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**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 2011-2014 (U39G)	Application 09-09-013 (Filed September 18, 2009)

REPLY BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY AND INDICATED GAS ACCORD V SETTLEMENT PARTIES

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SUMMARY OF RECOMMENDATIONS

1. The Commission should find that Southern California Gas Company ("SoCalGas") does not have a right under its G-XF contract to deliver gas into Pacific Gas and Electric Company's ("PG&E") system at the PG&E Citygate. All evidence in the record suggests that the 1997 version of Exhibit A which states the contract quantity in two places instead of one was a mistake that did not reflect the intent of PG&E or San Diego Gas & Electric Company ("SDG&E"). There is no evidence suggesting that SDG&E requested, or that PG&E granted, an on-system delivery right. The sole purpose of the 1997 version of Exhibit A was to effect a partial assignment of SDG&E's capacity to a third party named "Husky" for a limited time.

2. Gas Accord V G-XF rates should not be reduced by the same percentage that the Noncore Redwood Path rates were lowered by the Gas Accord V Settlement relative to PG&E's initially proposed Noncore Redwood Path rates. G-XF rates are designed to collect costs exclusively associated with PG&E's Line 401 Expansion project, and reflect the incremental cost of providing service on the Line 401 Expansion pipeline. Noncore Redwood rates reflect the blended costs of that portion of Line 400 not set aside for Core Customers, that portion of Line 401 not set aside for G-XF shippers, and various "common" backbone costs that are allocated to all backbone paths and services except Rate Schedule G-XF. Therefore, it does not follow that the percentage change in G-XF rates between proposed and settled rates should match the percentage change in Noncore Redwood rates between proposed and settled rates.

3. G-XF shippers such as SoCalGas/SDG&E should not participate in the Revenue Sharing Mechanism included in the Gas Accord V Settlement Agreement. The justification for excluding G-XF shippers from revenue sharing is rooted in the incremental nature of G-XF rates. The revenue sharing contemplated in the Settlement will come principally from PG&E's excess market storage revenues, and to a lesser extent from backbone and local transmission revenues. These are not revenue streams that have ever benefitted or been expected to benefit G-XF contract customers, whose rates always have been based strictly on Line 401 costs. In addition, the Settlement Agreement excludes G-XF costs and revenues from the calculation of any over- or under-collection to be shared with customers.

4. The Commission should not impose on PG&E the storage posting requirements equivalent to those that the Federal Energy Regulatory Commission ("FERC") imposes on market-based storage fields directly connected to interstate pipelines that provide interstate gas storage services under Section 7(c) of the Natural Gas Act. The Northern California storage market is a competitive market without a monopoly provider. Therefore, it is not necessary to impose additional storage posting requirements on PG&E. In addition, PG&E believes that requiring only PG&E to make such postings would put PG&E at a competitive disadvantage to the independent storage providers in northern California.

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I. INTRODUCTION

Pacific Gas and Electric Company ("PG&E") and the Gas Accord V Settlement Parties indicated below[1] ("Indicated Settlement Parties") submit this Reply Brief in response to the Opening Brief filed by Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E").[2]

In their Opening Brief, SoCalGas/SDG&E argue that SoCalGas has the right to make gas deliveries into both PG&E's Citygate in northern California and at Kern River Station in southern California.[3] SoCalGas/SDG&E suggest that the granting by PG&E of two delivery

[1] The non-PG&E Gas Accord V Settlement Parties that support this brief are: California Cogeneration Council ("CCC"); California Manufacturers & Technology Association ("CMTA"), Calpine Corporation; Canadian Association of Petroleum Producers; City of Palo Alto; Dynegy Moss Landing, LLC and Dynegy Morro Bay, LLC ("Dynegy"); Gill Ranch Storage (as to Section II.C); Indicated Producers (representing Chevron U.S.A. Inc., ConocoPhillips Company and Occidental Energy Marketing, Inc.); Lodi Gas Storage LLC (as to Section II.C. only); Northern California Generation Coalition (representing City of Redding, Modesto Irrigation District ("MID"), Turlock Irrigation District ("TID"), City of Santa Clara ("Silicon Valley Power"), and Northern California Power Agency ("NCPA")); Tiger Natural Gas Inc.; The Utility Reform Network ("TURN"); Wild Goose Storage, LLC (as to Section II.C only); School Project for Utility Rate Reduction ("SPURR"); and Vista Energy Marketing L.P.

[2] This brief does not address the Opening Brief filed on November 10, 2010 by TURN and several other Gas Accord V parties. PG&E is filing a separate brief concurrently with this Joint Reply Brief addressing the issue raised in TURN's brief.

[3] TURN joins in this reply brief except to the extent that it addresses the issue of whether SoCalGas/SDG&E have an existing contractual right to make northern California deliveries under their current G-XF contract. TURN is taking no position on that particular question.

points in the 1997 version of Exhibit A to SDG&E's Firm Transportation Service Agreement ("FTSA") was intentional and deliberate. Lacking any contemporaneous evidence to support their position, SoCalGas/SDG&E instead rely on a tortured reading of the FTSA and PG&E's G-XF Tariff. As PG&E demonstrated in testimony and at hearing, SoCalGas/SDG&E's *ex post* history is not consistent with the contemporaneous evidence, which shows that it was neither PG&E's nor SDG&E's intent to add a delivery point in an otherwise ministerial document that simply assigned some of SDG&E's capacity to a third party named "Husky" for a limited term.

