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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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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)	Application 13-12-___

PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 G)
2015 GAS TRANSMISSION AND STORAGE RATE CASE APPLICATION

MICHELLE L. WILSON
LISE H. JORDAN
KERRY C. KLEIN

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-6965
Facsimile: (415) 973-5520
E-Mail: LHJ2@pge.com
KCK5@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

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I. INTRODUCTION

By this 2015 Gas Transmission and Storage ("GT&S") Rate Case Application, Pacific Gas and Electric Company ("PG&E") asks the California Public Utilities Commission (Commission or "CPUC") to increase PG&E's gas transmission and storage rates, effective January 1, 2015, to collect the revenue requirements necessary for PG&E to continue to provide safe and reliable service to its customers.[1/] Commission Decision ("D.") 11-04-031 (also known as the "Gas Accord V Decision"[2/]) ordered PG&E to file its GT&S rate case application for the period beginning January 1, 2015, by no later than February 3, 2014. PG&E is filing this 2015 GT&S Rate Case in advance of the February 3, 2014 deadline in order to provide for new rates, designed to recover PG&E's GT&S cost of service for the period January 1, 2015 through December 31, 2017, to be in place by January 1, 2015.

As explained by PG&E's Executive Vice President of Gas Operations in Chapter 1 of PG&E's accompanying testimony, PG&E is continuing down the path of minimizing risk and improving safety. The Commission has issued a Gas Safety Action Plan "to guide and promote

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1/ PG&E submits this application pursuant to Article 2 and Rule 3.2 of the Commission's Rules of Practice and Procedure.

2/ The Gas Accord V Decision set the revenue requirements, rates, and terms and conditions of service for PG&E's GT&S services for a four-year term, from January 1, 2011 through December 31, 2014.

the CPUC's shift in culture from the traditional compliance model to a regulatory structure that sets, monitors, and enforces rules for regulated utilities based on risk assessment and risk management." More recently, the Commission issued an Order Instituting Rulemaking to determine how best to ensure the use of risk-based decision-making in utility rate cases.

PG&E, too, has embarked on a journey towards a risk-based assessment of its gas transmission and storage assets, and an investment plan that allows PG&E to comply with Senate Bill ("SB") 705 by implementing a safety plan that is "consistent with best practices in the gas industry."[3/]

In order to achieve these ambitious goals, PG&E requests GT&S base revenue requirements of: $1.286 billion for 2015, $1.347 billion for 2016, and $1.515 billion for 2017. The forecast represents an appropriate balance among the desired risk reduction, value for the money spent, and our ability to execute the work during the rate case period.

In support of its forecast, PG&E provides the accompanying testimony on operating and maintenance expenses, capital expenditures, depreciation and rate base, throughput forecasts, cost allocation and rate design. The Commission should adopt PG&E's proposed revenue requirements and rates for 2015-2017. Doing so would enable the significant investment in people and assets necessary to identify, assess, and mitigate risks in PG&E's natural gas transmission system, and allow PG&E to continue to provide safe and reliable gas service. If PG&E's requested revenue requirements and rates are adopted, a typical residential customer using 34 therms per month would see an average monthly gas bill increase of $5.23 in 2015.

II. PROCEDURAL BACKGROUND

A. The Gas Accord Structure

The facilities that are the subject of this Application are those that have, since 1998, been governed by the Gas Accord structure. They are:

[3/] Pub. Util. Code §963(b).

- PG&E's backbone system, consisting of large-diameter, high-pressure transmission lines that receive gas from various interstate pipelines, California gas producers and storage fields, and then deliver that gas within California to end-users, to PG&E's local transmission system, and to off-system destinations;
- PG&E's local transmission system, which is interconnected with the backbone system and delivers gas to large end-use customers and to distribution facilities; and
- PG&E's underground storage facilities, which primarily ensure reliable service to Core customers, but which also provide system balancing service and Market Storage services to Noncore customers.

B. Gas Accord History

The Commission approved the original Gas Accord Settlement in D.97-08-055 (73 CPUC 2d 754). That original Gas Accord became effective March 1, 1998, with an initial term ending December 31, 2002. The Gas Accord structure unbundled PG&E's backbone transmission and storage services from its local transmission and distribution services, and further unbundled backbone service into four distinct paths. In D.02-08-070, the Commission approved a settlement extending for one year (through the end of 2003) the Gas Accord market structure, rates, and terms and conditions of service that were in place for 2002. This extension was referred to as the Gas Accord II Settlement.

For the period beginning January 1, 2004, PG&E filed a new GT&S rate case Application. Many parties participated and submitted testimony in that proceeding. Hearings were held, briefs submitted, and the Commission ultimately issued an extensive decision on the 2004 GT&S Application, in D.03-12-061. That decision reaffirmed the basic Gas Accord market structure and rules, based on a fully litigated case. The Commission also ordered PG&E to propose, for future periods commencing in 2005, a "backbone-level rate" for qualified end-use customers who receive gas service directly from PG&E's backbone transmission system.

On March 19, 2004, PG&E filed Application 04-03-021, proposing a new GT&S revenue requirement and rates for 2005. That proceeding was resolved via an all-party settlement known

as the "Gas Accord III Settlement," which the Commission approved in D.04-12-050. The Gas Accord III Settlement and associated rate and tariff changes provided for a continuation of the basic Gas Accord market structure for an additional three-year term, from January 1, 2005, through December 31, 2007. As required by the Commission's earlier decision in D.03-12-061, the Gas Accord III Settlement also established eligibility criteria and rates for a new backbone-level end-use service.

