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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)

Application 09-09-013
(Filed September 18, 2009)

**PROTEST OF THE
NORTHERN CALIFORNIA GENERATION COALITION**

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October 26, 2009

to justify the positions proposed in the Application before a final Commission determination can be made.

Elimination of Local Transmission Bill Credits (Application, p. 6)

In its Application, PG&E proposes eliminating the LT bill credits that were part of the Gas Accord IV Settlement (A.07-03-012) (Application, p. 6). In its current Application, PG&E explains that the local transmission bill credit for Moss Landing and NCGC members was a product of the settlement process based on the respective litigation positions of the parties. In the Application PG&E also states, with little explanation, that it will unilaterally discontinue the previously agreed upon bill credits (Application, p.6, fn 4). NCGC is not aware of any material changes in the positions of the parties precipitating the LT bill credit in Gas Accord IV and seeks additional information on the facts and circumstances surrounding PG&E's proposal to eliminate the bill credit.

Revenue Sharing Mechanisms (Application, p. 11)

In its Application and supporting testimony, PG&E seeks to abandon the current rate structure that allocates excess revenue from PG&E's storage business to its backbone transmission business in the form of lower rates and replace that structure with PG&E's proposal "to share GT&S revenues in excess of adopted GT&S revenue requirements, as well as revenue shortfalls, equally (50/50 basis) with its customers. Excess revenues or shortfalls, would be returned or recovered through backbone rates in the following year" (PG&E Prepared Testimony, Ch. 9, p. 1, lines 21-24). Within the new 50/50 cost/revenue sharing rate structure, PG&E proposes "a new balancing account to track and recover differences between adopted and actual costs of electricity consumed in electric compressor units and a memorandum account to track differences between adopted and actual greenhouse gas (GHG) compliance costs." (*Id.*, p. 2, lines 1-4). The proposed new balancing accounts for electric compression and GHG costs will be excluded from the calculation of the new 50/50 cost/revenue sharing proposal (*Id.*, p. 8, lines 4-5).

In order to fully understand the requested change, PG&E must submit additional evidence and clarification on the following issues regarding this proposal:

- (i) Whether the proposed new rate structure provides any net benefit to

customers. The existing rate structure already accomplishes the goal of offsetting excess revenue collected from PG&E's GT&S business by reducing backbone rates charged to customers. PG&E seeks to end the perceived under-collection of actual backbone rate costs by increasing backbone rates to reflect actual expenses. In addition, PG&E wants to redirect excess revenue from its GT&S operations away from backbone rates into a new category subject to the 50/50 cost/revenue split proposed in the Application. On its face, this appears to only place more price risk on customers by de-coupling the direct benefit of excess GT&S revenue from discount backbone rates, and subjecting customers to direct risks related to decreases in revenue or increases in storage costs. NCGC is concerned that PG&E is proposing to shift more risk to its customers for costs and revenues which such customers have very little control over.

(ii) Whether electrification of compressors is a cost that customers should bear based on PG&E's desire to move away from the historical and efficient use of natural gas as a fuel source for compression pumping equipment. If the costs associated with the electrification of compression pumping equipment are deemed recoverable, NCGC questions the need for a separate balancing account to account for these costs. NCGC further questions the need to separate the costs from the proposed 50/50 cost/revenue sharing structure (PG&E Prepared Testimony, Ch. 9, p. 6-7).

The operating costs of providing compression for the system should be treated like all other O&M costs and should not be separated into a balancing account. Furthermore, PG&E is asking that the electricity cost balancing account be excluded from the 50/50 revenue sharing proposal thereby guaranteeing PG&E 100% recovery of the costs associated with its decision to move to electric compression. As presented, this is not a fair allocation of cost risk, and in order to justify this proposal, PG&E must provide more evidence. The price risk for electricity as a fuel source is far more severe than the risk associate with the in-kind gas fuel source backbone operators have historically been subject to.

(iii) Whether cost recovery for the anticipated but speculative GHG costs and expenses should be authorized at this time, and whether such funds should be recovered in a special memorandum account and excluded from the new 50/50 cost/revenue sharing structure being proposed by PG&E. GHG costs and expenses have yet to be determined

by this Commission² and the adoption of a memorandum account for these funds without more information is a potential “blank check” from ratepayers. Once again, the proposed memorandum account treatment excludes this cost category from the 50/50 revenue sharing proposal and allows PG&E 100% cost recovery. This is not an equitable sharing of risk for this potential cost category.

Backbone rates that are undifferentiated by path. (Application p. 13)

PG&E proposes to “equalize Core Redwood/Baja rates and to equalize Noncore Redwood/Baja rates.” (Application, p. 13) The stated reasons for undifferentiated rates on these paths are to encourage gas-on-gas competition and eliminate any bias or preference for gas supply sources based on PG&E’s backbone rates. (Application, p.13) PG&E states that it intends to spend significant amounts of money updating the Baja path between 2011 and 2014, making the rates for the Baja path significantly higher than the Redwood path. PG&E asserts that the best way to avoid this disparity is to equalize the rates on both paths, and intends to include “vintage line 400 capacity” (currently applicable to Redwood path) in the levelized rate structure and exclude the GX-F rates from this calculation. In addition, PG&E intends to further adjust the mechanics of the backbone rate calculation for a single customer, Pilkington North America (PG&E Prepared Testimony, Ch. 11, p. 12, lines 3-5).

