenue sharing mechanism that was included in the Gas Accord V Settlement Agreement.[29] On an annual basis during 2011 through 2014, differences between customer revenue requirements and billed revenues from non-core customers are shared between customers and PG&E's shareholders in various percentages, depending on the type of service (*i.e.*, backbone, local transmission, or storage).[30]

Here, PG&E proposes to discontinue the revenue sharing and instead recover the GT&S revenue requirements allocated to non-core customers in the same manner as GT&S revenue requirements are recovered from core customers.[31] Specifically, PG&E proposes "full balancing account treatment" for transmission and storage revenues, with the exception of Gill Ranch revenues.[32] PG&E would record and recover its noncore local transmission and unbundled storage and backbone transmission revenue requirements in the Noncore Subaccount of the Noncore Customer Class Charge Account.

It is not clear whether this balancing account treatment would allow PG&E to use non-core transmission revenues to subsidize non-core storage operations, thereby providing PG&E with a competitive advantage vis-à-vis ISPs. PG&E should be required to demonstrate that any such cross-subsidization will not occur, or to revise its balancing account proposal to ensure it will not occur.

6. Hearings and Schedule.

GRS believes that hearings may be required to consider the important factual issues identified herein, including monthly and daily balancing issues, issues relating to the pro-rata allocation of as-available Redwood and Mission path capacity, transmission and storage accounting issues, and competitive issues. At a minimum, briefing should be required on these issues.

GRS does not object to the schedule proposed by PG&E.

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29 *Id.*; D.11-04-031, App. A, Section 10.1.1.

30 *Id.*

31 PG&E Prepared Testimony, p. 18-2.

32 *Id.* at pp. 18-2 – 18-3. PG&E correctly notes that under D.09-10-035, PG&E is not allowed to seek recovery of Gill Ranch costs during 2011-2014, and that if PG&E subsequently seeks recovery of any costs associated with Gill Ranch, PG&E must demonstrate the prudence and reasonableness of the costs in any proceedings in which PG&E requests authority to include any cost costs in core rates, among other things.

7. Communications.

All correspondence, pleadings, orders, and notices in this proceeding should be sent to the following:

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8. Conclusion.

GRS appreciates the Commission's consideration of this Protest. For the reasons set forth above, GRS currently anticipates that its participation in this proceeding will focus on scheduling flexibility, operating and balancing system issues, issues relating to transmission capacity needs and allocation rules, transmission and storage accounting issues, and competitive issues.

DATED: January 31, 2014 DAY CARTER & MURPHY LLP

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