For the period beginning January 1, 2008, PG&E filed Application 07-03-012 on March 15, 2007, seeking Commission approval of the Gas Accord IV Settlement. The Gas Accord IV Settlement was unique in that it was achieved before PG&E filed its 2008 GT&S Rate Case Application. The Gas Accord IV Settlement was an all-party settlement, with all segments of the gas industry represented among the signatory parties. Consistent with the overall objective of the Gas Accord IV Settlement, rates were developed for 2008, 2009 and 2010 based on the 2007 Gas Accord III rates already approved by the Commission in D.04-12-050. In some instances, these 2007 rates were escalated, in others they were de-escalated, and in others they remained the same.

PG&E filed its 2011 GT&S Rate Case on September 18, 2009, proposing GT&S revenue requirements and rates for 2011 through 2014. The 2011 GT&S Rate Case resulted in a settlement with all but two parties. This "Gas Accord V Settlement" was submitted to the Commission on August 20, 2010, and approved the following year in D.11-04-031. Gas Accord V generally continued the Gas Accord market structure, and resulted in approved revenue requirements of $514.2 million for 2011, $541.4 million for 2012, $565.1 million for 2013, and $581.8 million for 2014. In addition, the Gas Accord V Settlement parties agreed for the first time to a revenue sharing mechanism for the period 2011-2014 that provided for differing levels of sharing, between customers and shareholders, of the difference between the adopted revenue requirement and recorded revenues according to the percentages in the table below.

Line No.	Function	Customer Share	Shareholder Share	Symmetrical?
1	Backbone	50%	50%	Yes
2	Local Transmission	75%	25%	Yes
3	Storage	75%	25%	No, upside only

In addition, the Gas Accord V Settlement included certain backbone and local transmission adder projects. An adder project is a capital project that would be included in rates only if the project is actually built and only starting on January 1 following the project's operative date. The negotiated adder projects were subject to a capital expenditure cap for ratemaking purposes during the 2011-2014 period.

Finally, the Gas Accord V Settlement encompassed a separate settlement reached between PG&E and several Core Transport Agents ("CTAs"), who raised numerous issues in the 2011 GT&S Rate Case. The agreement with CTAs covered three areas: (1) CTA Transmission and Storage Capacity Elections; (2) Consumer Protection Rules; and (3) PG&E System Enhancements.

The San Bruno explosion and fire occurred on September 9, 2010, during the pendency of the settling parties' joint motion to approve the Gas Accord V Settlement. As a result of a Commission request during the pendency of the joint motion for approval of the Gas Accord V Settlement, PG&E committed to spend the full amount that the settlement set aside for pipeline integrity activities and for pipeline safety and reliability efforts.

In addition, D.11-04-031 required PG&E to provide a Safety Report on a semi-annual basis detailing the pipeline and storage-related safety, reliability, and integrity capital projects and maintenance activities that are being undertaken by PG&E and to track the amounts spent on such projects and activities.

C. The Pipeline Safety Enhancement Plan

Decision 11-06-017, issued in the Gas Safety Rulemaking (R.11-02-019), required all California gas transmission operators to file a Natural Gas Transmission Pipeline Replacement or

Testing Implementation Plan to pressure test or replace all in-service natural gas transmission pipelines that have not previously been pressure tested. Decision 11-06-017 also indicated that priority should be given to addressing pipeline segments located in Class 3 and Class 4 locations and Class 1 and Class 2 High Consequence Areas ("HCA").[4/]

PG&E filed its Implementation Plan on August 26, 2011, proposing a scope of work, revenue requirements and rates for the 2011-2014 period. Among the work proposed for 2011 through 2014 was Pipeline Modernization and Valve Automation. Through the Pipeline Modernization Program, PG&E proposed to: (1) pressure test or replace all in-service natural gas transmission pipelines in Class 3 and Class 4 locations and Class 1 and Class 2 HCAs that do not have verifiable records of a pressure test; (2) set forth criteria on which pipeline segments are identified for replacement instead of pressure testing; (3) provide a priority-ranked schedule for pressure testing and replacement of pipe not previously pressure tested; and (4) set forth criteria for use in deciding to retrofit pipelines to allow for In-Line Inspection ("ILI") tools. PG&E developed a Pipeline Modernization Decision Tree that was designed to assess for threats at the pipe segment level.

The objective of the Valve Automation program is to minimize potential consequences of an extended duration natural gas-fueled fire created by a gas pipeline rupture by expanding the use of automated gas transmission pipeline system isolation valves ("automated valves"). PG&E proposed to install Remote Control Valves, which are remotely closed by operators in the Gas Control Center, in heavily populated areas. PG&E proposed to install Automatic Shut-Off Valves, which are automatically closed by local controls at the valve site, on pipelines in populated areas that traverse active earthquake faults where the fault poses a potentially significant threat to the line. During the 2011-2014 period[5/] covered by the PSEP, PG&E proposed to automate 228 valves.

[4/] D.11-06-017, *mimeo*, p. 20.

[5/] PG&E's August 26, 2011 PSEP filing referred to 2011-2014 as Phase 1. As discussed later in this Application, PG&E has incorporated the hydrotesting, pipeline replacement, ILI, and Valve Automation work that were features of PSEP as part of the scope of

The Commission issued D. 12-12-030 on December 28, 2012, approving PG&E's Pipeline Modernization Decision Tree, Pipeline Modernization scope of work, Valve Automation Decision Trees, and Valve Automation scope of work.[6/] The Commission adopted program-based upper limits on expense and capital costs to be recovered from customers through 2014.[7/] The Commission also required PG&E to continue to monitor industry experience with automated shut-off valves for possible revisions to its valve automation plans.[8/] The Commission ordered PG&E to file an application after the completion of its Maximum Allowable Operating Pressure ("MAOP") Validation Project and records search to present the results of those efforts, and update its authorized revenue requirements and related budgets, consistent with D.12-12-030.[9/]

On October 29, 2013, PG&E filed its PSEP Update Application (A.13-10-017), requesting a $52.7 million decrease in revenue requirements for 2011-2014 from those adopted in D.12-12-030, due to a net reduction in the scope of work for the pipeline modernization program based on records search work and MAOP Validation. The Valve Automation program was unaffected. The PSEP Update Application is pending.