More information about the undifferentiated rate structure is necessary to fully understand this proposal. In its description, PG&E seems to request a rate subsidy for Core customers on the Baja path to match the “vintage capacity” rate Core customers on the Redwood path enjoy (PG&E Prepared Testimony, Ch. 11, p 11, lines 1-9). PG&E also seems to be asking for a backbone rate subsidy for a single customer, Pilkington North America, whereas the in D.09-05-026, the Commission did not specifically authorize rate recovery for this discount.

In addition, it is unclear why PG&E would state “PG&E proposes to end its persistent under-recovery of backbone costs with this rate case” (Application p.10) but continue to advance a backbone rate structure that does not reflect true costs (a core customer rate subsidy for Baja customers to match the vintage capacity rate of Redwood

² Indeed, even final determination of the proposed AB32 Cost of Implementation Fee proposed by the California Air Resources Board has not been finalized.

customers and a backbone discount for a single customer). More evidence is necessary to justify PG&E's request.

Furthermore, the Application does not justify the request to pay the Baja path upgrade costs in advance of actual work being performed to the Baja path. In previous GT&S rate cases PG&E set its cost structure in anticipation of projects it ultimately did not complete during the rate case and was required to readjust rates for future periods to "return" the monies collected. The Commission should reconsider the pay-in-advance structure for both backbone and LT upgrades, and direct PG&E to recover its actual costs of these upgrades in future rate cases. Chapter 6 of PG&E's Prepared Testimony illustrates the sheer volume of tasks and costs associated with completing those projects within the short timeframe proposed in the Application. Capital projects and expenditures of this magnitude require a more detailed and thorough review to determine if they are appropriately scheduled, and if the cost estimates associated with the projects should be contained in this GT&S rate case or whether some projects and costs are better served to be included in future GT&S rate cases.

Same Day Operation Flow Orders (Application, p. 18)

PG&E seeks to significantly alter the current operating metrics for gas suppliers in its territory by changing the terms and conditions under which the utility can call an Operational Flow Order (OFO). As stated in the Application "PG&E's tariffs currently require PG&E to call an Operational Flow Order ('OFO') with noncompliance charges by 6:00pm pacific time ('PT') on the day prior to the day of gas flow ('Gas Day'). PG&E proposes to change its tariffs to allow it to call an OFO with noncompliance charges as late as 1:00 PM PT on the Gas Day." (Application, p. 18) This change would require a 19 hour time difference from the status quo which significantly impacts the operations of counter-parties and interferes with existing contract requirements. PG&E must provide additional information and supporting evidence to justify such a dramatic change in operating procedure. Many operators on the PG&E system have designed their operating procedures around the current deadlines and such a radical shift will undoubtedly cause market confusion.

In addition, PG&E's stated reason for this dramatic shift is an anticipated – and as yet unsubstantiated – belief that intermittent renewable resources will create demands on

natural gas fired generation and create additional “customer-driven pipeline inventory imbalances” (Application, p.19). As presented in the Application, these drastic changes are not warranted, and PG&E must provide more information in this proceeding to determine what historical data is available to support the utility’s theory about wild swings in intermittent renewable resources creating unwieldy demands on the natural gas infrastructure.

Another area to be examined concerning the proposed modifications to the current procedures for calling OFO orders is the potential for unanticipated incentives for PG&E, as a major on-system storage operator, to utilize the OFO process to its own advantage, and to the detriment of its customers.

III. SETTLEMENT PROCESS

Concurrently with the filing of the Application, PG&E initiated settlement discussions being conducted under CPUC Rule 12, in order to determine if any or all of the various issues raised in the Application can be settled between PG&E and interested parties without the need for evidentiary hearings. NCGC is an interested party and participant in the Settlement Discussions, and has participated in both of the Settlement Meetings held to date.³ NCGC wishes to work with PG&E and other interested parties in resolving the issues raised in this Protest, as well as other potential issues. However, since the Application was filed concurrently with the commencement of settlement discussions, NCGC is compelled to file this Protest raising issues that must be addressed and satisfactorily resolved before the Commission can approve the Application. To the extent that the issues addressed herein are not resolved through a settlement process, NCGC concurs with PG&E’s assessment that hearings will be necessary.

IV. REQUEST FOR PARTY STATUS

Pursuant to Rule 1.4 of the Commission’s Rules, NCGC requests active party status in this proceeding. NCGC is comprised of California cities and irrigation districts that own and operate natural gas fired electric generating facilities and are electric generation (“EG”) customers of PG&E. Thus, NCGC has a direct interest in the issues presented in the Application.

³ Settlement Meetings were hosted by PG&E on October 2 and October 22, 2009.

NCGC requests that the following individuals be added to the service list:

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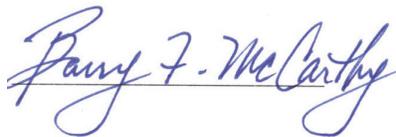
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V. CONCLUSION

NCGC raises these issues for the Commission's consideration in reviewing PG&E's Application in the event that an all-party settlement on the merits is not reached. For the reasons noted herein, NCGC also requests party status in this proceeding and asks that the undersigned be added to the official service list for A.09-09-013.

October 26, 2009

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rule of Practice and Procedure, I have this day served a true copy of the **PROTEST OF THE NORTHERN CALIFORNIA GENERATION COALITION** on all parties on the Service List for A.09-09-013, on the Commission's website on October 23, 2009, by electronic mail, and by U.S. mail with first class postage prepaid on those Appearances that did not provide an electronic mail addresses.

Executed at San Jose, California this 26th day of October, 2009.



C. Susie Berlin