In addition, SoCalGas/SDG&E argue that the Revenue Sharing mechanism under the Gas Accord V Settlement should include G-XF shippers, and that the Commission should order PG&E to reduce G-XF rates to reflect the same proportional decrease from the rates originally proposed in PG&E's Application that the Gas Accord V Settlement Parties negotiated for Noncore Redwood rates. In other words, SoCalGas/SDG&E are attempting to benefit from two aspects of the Gas Accord V Settlement which they like, without having signed on to the Settlement or shouldered any burdens of the Settlement. That attempt should be rejected. To allow SoCalGas/SDG&E to reap the benefits of the Settlement, without having to compromise on any other issue, would undermine the integrity of the settlement process, and would provide a powerful incentive for a party simply to refuse to join a settlement, and then attempt to get only the benefits of that settlement through litigation of its own issues. Moreover, the two benefits that SoCalGas/SDG&E seek are contrary to the incremental rate design for Rate Schedule G-XF service that has been a feature of that service since the Line 401 Expansion Project went into service in 1993. None of the cost allocation features raised by SoCalGas/SDG&E casts doubt on the incremental nature of G-XF rates.

Finally, SoCalGas/SDG&E argue that that the Commission should address what they describe as a "critical policy decision" — namely, whether PG&E should be subject to the storage posting requirements of the Federal Energy Regulatory Commission ("FERC") — in this case. Critical policy decisions should not be made in the context of a single utility's rate case. Not only are additional storage posting requirements unnecessary for PG&E — no customer has indicated a need for greater price transparency and the evidence shows that SoCalGas/SDG&E do not compete with PG&E for storage customers — but PG&E believes that imposing additional storage requirements only on PG&E would put PG&E at a competitive disadvantage vis-à-vis its storage competitors in northern California, possibly for many years to come.

II. ARGUMENT

A. The Commission Should Not Allow SoCalGas To Deliver Gas At The PG&E Citygate

1. SoCalGas Does Not Have A Contractual Right To Deliver Gas At The PG&E Citygate

SoCalGas claims it has a "contractual right" to deliver its full contract quantity into PG&E's Citygate, or to Kern River Station, at SoCalGas's election.[4] However, SoCalGas/SDG&E have submitted no evidence that an on-system delivery point was ever even discussed between PG&E and SoCalGas/SDG&E, let alone negotiated, granted and paid for. SoCalGas/SDG&E have provided no testimony or documentary evidence suggesting an intent on the part of either PG&E or SoCalGas/SDG&E to provide for both an on-system and an off-system delivery point. Had SDG&E negotiated for delivery point flexibility in 1997, and had PG&E granted that right, there would certainly be some contemporaneous evidence of those negotiations. The fact that there is none speaks volumes. There is no correspondence between the parties suggesting that the parties discussed granting SDG&E an on-system delivery point,

[4] Opening Brief of Southern California Gas Company and San Diego Gas & Electric Company ("SoCalGas/SDG&E Opening Brief"), p. 3.

and none of the testimony submitted by the parties contains any discussion of an intent by SDG&E to obtain on-system delivery rights, or an intent by PG&E to grant on-system delivery rights.

The only piece of evidence to which SoCalGas/SDG&E point is the 1997 version of Exhibit A to the FTSA. PG&E admits that the 1997 version of Exhibit A is the most recent version of that exhibit. However, that fact alone bears no weight given that all evidence in the record suggests that the 1997 Exhibit A was a mistake in writing that cannot confer rights that were never bargained for.

Although SoCalGas/SDG&E allege that PG&E's claim of "clerical error" is not credible,[5] it would defy common sense for PG&E to have given away such a valuable right in a ministerial document such as a partial assignment of capacity for a limited term. All communications related to this exhibit described a partial assignment of capacity to Husky and the subsequent return of that capacity to SDG&E at the end of the assignment term. At no time did SDG&E request an additional delivery point, nor did PG&E state that it was agreeing to give an additional delivery point — either during the period of the assignment to Husky or following the return of the assigned capacity to SDG&E.[6] Therefore, the only conclusion to be drawn from the undisputed record evidence is that someone at PG&E made a simple clerical error by inserting SDG&E's contract quantity in two places, instead of one.

SoCalGas/SDG&E rely heavily on two sets of initials that appear on the 1997 version of Exhibit A, claiming that the initials support the conclusion that "the document was reviewed at

[5] SoCalGas/SDG&E Opening Brief, p. 10.

[6] Exhibit ("Ex.") 18, p. 1-7, lines 12-19.

least twice by two separate individuals."[7] The initials support no such conclusion. There is no evidence in the record regarding whose initials are on the document, or even what the initials may mean in terms of review procedures in 1997.[8] Thus, no conclusion can be drawn regarding which individuals may have reviewed the 1997 Exhibit A, or the significance of those initials.