GT&S work presented in this Application. Although this work in compliance with D.11-06-017 will continue, PG&E does not refer to this type of work as "Phase II" of PSEP.

6/ D.12-12-030, *mimeo*, p. 56.

7/ *Id.*, Conclusion of Law ("COL") 37.

8/ *Id.*, COL 12. PG&E addresses the state of the industry with respect to valve automation in Chapter 4A, "Transmission Pipe Integrity and Emergency Response Programs."

9/ D.12-12-030, *mimeo*, OP 11.

III. ASSET FAMILY FRAMEWORK AND 2015 GT&S RATE CASE STRUCTURE

The presentation of the 2015 GT&S Rate Case differs in some respects from prior GT&S Rate Cases. One of the primary differences is the structuring of the forecast around "asset families," discussed in more detail in Chapter 2, "Safety and Risk Management." In order to help better manage its assets, PG&E established separate asset families within its Gas Operations business, including:

(1) Transmission Pipe: This asset family includes the line pipe, valves and similar appurtenances. The scope of work and forecast for this asset family are discussed in Chapters 4, 4A, and 4B;

(2) Natural Gas Storage: This asset family includes measurement, controls, valves, transmission pipelines, and reservoirs and associated wells within the natural gas storage fields. The proposed work and cost forecasts for this asset family are discussed in Chapter 5;

(3) Compression and Processing: This asset family includes compressor stations and natural gas processing stations. The proposed scope of work and cost forecasts for this asset family are discussed in Chapter 6;

(4) Measurement and Controls: This asset family includes assets that measure and control the flow of gas. The proposed work and cost forecasts for this asset family are discussed in Chapter 6; and

(5) Liquefied Natural Gas ("LNG") and Compressed Natural Gas ("CNG"): This asset family includes portable LNG and CNG used to maintain delivery capacity to customers when delivery from the pipeline system is unavailable because PG&E is performing work in the area. The use of, and cost forecasts for, LNG and CNG are discussed in Chapter 4A.

In the accompanying testimony, PG&E presents its cost forecasts by asset families in Chapters 4 through 6. The remaining chapters with forecasted costs discuss programs that cross multiple asset families, including the Corrosion Control Program (Chapter 7), Operations and Maintenance (Chapter 8), Program Management Office (Chapter 9), Gas System Operations (Chapter 10), Information Technology (Chapter 11), and other GT&S activities, such as

buildings, tools and equipment (Chapter 12). PG&E presents its costs for the 2015 GT&S Rate Case by program. PG&E also presents its cost forecasts, as it has done in past rate cases, by Major Work Category ("MWC"). Tables showing PG&E's 2015 GT&S Rate Case forecast, by chapter, program, and MWC, can be found in Tables 3-2 and 3-3 at the end of Chapter 3, "Forecast Summary."

IV. SUMMARY OF REQUESTS

A. Commitment To Gas Safety And Risk-Based Approach

There have been several developments in the few years since Gas Accord V that have influenced the way in which PG&E planned the work presented in this 2015 GT&S Rate Case. First, the Commission declared an end to historic exemptions of "grandfathered" pipe from pressure testing in D.11-06-017, which required all California gas transmission operators to file an Implementation Plan to either pressure test or replace transmission pipelines that had not previously been pressure tested. Second, SB 705, codified in California Public Utilities Code sections 961 and 963, required gas corporations and the Commission to make public and employee safety "the top priority" and required gas corporations to develop a plan to "identify and minimize hazards and systemic risk" to protect the public and employees, and to develop safety plans that are consistent with "best practices in the gas industry."[10/] In addition, in March 2012, PG&E received a letter from the Commission's Executive Director directing PG&E to perform a risk assessment of its gas and electric distribution systems and electric generation facilities and to include in its 2014 General Rate Case ("GRC") application the risk assessments that form the basis for PG&E's GRC forecast.

The Commission then retained Cycla Corporation to review PG&E's 2014 GRC showing for its gas distribution assets. Cycla prepared a report that established a set of "evaluation criteria" that Cycla recommended be used to identify threats and risks and determine the appropriate risk control measures to be implemented. Cycla found that PG&E's showing for its

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[10/] Pub. Util. Code §§961 and 963.

gas distribution assets in the 2014 GRC partially satisfied that evaluation criteria and provided a reasonable foundation for fully satisfying the criteria in the future. Consistent with Cycla's recommendations, the Commission has now published a Gas Safety Action Plan "to guide and promote the CPUC's shift in culture from the traditional compliance model to a regulatory structure that sets, monitors, and enforces rules for regulated utilities based on risk assessment and risk management."[11/]

Recently, the Commission issued an Order Instituting Rulemaking to determine whether and how the Commission should formalize rules to ensure the effective use of a risk-based decision-making framework to evaluate safety and reliability improvements presented in rate cases ("Rate Case Plan OIR").[12/] The Commission indicated that it expects "an evolution in the way utilities identify safety and reliability risks and justify the value of investments and operations expenses in relation to how well those risks are mitigated."[13/] The Commission proposed requiring a utility to submit testimony in its rate case "detailing the technical state of the utility system, giving a risk assessment of its physical and operational system as well as an assessment of its risk tolerance, identifying areas of low risk and high risk, providing underlying reasons for the assessments, as well as explaining the metrics underlying its analysis."[14/] The Commission stated that its end goal is a framework to "better facilitate utility revenue requirements showings based on a risk-informed decision-making process that will lead to safe and reliable service levels that are in compliance with state and federal guidelines, rational, well-informed and comparable to best industry practices."[15/]

11/ http://www.cpuc.ca.gov/PUC/safety/Pipeline/Natural_Gas_Safety_Action_PlanApril2013.htm.

12/ Rulemaking ("R.") 13-11-006. Although primarily focused on utility General Rate Cases, the Order Instituting Rulemaking will also be applicable to PG&E's GT&S Rate Cases. Rate Case Plan OIR, *mimeo*, p. 7.

13/ *Id.*

14/ *Id.*

15/ *Id.*

PG&E's approach to incorporating risk management into this GT&S Rate Case dovetails with the course the Commission has set in the Rate Case Plan OIR. PG&E has implemented a risk-based approach to planning work on its gas transmission and storage assets, described in considerable detail in Chapter 2, "Safety and Risk Management." In brief, the Gas Operations line of business has adopted a risk management process that establishes a repeatable and consistent method to identify, assess, and mitigate risk. After the asset families were established, the Asset Family Owners created Asset Management Plans, describing the physical characteristics and location of the assets in each family, the risk assessment process, the level of maturity of the data collection effort, and a vision for the desired state of the asset. The Plans also identify the potential threats particular to the assets in each family, as well as the mitigation programs to reduce the risks posed by the threats. Risks are validated, calibrated and maintained in a Risk Register.

Next, the Asset Family Owner develops a prioritization of the mitigation programs with a view towards addressing the highest risk first. A prioritized list of mitigation measures for each asset family is provided to Investment Planning for further assessment. Then, Investment Planning works with Asset Family Owners and other key stakeholders to ensure a consistent risk-based prioritization across the asset families to develop an executable plan that takes into account constraints. This is an iterative process in which trade-offs are made between prioritization of risks and proposed mitigation programs across asset families. The result of this process is an Investment Plan, which is reviewed and approved by PG&E's senior management team.

B. Overview Of Revenue Requirements And Rates For 2015 Through 2017

In order to achieve the goals discussed above, PG&E forecasts costs that represent a significant increase from past requests. The increased forecast represents an appropriate balance among the desired risk reduction, value for the money spent, and our ability to execute the work during the rate case period of 2015-2017. Although this represents a significant increase over the spending included in current rates (under Gas Accord V and D.12-12-030), it is in line with

PG&E's actual spending over the past few years, and with PG&E's forecasts for 2013 and 2014. For example, PG&E forecasts that it will spend approximately $517 million in operations and maintenance ("O&M") expense, and $747 million in capital expenditures for GT&S and PSEP activities in 2014.[16/] The 2015 forecast for total O&M expense and capital expenditures represents a 13% increase over the 2014 forecast.[17/] This 2015 GT&S Rate Case is intended to put PG&E on a path to full rate recovery beginning in 2015 for investments made in its GT&S assets. In order to achieve that goal, PG&E requests GT&S base revenue requirements of: $1.286 billion for 2015, $1.347 billion for 2016, and $1.515 billion for 2017.

The following table summarizes PG&E's adopted 2013 and 2014 rates, and proposed 2015 through 2017 rates, which reflect the revenue requirements described above and the proposed policies set forth in this Application.

Summary of Transportation and Storage Rates[18/]

$/Dth, G-AFT @ Full Contract

				Proposed Rates		
Line No.		2013	2014	2015	2016	2017
1	Core Redwood	$0.232	$0.257	$0.460	$0.482	$0.544
2	Core Baja	$0.267	$0.297	$0.460	$0.482	$0.544
3	Noncore Redwood	$0.281	$0.298	$0.512	$0.543	$0.608
4	Noncore Baja	$0.316	$0.338	$0.512	$0.543	$0.608
5	Silverado/Mission	$0.167	$0.188	$0.323	$0.346	$0.386
6	G-XF	$0.191	$0.186	$0.204	$0.205	$0.204
7	Local Transmission-Core	$0.629	$0.680	$1.959	$2.109	$2.371
8	Local Transmission-Noncore	$0.295	$0.332	$0.875	$0.919	$1.057
9	Core Firm Storage	$0.123	$0.126	$0.175	$0.173	$0.180

16/ These estimates do not include certain categories of costs that will be borne by shareholders, including but not limited to costs associated with Right of Way Encroachment work.

17/ When 2014 forecasted spending is translated into a revenue requirement, the proposed 2015 GT&S revenue requirement is an approximate 7 percent increase over that amount.

18/ Backbone and Local Transmission rates in 2013 and 2014 include rates proposed in the PSEP Update Application, A.13-10-017.

C. PG&E Proposes Balancing Account Treatment for Noncore Revenues

PG&E proposes to maintain the basic Gas Accord structure for transmission and storage services. However, as described further in Chapter 10, "Gas System Operations," PG&E proposes that cost recovery no longer involve market incentives and less than complete revenue balancing account treatment. Rather, PG&E proposes that revenue collection be based on a 100 percent two-way balancing account. Any overcollections would be returned to customers and any undercollections would be paid by customers. We propose full balancing account protection for all transmission and storage revenues (except for Gill Ranch storage revenues) to eliminate incentives and better align with PG&E's goal of becoming the safest gas utility in the country.

This is not a wholesale change, but rather an incremental change to the current structure, which provides for two-way balancing for 100 percent of most Core revenues, 50 percent of Noncore backbone revenues, and 75 percent of Noncore local transmission revenues. Full balancing account treatment is also consistent with long-standing regulatory policy in California that encourages conservation and energy efficiency, by eliminating incentives to increase sales.

D. PG&E Proposes A Two-Way Transmission Integrity Management Balancing Account

PG&E proposes a two-way balancing account for Transmission Integrity Management costs. Chapter 4A describes the work and the cost forecasts to perform Transmission Integrity Management Program work during the 2015-2017 period. PG&E proposes to return to customers any unspent amounts at the end of 2017 through the Annual Gas True Up ("AGT"). However, if at any time during the funding cycle PG&E anticipates incurring costs above the total expenses and capital revenue requirements adopted for this program, PG&E proposes to file a Tier 3 advice letter detailing the additional costs so that the Commission and parties have an opportunity to review these additional costs.