SoCalGas/SDG&E also suggest that the signatory of the 1997 version of Exhibit A — Daniel Thomas — may have had relevant information that PG&E did not "choose to bring . . . to light."[9] Although SoCalGas/SDG&E insinuate something nefarious about PG&E's objection to a question that called for double hearsay, the Commission can only rely on the evidence that is in the record, and there is no evidence whatsoever regarding the intent of Mr. Thomas in signing the 1997 Exhibit A. It certainly does not support SoCalGas/SDG&E's assertion that PG&E intended to provide valuable on-system delivery rights to SDG&E, without SDG&E having ever requested that right or supplied any consideration for the delivery point flexibility.

SoCalGas/SDG&E also argue that a claim of mistake is undermined by the fact that PG&E never attempted to fix the error. The fact that PG&E has not fixed the mistake leads to the opposite conclusion. As Mr. Graham explained in his testimony, when SoCalGas initiated discussion with PG&E regarding on-system delivery rights in 2008, he was surprised to see a version of Exhibit A that apparently granted to SDG&E a right to deliver gas onto PG&E's system because it "was very inconsistent with [his] understanding of the Gas Accord that limited parties to the delivery rights that were in our original exhibit."[10] In other words, neither

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[7] SoCalGas/SDG&E Opening Brief, p. 10.

[8] Transcript, pp. 1115, line 28 – 1116, line 10 (Graham, PG&E).

[9] SoCalGas/SDG&E Opening Brief, p. 10.

[10] Transcript, pp. 1189, line 17 – 1190, line 2 (Graham, PG&E).

SoCalGas nor PG&E was even aware of this mistake until SoCalGas discovered it and brought it to PG&E's attention in 2008. At that time, PG&E did not attempt to correct the error because SoCalGas was attempting to capitalize on the error by arguing that it should be allowed to exercise the rights reflected on the erroneous 1997 Exhibit A. Under those circumstances, presenting SoCalGas with a corrected version of Exhibit A would have been futile.[11]

2. The Flexible Delivery Points That SoCalGas/SDG&E Seek Are Not Permitted Under The Gas Accord Or The G-XF Tariff

SoCalGas/SDG&E attempt to rewrite history to support their argument that it was no mistake or accident that SDG&E was granted on-system delivery rights. Each step in SoCalGas/SDG&E's convoluted history is demonstrably false.

First, SoCalGas/SDG&E state that, prior to the first Gas Accord, SDG&E had flexible delivery points under its FTSA.[12] SoCalGas/SDG&E cite to no record evidence in support of that assertion. Their failure to cite to any evidence is not surprising, because the assertion simply is not true. Prior to the adoption of the first Gas Accord, although PG&E's filed G-XF tariff applicable to firm Expansion service on Line 401 allowed delivery point flexibility,[13] the original FTSA between PG&E and SDG&E (executed on December 31, 1991) specified only one delivery point, at Kern River Station:

> This Agreement covers firm transportation of gas for Shipper's account from the interconnection with PGT [the Pacific Gas Transmission Company, now Gas Transmission Northwest] near Malin, Oregon to the southern terminus(i) of the PG&E Expansion Project.[14]

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[11] Transcript, p. 1190, lines 3-15 (Graham, PG&E).

[12] SoCalGas/SDG&E Opening Brief, p. 11.

[13] Ex. 18, Attachment ("Att.") 1D.

[14] Ex. 18, Att. 1A.

In addition, Exhibit A to that contract identified the delivery point as the "southern terminus(i) of the PG&E Expansion Project." Therefore, although PG&E's G-XF Tariff prior to implementation of the first Gas Accord allowed delivery point flexibility on a temporary basis, it did not alter the FTSA to grant SDG&E permanent on-system delivery rights. Moreover, the changes to the G-XF tariff implementing the first Gas Accord in March 1998 eliminated delivery point flexibility.

SoCalGas/SDG&E then claim — again without citation to any record evidence — that "SDG&E relinquished those flexible delivery rights for a set period of time, until the end of 2002, marking the end of the first Gas Accord period."[15] Here again, SoCalGas/SDG&E mischaracterize the facts. As explained above, SDG&E never had any "flexible delivery rights" under its FTSA to relinquish. In fact, SDG&E's FTSA has always allowed for off-system deliveries only.

As noted by SoCalGas/SDG&E, SDG&E signed an "Amendment to the Firm Transportation Service Agreement Between San Diego Gas & Electric Company and Pacific Gas and Electric Company," which stated that "SDG&E agrees to deliver all gas transported under this amendment off PG&E's system, using the delivery point specified in Exhibit A attached to the original FTSA."[16] SoCalGas/SDG&E also correctly assert that, at the end of the Gas Accord period, SDG&E would have whatever delivery rights are afforded under Schedule G-XF. Schedule G-XF currently states, as it did then, that "Customer may nominate only to the Delivery Point set forth in Exhibit A to the Customer's FTSA."[17]

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[15] SoCalGas/SDG&E Opening Brief, p. 11.

[16] Ex. 18, Att. 1F, para. 7.

[17] Ex. 18, Att. 1E.