Adoption of a two-way balancing account for Transmission Integrity Management Program costs is consistent with California law, and with similar treatment afforded to Southern California Gas Company ("SoCalGas"). Public Utilities Code §969 states:

> In any ratemaking proceeding in which the commission authorizes a gas corporation to recover expenses for the gas corporation's transmission pipeline integrity management program established pursuant to Subpart O (commencing with Section 192.901) of Part 192 of Title 49 of the United States Code or related capital expenditures for the maintenance and repair of transmission pipelines, the commission shall require the gas corporation to establish and maintain a balancing account for the recovery of those expenses. Any unspent moneys in the balancing account in the form of an accumulated account balance at the end of each rate case cycle, plus interest, shall be returned to ratepayers through a true-up filing. Nothing in this section is intended to interfere with the commission's discretion to establish a two-way balancing account.

Although the Public Utilities Code requires at least a one-way balancing account for Integrity Management costs, PG&E urges the Commission to adopt a two-way balancing account for PG&E's Transmission Integrity Management Program costs in order to ensure that Integrity Management work—which is critical to the safety of the pipeline—is adequately funded. Applying a risk-based decision-making approach to integrity management investments is an iterative process, requiring the flexibility to change investment decisions based on new information that alters the risk profile of PG&E's assets. The Commission recognized this in its Rate Case Plan OIR.[19/] Moreover, the Commission recently adopted two-way balancing account treatment for SoCalGas for these costs through its Integrated Transmission Balancing Account.[20/]

E. PG&E Proposes More Streamlined Reporting That Explains PG&E's Risk-Based Asset Management Approach To Its Investment Decisions

PG&E currently submits a variety of reports each year in response to many Commission requirements, covering virtually all aspects of its gas transmission and distribution activities. These requirements include varying levels of detail, and cover overlapping topics. As discussed in Chapter 13, PG&E recommends replacing the two largest reports, GT&S and Gas Distribution Semiannual Safety Reports, and PSEP Quarterly Compliance Reports, with a gas operations performance report that would include but not be limited to the following:

- Actual Capital Expenditures vs. Planned Capital Expenditures

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[19/] Rate Case Plan OIR, *mimeo*, p. 7.

[20/] D.13-05-010, *mimeo*, p. 1106, OP 19.

- Actual Expenses vs. Planned Expenses
- Gas Transmission Pipeline Inspection Plan and Project Status
- Pipeline Replacement (miles planned vs. actuals) and Project Status
- Valve Automation (planned vs. actuals) and Project Status
- Strength Testing (planned vs. actuals) and Project Status
- In Line Inspection Upgrades (planned vs. actuals) and Project Status
- Piggable Transmission Pipeline Segments

F. PG&E Proposes Core And Noncore Backbone Rates That Are Undifferentiated By Path

PG&E has two backbone paths available to shippers: (1) the Redwood Path (Lines 400 and 401), which allows customers to access Canadian gas supply sources; and (2) the Baja Path (Line 300), which allows customers to source their gas from southwest and Rocky Mountain supplies. In recent years, the marginal gas supply source has switched frequently between Canadian supply sources, and Rocky Mountain and southwest supply sources. The price differentials between Canadian and southwest supply sources may cause buyers to favor one basin over the other, depending on market conditions. As a result, there has historically been a price differential between the Baja Path and the Redwood Path.

Redwood and Baja rate equalization will benefit all PG&E customers by applying downward pressure to the price of gas at the PG&E Citygate. The Citygate price is typically set by the marginal supply source (currently the Baja Path). Absent rate equalization, the Baja transportation rate would be higher than the Redwood rate for both Core and Noncore customers, because the revenue requirement for the Baja Path is higher than the revenue requirement for the Redwood Path. This would tend to push Citygate prices upward relative to what they would otherwise be with equalized rates. Backbone path rate equalization is also supported by operational reasons, and is discussed further in Chapter 10, "Gas System Operations."

G. The Road From The Pipeline Safety Enhancement Plan To Mitigation Programs

As described above, PG&E filed its PSEP in August 2011, and a PSEP Update in October 2013, which set forth a comprehensive plan to strength test or replace all in-service natural gas transmission lines that have not previously been strength tested. PG&E has been executing its PSEP and reporting to the Commission on its progress on a quarterly basis. PG&E has implemented changes as a result of lessons from PSEP work done to date about how to better enhance the integrity of its natural gas transmission system using components of the plan, such as strength testing, pipeline replacement, valve automation, retrofitting to make pipeline segments capable of ILI, and running in-line inspections. These lessons are reflected in the mitigation programs discussed in Chapter 4; beginning January 1, 2015, PG&E is not forecasting work previously categorized as PSEP work separately from other GT&S work.

V. OTHER MATTERS RELATED TO PG&E'S APPLICATION

A. Administrative and General Expenses

As the Commission has explained, "A&G expenses are of a general nature and are not directly chargeable to any specific utility function. They include general office labor and supply expenses and items such as insurance, casualty payments, consultant fees, employee benefits, regulatory expenses, association dues, and stock and bond expenses."[21/] Since A&G expenses are general in nature and benefit the entire utility, A&G expenses are first estimated in total and then allocated among PG&E's Unbundled Cost Categories ("UCCs"), using labor ratios. PG&E's GRC is the forum in which the Company's total amount of A&G expenses and its allocations to UCCs are determined. Litigating the total company A&G expenses in one regulatory proceeding avoids duplicative efforts, and the potential for over- or under-recovery.

The total amount of A&G expense for the Company, and the amount of A&G expense to be allocated to the GT&S UCCs in 2015, will be based on the result of PG&E's 2014 GRC and any subsequent filings that may alter the allocation. Because PG&E filed its 2014 GRC on

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[21/] D.00-02-046, *mimeo*, pp. 243-244.

November 15, 2012, and does not anticipate a final decision until 2014, PG&E proposes in this Application that the A&G expenses included in the GT&S revenue requirement for 2015 serve as a placeholder only. PG&E will update the A&G expense in this Application after the Commission issues a final decision in PG&E's 2014 GRC. Once the 2014 GRC decision determines the amount of A&G expenses that should be assigned to non-GRC business areas, the revenue requirement will be updated with the GRC-adopted amount.[22/] The Commission adopted this approach for Gas Accord V in Decision 11-04-031. This approach maintains the GRC adopted amount at a level that avoids the potential for under- or over-recovery. The development of the A&G estimate is discussed in greater detail in Chapter 16, "Results of Operations."

B. Pension

PG&E will add the pension forecast associated with 2015, 2016 and 2017 outside of this case as a separate line item in Gas Preliminary Statement Part C. This will be implemented as part of the AGT filing and by advice letter as appropriate.

C. Post Test Year Ratemaking (Attrition)

With respect to PG&E's capital forecast, PG&E created "bottom-up" capital forecasts for each of the rate case years 2015, 2016, and 2017. Capital forecasts for each year are presented in each chapter that forecasts costs. By contrast, with the exception of 3 unique programs (In Line Inspection, Internal and External Corrosion Direct Assessment, and Hydrostatic Testing Station Facility – M&C), PG&E seeks an attrition ratemaking mechanism for expense for 2016 and 2017 designed to increase the Company's authorized revenues to reflect pre-determined increases in expenses to account for escalation of labor, and goods and services that PG&E needs to operate

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22/ In the event that a decision on PG&E's 2014 GRC is not available in time to reflect the GRC A&G amount in GT&S rates by January 1, 2015, PG&E requests that the Commission approve a balancing account mechanism to recover the difference between the adopted revenue requirement from the 2014 GRC and the revenue requirement used to set GT&S rates, including interest. The same approach was adopted in Gas Accord V. See Chapter 18 for more information.

its business. PG&E's post test year ratemaking proposal is discussed in greater detail in Chapter 18, "Cost Recovery and Post Test-Year Ratemaking Proposals."

D. Depreciation Study

PG&E engaged a depreciation expert to study PG&E's GT&S plant additions, retirements and net salvage data, to review current depreciation parameters and rates, and to recommend changes to those parameters and rates for its GT&S plant as appropriate. The depreciation study is described in Chapter 15A, "Depreciation: Service Life and Net Salvage Estimates."

E. Changes to Core Gas Supply's Capacity Assignments

As in prior GT&S Rate Cases, PG&E's Core Gas Supply Department proposes changes in the capacity allocations for the core customers in PG&E's Service Area applicable for this GT&S Rate Case period, effective January 1, 2015. The proposed changes include Redwood Path and Baja Path transmission capacities, as well as withdrawal capacity adjustments with PG&E's Core Firm Gas Storage. As a result of these changes, Core Gas Supply also proposes adjustments to the 1-Day-in-10-Year Core Capacity Planning Standard, and the Core Procurement Incentive Mechanism ("CPIM"). In addition, Core Gas Supply also proposes revisions to the methodology for allocating pipeline capacity between core providers (*i.e.*, PG&E's Core Gas Supply Department and CTAs). These proposals are discussed further in Chapter 19, "Core Gas Supply."

VI. ORGANIZATION OF PREPARED TESTIMONY

The accompanying Prepared Testimony is organized into 23 chapters addressing the following topics:

Chapter 1	Introduction and Policy
Chapter 2	Safety and Risk Management
Chapter 3	Forecast Summary
Chapter 4	Asset Family – Transmission Pipe
Chapter 4A	Transmission Pipe Integrity and Emergency Response Programs
Chapter 4B	Transmission Pipe Engineering Programs
Chapter 5	Asset Family – Storage
Chapter 6	Asset Family – Facilities
Chapter 7	Corrosion Control
Chapter 8	Gas Transmission Operations and Maintenance
Chapter 9	Program Management Office
Chapter 10	Gas System Operations
Chapter 11	Information Technology
Chapter 12	Other Gas Transmission and Storage Support Plans
Chapter 13	Reporting and Communications
Chapter 14	Throughput Forecast
Chapter 15	Plant, Depreciation Expense and Reserve, and Rate Base
Chapter 15A	Depreciation: Service Life and Net Salvage Estimates
Chapter 16	Results of Operations
Chapter 17	Cost Allocation and Rate Design
Chapter 17A	Backbone Load Factor
Chapter 18	Cost Recovery And Post Test-Year Ratemaking Proposals
Chapter 19	Core Gas Supply

A more detailed listing of the subjects addressed in each part of the Prepared Testimony is set forth in the Table of Contents to the Prepared Testimony.

VII. COMPLIANCE WITH THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE

This section of the Application complies with the relevant statutory and procedural requirements for applications established by the Commission's rules.

A. Statutory Authority

PG&E files this Application pursuant to Sections 451, 454, 701, 702, 728, 729, and 795 of the Public Utilities Code, the Commission's Rules of Practice and Procedure, and D. 11-04-031.

B. Categorization – Rule 2.1.(c)

PG&E proposes that this Application be categorized as a "ratesetting" proceeding.

C. Need for Hearing – Rule 2.1(c)

PG&E anticipates the need for hearings, and proposes a schedule in Section E, below.