SoCalGas/SDG&E conclude their inaccurate recitation of history by implying that PG&E intended to grant SDG&E flexible delivery rights "at the end of the Gas Accord period" in 2003,[18] using the 1997 Exhibit A as a vehicle.[19] That claim is utterly unsupported and is flatly contradicted by the evidence and common sense. Although SoCalGas/SDG&E claim that it is "not by coincidence" that the latest Exhibit A appears to grant SDG&E two delivery points, SoCalGas/SDG&E fail to cite to any contemporaneous evidence that the *intent* of the parties in assigning capacity from SDG&E to Husky for a limited term was to also grant to SDG&E an on-system delivery right beginning in 2003. All record evidence demonstrates that the sole purpose of the 1997 Exhibit A was to assign a portion of SDG&E's capacity to Husky for a limited term. It is no accident that the letter from PG&E to SDG&E that accompanied the 1997 Exhibit A referred only to the partial assignment to Husky. It did not address any alleged addition of a second delivery point at the PG&E Citygate because SDG&E had never requested one and PG&E had not intended to grant one.[20] There is simply no evidence that suggests any intent on the part of PG&E or SDG&E to add an on-system delivery point.

3. This Is Not A Dispute Between SoCalGas/SDG&E's Core Customers And PG&E's Shareholders

SoCalGas/SDG&E argue that their core customers are "losing value" by virtue of SoCalGas's inability to deliver gas that it has already contracted for on-system.[21] On the other

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[18] The temporal gap between the end of the original Gas Accord I period (12/31/2002), and the effective date of the 1997 version of Exhibit A (8/1/03) underscores the strained reading that SoCalGas/SDG&E have to give this history in order to reach their conclusion that PG&E intended to grant SDG&E a Citygate delivery point at the end of the Gas Accord period.

[19] SoCalGas/SDG&E Opening Brief, p. 11.

[20] Ex. 18, Att. 1H.

[21] SoCalGas/SDG&E Opening Brief, p. 12.

hand, SoCalGas/SDG&E assert that, "PG&E is able to use this contracted but unused capacity to sell gas into its own citygate for the benefit of its shareholders."[22] SoCalGas/SDG&E are wrong.[23] If SoCalGas does not use its contracted capacity, that fact alone does not increase PG&E's on-system demand. All else constant, PG&E will continue to sell on-system transmission service up to the level of on-system demand. The pipeline capacity that PG&E is able to sell is not limited by capacity; it is limited by market demand. Thus, SoCalGas/SDG&E have not shown that PG&E's shareholders benefit from SoCalGas's contracted but unused capacity.

In any event, SoCalGas/SDG&E's attempt to turn this contractual dispute into a battle between SoCalGas/SDG&E's core customers and PG&E's shareholders should be rejected. First, there is no evidence in the record to suggest that SoCalGas/SDG&E's core customers — and not their shareholders — would benefit from being able to deliver gas at the PG&E Citygate. SoCalGas/SDG&E provide no evidence to support their assertion.

In addition, SoCalGas/SDG&E assert that PG&E is concerned "with a loss of shareholder revenue."[24] But this is not only a matter of concern to PG&E's shareholders, as evidenced by the number of Gas Accord V Settlement Parties that participated in hearings and joined PG&E's Opening Brief and this Reply Brief. In fact, PG&E's other backbone shippers are concerned about the possible impact on Noncore backbone rates of granting SoCalGas on-system delivery rights.[25] Tom Beach, witness for the non-PG&E Indicated Settlement Parties, testified

[22] SoCalGas/SDG&E Opening Brief, p. 4.

[23] PG&E's gas transmission line of business does not sell gas; it sells transmission service.

[24] SoCalGas/SDG&E Opening Brief, p. 11.

[25] PG&E and the non-PG&E Gas Accord V Settlement Parties do not agree on whether PG&E's shareholders or customers should bear the burden of any shortfall that results if the Commission

extensively about the potential impact on other backbone shippers of granting SoCalGas on-system delivery rights. As Mr. Beach explains, "If the Commission modifies the Settlement as SoCalGas requests and if the Commission raises the Settlement's backbone rates to allow PG&E to recover fully this loss in backbone revenues, then PG&E's backbone customers, including both core and noncore customers, would face higher rates totaling as much as $27.6 million over a four-year period in order to allow SoCalGas to have delivery rights in northern California. This would result in approximately a 3.0% increase in backbone rates compared to those in the Settlement," if customers bear the shortfall.[26]

SoCalGas/SDG&E are attempting to obtain a windfall (valued at up to $28 million over the Gas Accord V period), at the expense of PG&E and/or its customers. Whatever value SoCalGas ascribes to the right to deliver gas at the PG&E Citygate, and regardless of whether SoCalGas/SDG&E customers or shareholders would be the beneficiaries of that right, the only pertinent fact is that SoCalGas/SDG&E neither bargained for that right, nor paid any consideration for it. SoCalGas/SDG&E are being opportunists and are attempting to take unfair advantage of a mistake. The Commission should not endorse such behavior.

B. SoCalGas/SDG&E Should Not Participate In Revenue Sharing Or Receive Further G-XF Rate Reductions

1. SoCalGas/SDG&E's Attempt To Reap The Benefits Of A Settlement They Did Not Join Would Upset The Settlement Process

Despite the fact that they did *not* join in or support the Gas Accord V Settlement, SoCalGas/SDG&E identify two benefits of the Gas Accord V Settlement in which they would like to share. First, SoCalGas/SDG&E assert that they should be entitled to participate in

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were to grant SoCalGas on-system delivery rights. PG&E is addressing that issue in a separate brief, filed concurrently with this brief.

[26] Ex. 23, p. 5, lines 6-12.

revenue sharing. Second, SoCalGas/SDG&E seek to have the Commission arbitrarily lower the Gas Accord V Settlement G-XF rates by the same percentage that Noncore Redwood path rates were lowered between the proposed rates and the Settlement rates. In SoCalGas/SDG&E's own words, they seek a "fairer distribution of benefits."[27]

In order to settle a rate case of this magnitude, with many stakeholders holding sometimes divergent views, compromises must be made. The other Gas Accord V Settlement parties all made compromises in order to receive benefits out of the Settlement. Now, through contesting an otherwise uncontested settlement, SoCalGas/SDG&E seek a "distribution of benefits" under the settlement, without having had to make any compromises in other areas. SoCalGas/SDG&E's attempted cherry picking should be rejected.

Gas Accord V exemplifies the give and take of the settlement process. It took eleven months for PG&E and the 24 other Gas Accord V Settlement parties to reach agreement on a final settlement. During those negotiations, the parties struck compromises on numerous issues, and took on burdens in some areas in order to receive benefits in others. For example, one potentially contentious group of issues concerned the eligibility criteria for backbone level service and the competitive implications of the backbone level rate for electric generators. To avoid costly and time-consuming litigation of those issues, the Settlement Parties agreed that Moss Landing Power Plant Units 1 and 2 will receive a credit to their local transmission bill of $2.5 million in 2011. Of this amount, $2.4 million will be funded by customers, and $0.1 will be funded by PG&E shareholders. In addition, the Settlement Parties agreed to extend a comparable local transmission bill credit to four public entities who own power plants in northern California, totaling $260,000 in 2011. Of the $260,000 bill credit, $130,000 will be

[27] SoCalGas/SDG&E Opening Brief, p. 17.

funded by PG&E shareholders, and $130,000 will be funded by backbone level end-use customers.[28] These local transmission bill credits demonstrate the give and take of the settlement process needed to achieve a consensus settlement. PG&E and other customers (excluding SoCalGas/SDG&E[29]) took on the responsibility to fund the Local Transmission Bill Credits in order to avoid litigation and to achieve a compromise of contentious issues.

In contrast to the 25 Gas Accord V Settlement Parties, SoCalGas/SDG&E want only the benefits of settlement, without having to bear any of the burdens. Were the Commission to allow SoCalGas/SDG&E to succeed, it would undermine the integrity of the settlement process. Furthermore, allowing a party to avoid shouldering any of the burdens of a settlement by refusing to join, and also allowing that party to receive all the benefits of a settlement through litigation, would provide a powerful disincentive to parties to enter into settlements.

2. Allowing SoCalGas/SDG&E To Participate In Revenue Sharing, And Arbitrarily Reducing Settlement G-XF Rates, Is Contrary To Incremental Ratemaking For G-XF Expansion Service

Incremental ratemaking for Line 401 Expansion service supports both the exclusion of G-XF shippers from participation in revenue sharing, and the inappropriateness of reducing G-XF rates in the same proportion that Noncore Redwood rates decreased from proposed to settled rates.

As explained by PG&E witness Ray Blatter and Indicated Settlement Parties witness Tom Beach, and in PG&E and the Indicated Settlement Parties' Joint Opening Brief, G-XF rates are designed to collect costs exclusively associated with PG&E's Line 401 Expansion project,

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[28] Gas Accord V Settlement, Section 9.5.

[29] SoCalGas/SDG&E do not bear any of the burden of funding the Local Transmission Bill Credits. Gas Accord V Settlement Section 9.5.1; Ex. 18, p. 2-8, lines 8-11; Transcript, p. 1022, lines 7-11 (Van Lierop, SoCalGas).

and reflect the incremental cost of providing service on the Line 401 Expansion pipeline.[30] Incremental rate treatment for G-XF Expansion Shipper service on Line 401 was first established in the Commission decision that granted PG&E permission to construct the Line 401 Expansion. D.90-12-119, Finding of Fact Nos. 41 and 101.[31] The original Gas Accord settlement, approved by the Commission in Decision 97-08-055, provided for continuation of this G-XF ratemaking methodology for Line 401 firm shippers who continued taking G-XF service, such as SDG&E and its successor, SoCalGas.[32] Incremental rate treatment for G-XF Expansion Shipper service was also explicitly continued in Commission Decision 03-12-061 (conclusion of Law 57) for rates in effect in 2004, and has remained in place in the two subsequent Gas Accords (III and IV) that have been in effect since that time.[33]

Underscoring the incremental nature of G-XF rates is the fact that the system average load factor used to set Noncore backbone rates is *not* used to set G-XF rates. Noncore Redwood rates are based on a forecasted system average load factor. In contrast, G-XF rates are designed based on load factors of 100 percent for the reservation charge component and a 95 percent load factor for the usage component.[34] If SoCalGas/SDG&E believe that G-XF rates should include the benefits of the Noncore backbone rate design, then those rates should also be based on the system-average load factor.