D. Issues to be Considered - Rule 2.1(c)

The principal issues to be decided in this proceeding are whether:

1. The proposed revenue requirements for natural gas transmission and storage services for 2015 are just and reasonable.

2. PG&E's proposed post test year attrition adjustments for 2016 through 2017 are just and reasonable, and the Commission should authorize PG&E to implement the annual adjustments each year.

3. The proposed rates for gas transmission and storage services for 2015, 2016, and 2017 are just and reasonable.

4. PG&E's cost allocation and rate design proposals are just and reasonable.

5. PG&E's capital expenditures for capital assets with in-service dates between January 1, 2011 and December 31, 2014 should be rolled into PG&E's rate base as of January 1, 2015.

6. Full balancing account treatment for all GT&S revenues (excluding revenues associated with the Gill Ranch storage facility) should be authorized.

7. The proposed two-way balancing account for Transmission Integrity Management costs should be adopted.

8. PG&E's proposal to adjust for the difference between the costs filed in this Application and the costs ultimately adopted in certain separate proceedings should be adopted.

9. Redwood and Baja path rates should be equalized for Core and Noncore.

10. PG&E's proposal for a fifth nomination cycle at 9:00 PM Pacific Time for on-system storage and Citygate transactions is reasonable and should be adopted.

11. PG&E's proposal for adjustments and ongoing improvements to the Core Load Forecasting Model is reasonable and should be adopted.

12. PG&E's proposed changes to its Gas Transaction System are just and reasonable and should be adopted.

13. PG&E's proposals to reallocate storage assets for load balancing and to modify core storage injection and withdrawal rights are just and reasonable and should be adopted.

14. PG&E's proposal to replace the Gas Transmission Control Center's ("GTCC") Supervisory Control and Data Acquisition ("SCADA") system and to upgrade other information technology related to the GTCC is reasonable and should be adopted.

15. PG&E's throughput and demand forecasts described in Chapter 14 are reasonable and should be adopted.

16. Core Gas Supply's proposal to alter its capacity elections is reasonable and should be adopted.

17. Core Gas Supply's proposed adjustments to the 1-Day-in-10-Year Core Capacity Planning Standard are reasonable and should be adopted.

18. Core Gas Supply's proposed changes to the CPIM should be adopted.

19. Core Gas Supply's proposal to revise the methodology for allocating pipeline capacity between core providers (i.e., PG&E's Core Gas Supply Department and CTAs) is reasonable and should be adopted.

20. PG&E's proposal for reporting to the Commission should be adopted.

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E. Proposed Schedule – Rule 2.1(c)

PG&E proposes the following procedural schedule:

PG&E's Application	December 19, 2013
Notice of Filing in Daily Calendar	December 23, 2013
Informal Workshop	January 16, 2014
Protests to Application	January 31, 2014[23/]
Reply to Protests	February 10, 2014
Prehearing Conference	February 18, 2014
Discovery Begins	February 18, 2014
Scoping Memo Issued	March 3, 2014
ORA and Intervenors' Opening Testimony	April 18, 2014
Concurrent Rebuttal Testimony	May 16, 2014
Discovery Ends	May 19, 2014
Evidentiary Hearing Begins	May 27, 2014
Evidentiary Hearing Ends	June 6, 2014
Opening Brief	June 23, 2014
Reply Brief	July 9, 2014
Proposed Decision	October 17, 2014
Comments on Proposed Decision	November 17, 2014
Reply Comments on Proposed Decision	November 24, 2014
Final Decision	December 19, 2014

PG&E is committed to doing what it can to expedite this proceeding. To that end, PG&E has included in the above schedule an informal workshop that will be open to all parties, prior to the date that parties' protests are due. At this workshop, PG&E will provide parties with a roadmap of the filing, summarize the contents of testimony and workpapers, and answer questions. In addition, PG&E plans to discuss the proposed schedule with the other parties at the informal workshop, in advance of the pre-hearing conference.[24/]

23/ Concurrently with this Application, PG&E will file a motion requesting an extension of the response period under Rule of Practice and Procedure 2.6(a), to accommodate holiday schedules.

24/ PG&E also plans to discuss at the January 16, 2014 workshop PG&E's plan to file a request for a Commission order making GT&S 2015 revenue requirements effective January 1, 2015, in the event that a Commission decision is delayed past December 31, 2014. Although PG&E's proposed schedule will result in a final Commission decision by the end of 2014, PG&E intends to be proactive in addressing the uncertainty surrounding whether the Commission will issue a final decision by the end of 2014.

F. Legal Name and Principal Place of Business – Rule 2.1(a)

The legal name of the Applicant is Pacific Gas and Electric Company. PG&E's principal place of business is San Francisco, California. Its post office address is Post Office Box 7442, San Francisco, California 94120.

G. Correspondence and Communication Regarding This Application – Rule 2.1.(b)

All correspondence and communications regarding this Application should be addressed to Kerry C. Klein, Lise H. Jordan and Eileen Cotroneo at the addresses listed below:

Lise H. Jordan
Law Department
Pacific Gas and Electric Company
Post Office Box 7442
San Francisco, California 94120
Telephone: (415) 973-6965
Fax: (415) 973-5520
E-mail: LHJ2@pge.com

Overnight hardcopy delivery:
Lise H. Jordan
Law Department
Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, California 94105

Kerry C. Klein
Law Department
Pacific Gas and Electric Company
Post Office Box 7442
San Francisco, California 94120
Telephone: (415) 973-3251
Fax: (415) 973-5520
E-mail: KCK5@pge.com

Kerry C. Klein
Law Department
Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, California 94105

Eileen Cotroneo
Regulatory Manager
Pacific Gas and Electric Company
77 Beale Street, B9A
San Francisco, California 94105
Telephone: (415) 973-2751
Fax: (415) 973-9176
E-mail: EFM2@pge.com

H. Articles of Incorporation – Rule 2.2

PG&E is, and since October 10, 1905, has been, an operating public utility corporation organized under California law. It is engaged principally in the business of furnishing electric

and gas services in California. A certified copy of PG&E's Restated Articles of Incorporation, effective April 12, 2004, is on record before the Commission in connection with PG&E's Application 04-05-005, filed with the Commission on May 3, 2004. These articles are incorporated herein by reference pursuant to Commission Rule of Practice and Procedure 2.2.