SoCalGas/SDG&E witness Dr. Van Lierop attempts to call into question the incremental

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[30] Ex. 18, pp. 2-1, line 33 – 2-2, line 4; Ex. 23, p. 10, lines 3-4.

[31] Ex. 18, pp. 2-2, line 32 – 2-3, line 3; Ex. 23, pp.7, line 24 – 8, line 3.

[32] Ex. 18, p. 2-3, lines 3-6; Ex. 23, p. 8, lines 8-10.

[33] Ex. 18, p. 2-3, lines 6-9; Ex. 23, p. 9, lines 17-20.

[34] Ex. 18, p. 2-6, lines 11-15.

nature of G-XF rates, relying on three types of costs that are allocated to Expansion shippers: (1) new capital additions for four shared compressor stations (Tionesta, Burney, Gerber and Delevan)[35]; (2) administrative and general ("A&G") expenses; and (3) fuel costs. The allocation of these costs to G-XF shippers is entirely consistent with incremental ratemaking.

PG&E's allocation of new capital additions at the four shared compressor stations to Line 400 and Line 401 is consistent with incremental ratemaking. In fact, in the decision granting PG&E a certificate to construct and operate Line 401, the Commission ordered PG&E to allocate such costs to Line 400 and Line 401 *pro rata* based on the relative throughput of the capacities of the two lines. Decision 90-12-119, Conclusion of Law 15.[36] And, as witness Tom Beach explains:

> I think it would be consistent with the Commission's incremental rate approach. The fact is that Lines 400 and 401 are right next to each other. They share a number of compressor stations in common. So whenever there is work done on one of those compressor stations, the costs of that work have to be allocated between the two lines.[37]

Thus, allocating the costs of facility additions at the four compressor stations that are shared by both Line 400 and Line 401 is not contrary to incremental ratemaking; rather, it is required by incremental ratemaking.

The same holds true for fuel costs. PG&E charges in-kind fuel rates for its gas transmission services. These rates are set periodically through advice letter filings. Like all

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[35] In his testimony, Dr. Van Lierop refers to these shared compressor station capital additions as "common" backbone costs (*see, e.g.,* Transcript, pp. 1042, line 20 – 1043, line 2). This usage should not be confused with the term "common backbone costs" as it is typically used in Gas Accord settlements. The latter usage refers to the costs of PG&E's Bay Area Loop facilities and gathering facilities, and storage costs allocated to pipeline load balancing service (Ex. 18, p. 2-6, footnote 2), which are allocated to all backbone paths and services *except* G-XF service.

[36] Ex. 18, p. 2-3, lines 27-30.

[37] Transcript, pp. 1104, line 16 – 1105, line 4 (Beach, Indicated Settlement Parties).

other shippers, G-XF shippers have to pay in kind for the fuel they cause PG&E to consume when they transport gas on PG&E's system. The fact that G-XF shippers have to pay for their own fuel is not inconsistent with incremental ratemaking.[38]

Finally, under incremental rate design, G-XF shippers are appropriately allocated a share of A&G costs, because "there has been an allocation of those types of costs to Line 401 ever since that line went into service in the early '90s. So the Commission has always done that kind of allocation as part of its incremental rate policy for Line 401."[39] It is also worth noting that Line 401 is allocated only about one percent of the total GT&S A&G expense,[40] and G-XF shippers are allocated about one-tenth of that one percent.

SoCalGas/SDG&E also claim that the mere fact that G-XF rates and other backbone rates are "interrelated" implies that the G-XF rate design is not truly incremental. This claim is false. SoCalGas/SDG&E point to the fact that when the total G-XF contract quantities decrease in 2012 (due to expiration of the U.S. Gypsum contract), there is a corresponding decrease in the percentage of the Line 401 revenue requirement allocated to G-XF service. There is indeed such a decrease in the allocated revenue requirement, but this decrease supports a conclusion opposite to the one reached by SoCalGas/SDG&E. The decrease in allocated revenue requirement is proportional to the decrease in G-XF contract quantities and thus ensures that the G-XF *rate* is unaffected by the amount of G-XF contracts. This is exactly how an incremental rate should

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[38] Transcript, p. 1105, lines 8-20 (Beach, Indicated Settlement Parties).

[39] Transcript, pp. 1105, line 21 – 1106, line 10 (Beach, Indicated Settlement Parties). *See also* Decision 03-12-061, the last decision in which the Commission explicitly addressed the incremental ratemaking for G-XF shippers. Appendix A, page 2, column C, line 12 shows an allocation of A&G expenses to Line 401 ($1,554 thousand).

[40] Ex. 17, p. WP-145. Divide column F, line 12 ($614 thousand) by column M, line 12 ($48,564 thousand) to get 1 percent.

behave. The fact that *other* backbone rates increase when G-XF contracts decrease is merely a consequence of the consistent policy under the Gas Accord structure of allocating non-G-XF Line 401 costs to the Noncore Redwood path.[41]

The propriety of excluding G-XF shippers from revenue sharing is also rooted in the incremental nature of G-XF rates. Since G-XF rates have always been based strictly on Line 401 costs, G-XF shippers should not participate in the sharing of revenue under- or over-collections. Such under- and over-collections will derive from PG&E's non-G-XF transmission and storage services; to share them with G-XF shippers would amount to a departure from the incremental G-XF rate design.[42]

Furthermore, SoCalGas/SDG&E assert that "it appears that the proposed settlement's revenue sharing mechanism is designed to include revenues from G-XF contracts in revenue sharing."[43] SoCalGas/SDG&E misunderstand the mechanism. G-XF costs and revenues are in fact expressly *excluded* by the Gas Accord V Settlement in the calculation of any over- or under-collection to be shared with customers.[44] Therefore, other customers will not be benefitting from any overcollection in G-XF revenues over the adopted revenue requirement for G-XF service.[45] SoCalGas/SDG&E have offered no reason why G-XF shippers should benefit from any overcollections in storage, backbone or local transmission revenues to which they do not contribute.

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[41] Ex. 18, p. 2-6, lines 7-11.

[42] Ex. 23, p. 10, lines 4-9; Ex. 18, p. 2-8, lines 3-5.

[43] SoCalGas/SDG&E Opening Brief, p. 16.

[44] Transcript, p. 1218, lines 1-6 (Blatter, PG&E); Gas Accord V Settlement Agreement, Appendix C, Page C-3.

[45] Transcript, pp. 1103, line 23 – 1104, line 4 (Beach, Indicated Settlement Parties).

The incremental nature of G-XF rates also explains why the decrease in G-XF rates between proposed and settled rates is much smaller on a percentage basis than the decrease in Noncore Redwood rates between proposed and settled rates. As explained in the Joint Opening Brief of PG&E and the Indicated Settlement Parties, because G-XF rates are designed to recover the incremental costs of the Line 401 Expansion project, there is no reason why the percentage change in G-XF rates between proposed and settled rates should match the percentage change in Noncore Redwood rates between proposed and settled rates. In addition, there were many compromises reached with respect to backbone rates in Gas Accord V — such as load factor adjustments, consensus differentials between Baja and Redwood path rates, and a Backbone Rate Surcharge to recover a portion of the Gas Accord V Local Transmission Bill credits — that have no impact on G-XF rates. There is no justification for arbitrarily reducing G-XF rates by the same percentage that the Gas Accord V Noncore Redwood rates were reduced relative to PG&E's proposed Noncore Redwood rates. SoCalGas/SDG&E have offered no justification, aside from a self-serving statement that they are seeking a "fairer distribution of benefits." SoCalGas/SDG&E's naked attempt to receive a distribution of benefits from a settlement which they did not join and in which they bear none of the burdens should be rejected.

3. It Would Be Inconsistent With Prior Gas Accords To Allow SoCalGas/SDG&E To Participate In Revenue Sharing And To Arbitrarily Reduce G-XF Rates

The exclusion of G-XF shippers from the formal revenue sharing mechanism adopted in Gas Accord V is consistent with prior Gas Accords. While there has never before been a formal "revenue sharing mechanism" in prior Gas Accords, it is well-understood that backbone rates have been reduced in prior Gas Accords to account for expected excess Market Storage revenues. As explained by Mr. Beach:

> I think it is well-known that PG&E has had excess revenues from its storage market operations. And in past gas accord settlements the parties have essentially recognized that PG&E was making excess revenues from its market storage operations. And as a result, for example, the backbone rates have been set at a level that was lower than what they would have been set at absent those market storage revenues. And so in that way in past gas accord settlements there has been effectively revenue sharing for non-G-XF customers.[46]

The Revenue Sharing Mechanism in the Gas Accord V Settlement is a formalization of an informal revenue sharing mechanism that has been in place for many years. G-XF shippers did not participate in informal revenue sharing under prior Gas Accords in the form of reduced G-XF rates, and they should not participate in the formal Revenue Sharing Mechanism conceived in Gas Accord V.

Nor have prior Gas Accords included a reduction in G-XF rates equal to that for Noncore Redwood rates that SoCalGas/SDG&E seek. In fact, in Gas Accord III (the most recent settlement in which it is possible to compare filed to settled rates, because Gas Accord IV settled prior to filing), PG&E's proposed G-XF rate for 2005 was $0.246/decatherm.[47] The settled G-XF rate was $0.244/decatherm.[48] Compare this to the reduction in Noncore Redwood rates in Gas Accord III from a filed rate of $.359/decatherm[49] to a settled rate of $0.308/decatherm.[50]

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[46] Transcript, pp. 1100, line 17 – 1101, line 1 (Beach, Indicated Settlement Parties). *See also* Ex. 19, p. 22, lines 3 – 13.

[47] A.04-03-021, "Pacific Gas and Electric Company, Gas Transmission and Storage 2005 Rate Case, Errata to Prepared Testimony," Chapter 10 ("Cost Allocation and Rate Design"), Appendix 10-1, Table 3.

[48] Transcript, p. 1025, lines 5-14 (Van Lierop, SoCalGas/SDG&E).

[49] A.04-03-021, "Pacific Gas and Electric Company, Gas Transmission and Storage 2005 Rate Case, Errata to Prepared Testimony," Chapter 10 ("Cost Allocation and Rate Design"), Appendix 10-1, Table 9.

[50] D.04-12-050.