I. Balance Sheet and Income Statement – Rule 3.2(a)(1)

PG&E's most recent balance sheet and income statement are attached as Exhibit A of this Application.

J. Statement of Presently Effective Rates – Rule 3.2(a)(2)

The presently effective gas rates PG&E proposes to modify are set forth in Exhibit B of this Application.

K. Statement of Proposed Changes and Results of Operations at Proposed Rates - Rule 3.2(a)(3)

The proposed changes and the Results of Operations at Proposed Rates are set forth in Exhibits C and D of this Application.

L. General Description of PG&E's Gas Department Plant - Rule 3.2(a)(4)

A general description of PG&E's Gas Department properties, their original cost, and the depreciation reserve applicable to these properties was filed with the Commission on November 15, 2012, in A.12-11-009, and is incorporated herein by reference.

M. Summary of Earnings - Rules 3.2(a)(5) and 3.2(a)(6)

PG&E's 2012 Summary of Earnings for PG&E's Gas Department, PG&E's Electric Department and all operating departments was filed with the Commission on September 30, 2013, in A.13-09-015, and is incorporated herein by reference.

N. Statement of Election of Method of Computing Depreciation Deduction for Federal Income Tax - Rule 3.2(a)(7)

A statement of the method of computing the depreciation deduction for federal income tax purposes was filed with the Commission on November 15, 2012, in A.12-11-009, and is incorporated herein by reference.

O. Most Recent Proxy Statement - Rule 3.2(a)(8)

PG&E's most recent proxy statement dated March 25, 2013 was filed with the Commission in A.13-04-012 on April 18, 2013. This proxy statement is incorporated herein by reference.

P. Type of Rate Change Requested - Rule 3.2(a)(10)

The rate changes proposed in this Application reflect changes in PG&E's base revenues to reflect the costs PG&E incurs to own, operate and maintain its natural gas transmission and storage facilities and to enable PG&E to provide adequate gas transmission and storage services to its customers.

Q. Notice and Service of Application - Rule 3.2(b)-(d)

Within twenty (20) days from the date of filing, PG&E will publish in newspapers of general circulation in each county in its service territory a notice of filing this Application, and will mail a notice describing this Application to the Attorney General of California, the Department of General Services, and the city and county governments within PG&E's service territory. A list of the cities and counties to which the Notice will be sent is attached to this Application as Exhibit E. A similar notice will be included in the regular bills mailed to PG&E's customers within forty-five (45) days of the filing date of this Application.

Because this is a new Application, a service list has not yet been established. However, PG&E will use the service lists from PG&E's Gas Accord V (A.09-09-013), and from the Gas Safety Order Instituting Rulemaking (R.11-02-019) as the initial service list for this case. A copy of these service lists are attached hereto as Exhibits F and G, respectively. PG&E will serve an electronic transmittal that provides a link to the website location of this Application and exhibits.

In addition, a Notice of Availability of the Application and exhibits, testimony and workpapers will be served in accordance with Rule 1.9(d) of the Commission's Rules of Practice and Procedure.

R. Exhibit List and Statement of Readiness

PG&E is ready to proceed with this case based on the testimony of witnesses regarding the facts and data contained in the accompanying exhibits in support of the revenue request set forth in this Application. A list of the exhibits to this Application precedes the exhibits, and a detailed description of the prepared Testimony accompanying this Application is contained in the Table of Contents to the separate volume of prepared Testimony supporting this Application.

VIII. REQUEST FOR COMMISSION ORDERS

PG&E respectfully requests that the Commission find that:

1. The proposed revenue requirements for natural gas transmission and storage services for 2015 are just and reasonable.

2. PG&E's proposed post test year attrition adjustments for 2016 through 2017 are just and reasonable, and the Commission should authorize PG&E to implement the annual adjustments each year.

3. The proposed rates for gas transmission and storage services for 2015, 2016, and 2017 are just and reasonable.

4. PG&E's cost allocation and rate design proposals are just and reasonable.

5. PG&E's capital expenditures for capital assets with in-service dates between January 1, 2011 and December 31, 2014 should be rolled into PG&E's rate base as of January 1, 2015.

6. Full balancing account treatment for all GT&S revenues (excluding revenues associated with the Gill Ranch storage facility) should be authorized.

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19. Core Gas Supply's proposal to revise the methodology for allocating pipeline capacity between core providers (i.e., PG&E's Core Gas Supply Department and CTAs) is reasonable and should be adopted.

20. PG&E's proposal for reporting to the Commission should be adopted.

PG&E further requests that the Commission grant such further relief as the Commission may deem proper.

Respectfully Submitted,

MICHELLE L. WILSON
LISE H. JORDAN
KERRY C. KLEIN

By: /s/ *Lise H. Jordan*
LISE H. JORDAN

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-6965
Facsimile: (415) 973-5520
E-Mail: LHJ2@pge.com
KCK5@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: December 19, 2013

VERIFICATION

I, the undersigned, state:

I am an officer of PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, and am authorized to make this verification for and on behalf of said corporation, and I make this verification for that reason. I have read the foregoing pleading and I am informed and believe the matters therein are true and on that ground I allege that the matters stated therein are true.

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

Executed at San Francisco, California, on December 17, 2013.

/s/ Nickolas Stavropoulos
NICKOLAS STAVROPOULOS
EXECUTIVE VICE PRESIDENT
PACIFIC GAS AND ELECTRIC COMPANY