The 14.2% reduction between filed and settled noncore Redwood rates is a far cry from the 0.8% reduction between filed and settled G-XF rates. Yet, SoCalGas/SDG&E did not contest Gas Accord III. Previous Gas Accord settlements have not included the type of proportionate reduction in G-XF rates experienced by Noncore Redwood rates because G-XF rates are based on a simple incremental rate design that has fewer "moving parts" than other backbone rates and is unaffected by many of the issues typically resolved in a rate case. There is no justification for arbitrarily reducing G-XF rates (which are already far below settled Noncore backbone rates) in Gas Accord V.

C. The Critical Policy Decision Of Storage Posting Should Not Be Addressed In A Single Utility's Rate Case

SoCalGas/SDG&E argue that imposing the storage posting requirements that FERC requires on California storage providers is a "critical policy decision."[51] If that is true, then the question of what storage postings California storage providers should be required to make should not be decided in the context of a single utility's rate case that would only bind that single utility, to the exclusion of all of its competitors.

SoCalGas/SDG&E claim that they seek a Commission decision requiring PG&E to make the storage postings required by FERC in order to move towards "greater and more uniform transparency requirements for all California storage providers by starting with PG&E."[52] Due to the Commission's reluctance to impose additional storage posting requirements on other storage providers in northern California, however, these additional storage posting requirements may start *and end* with PG&E. As explained in the Joint Opening Brief of PG&E and Indicated Settlement Parties, SoCalGas/SDG&E did not raise the storage posting issue in the recent

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[51] SoCalGas/SDG&E Opening Brief, p. 27.

[52] SoCalGas/SDG&E Opening Brief, p. 20.

proceedings concerning expansion of the Wild Goose facility and the new construction of the Gill Ranch facility.[53] SoCalGas/SDG&E also failed to raise the storage posting issue in a timely manner in the Application for a Certificate of Public Convenience and Necessity filed by Sacramento Natural Gas Storage.[54]

SoCalGas/SDG&E also misunderstand the importance of the Central Valley Gas Storage ("CVGS") proceeding to PG&E's and the Indicated Settlement Parties' arguments. In the CVGS proceeding, SoCalGas/SDG&E argued that CVGS should be subject to the same storage posting requirements to which SoCalGas/SDG&E agreed. The Commission explicitly rejected SoCalGas/SDG&E's request.[55] PG&E does not rely on the CVGS decision as precedent for why additional storage posting requirements should not be imposed on PG&E. Rather, PG&E references the CVGS case as further evidence that PG&E may be the only storage provider in northern California subject to additional storage posting requirements for many years to come, were the Commission to grant SoCalGas/SDG&E's request here. Therefore, it is immaterial that SoCalGas/SDG&E were trying to impose on CVGS the storage posting requirements to which they agreed (rather than the FERC posting requirements), or that the reasons why additional storage postings were rejected in that case may not apply to PG&E. What matters is that SoCalGas/SDG&E's request was rejected, and CVGS is not subject to any additional storage posting requirements.

SoCalGas/SDG&E also argue that requiring PG&E to make the FERC storage postings would help customers be better informed. Yet, no customer of PG&E has indicated to PG&E

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[53] Transcript, pp. 1060, line 19- 1061, line 13 (Watson, SoCalGas/SDG&E).

[54] Transcript, p. 1064, lines 17-24 (Watson, SoCalGas/SDG&E).

[55] D. 10-10-001, pp. 34-35.

that PG&E should make any additional storage information available to the market. The witnesses on the panel for the Independent Storage Providers also testified that merely posting *ex post* prices is not as beneficial to customers as current price information and is, therefore, potentially misleading.[56] The Commission should look with skepticism on a request by an alleged competitor, and not a customer or regulatory body, for increased information disclosure in the name of "market transparency."

Nor has it been shown by SoCalGas/SDG&E that they compete with PG&E for storage customers. SoCalGas/SDG&E state that, "Customers for SoCalGas' unbundled storage services shop for competitive alternatives with northern California storage fields, including those owned by PG&E."[57] However, there is no evidence in the record supporting that assertion. In fact, it is belied by the evidence, which shows that, from January 1, 2005 through August 31, 2010, receipts at the SoCalGas receipt point at Kern River Station have averaged 0.09 percent of total PG&E on-system receipts. What this shows is that customers of SoCalGas are not purchasing storage services in northern California to serve southern California.[58]

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[56] Transcript, pp. 1157, line 9 - 1158, line 11 (Yadav, Wild Goose; Henderson, Gill Ranch).

[57] SoCalGas/SDG&E Opening Brief, p. 19.

[58] Ex. 18, p. 1-10, lines 24-28.

III. CONCLUSION

For the foregoing reasons, PG&E and the Indicated Settlement Parties urge the Commission to reject the arguments made by SoCalGas/SDG&E, and adopt the Gas Accord V Settlement without modification.

Respectfully submitted on behalf of all Indicated Settlement Parties under Rule 1.8(d),

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CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department, 77 Beale Street B30A, San Francisco, California 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On November 19, 2010, I served a true copy of:

REPLY BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY AND INDICATED GAS ACCORD V SETTLEMENT PARTIES

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for A.09-09-013 with an e-mail address.

[XX] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for A.09-09-013 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 19th day of November 2010 at San Francisco, California.

/s/ Amy S. Yu

Amy S. Yu

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