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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 2015-2017.	A.13-12-012 (Filed December 19, 2013)

PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, and the schedule established by the January 17, 2014 Email Ruling of the Presiding Administrative Law Judge ("ALJ") granting PG&E's motion to extend the protest period, the Office of Ratepayer Advocates ("ORA") submits this timely Protest to the Application (A.13-12-012) of Pacific Gas and Electric Company ("PG&E") for Gas Transmission and Storage Services ("GT&S") rates for 2015.

II. BACKGROUND

A. Gas Accords

PG&E's Application was filed pursuant to the requirements of a settlement, the "Gas Accord V Settlement Agreement" ("Gas Accord V") of PG&E's previous GT&S rate case that the Commission approved in Decision (D.) 11-04-031.[1] Section 2.3 of Gas Accord V provided that "[t]he Settlement Parties expect that PG&E will file its next rate case no later than Monday, February 3, 2014."[2]

[1] D.11-04-031, Appendix A contains the "Gas Accord V Settlement Agreement." The Commission adopted the terms of Gas Accord V in D. 11-04-031, Ordering Paragraph 1, p. 69.

[2] D.11-04-031, Appendix A, Section 2.3.

The Application is the latest in a series of filings since Commission Decision ("D.") 97-08-055, in which the Commission approved a comprehensive multi-party settlement known as the Gas Accord, which significantly changed the market structure for gas transmission and storage services in northern California. Among other things, the Gas Accord created a system of firm tradable capacity rights for transmission service. The Gas Accord was implemented in 1998 and was originally set to expire on December 31, 2002.

On September 6, 2001, the Commission issued D.01-09-016 directing PG&E to file an application within 30 days proposing a market structure, rates, and terms and conditions of service for the period following the expiration of the Gas Accord. On October 9, 2001, PG&E filed an application proposing to extend the Gas Accord structure for a two-year period with no change in the terms of service. Under the PG&E proposal, the Gas Accord rates would not change during the two-year extension from the rates in effect December 31, 2002. DRA supported the request for a two-year extension. D.02-08-070 extended the Gas Accord for a one-year period through December 31, 2003.

In D.03-12-061, the Commission continued the general Gas Accord structure for another two years while adopting Gas Accord rates only for the year 2004. The Commission ordered PG&E to file an application to set gas transmission and storage rates for 2005. The Commission also ordered PG&E to file several rate design proposals that would provide a backbone-level rate structure for qualifying end-use customers who receive gas service directly from PG&E's backbone transmission system.

In 2004, the Commission issued D.04-12-050 approving an all-party settlement known as the Gas Accord III Settlement. The settlement extended the basic Gas Accord market structure until the end of 2007. Gas Accord III also established eligibility criteria and rates for a new backbone-level end-use service.

Gas Accord IV was an all-party settlement reached in 2008 which set the GT&S revenue requirements and rates, and implemented agreements on other issues, for the years 2008, 2009 and 2010. The settlement was reached before PG&E filed its 2008 GT&S rate case application. The Commission approved the settlement in D.07-09-045.

Gas Accord V was a settlement reached in 2010, agreed to by all but two parties, which set GT&S revenue requirements and rates, and implemented agreements on other issues, for the years 2011, 2012, 2013 and 2014. Gas Accord V increased the revenue requirement for 2010 of $461.8 million to $514.2 in 2011, $541.1 million in 2012, $565.1 million in 2013, and $581.8 million in 2014. Gas Accord V continued the basic market structure that has existed since the first Gas Accord, implemented a revenue sharing mechanism for various functions, included a few transmission adder projects subject to a cap on capital expenditures for ratemaking purposes, and contained an agreement with certain Core Transport Agents ("CTAs"). The Commission approved Gas Accord V in D.11-04-031.

B. Current Application

In the aftermath of the explosion and fire on PG&E's transmission pipeline on September 9, 2011, in San Bruno, California, the Legislature and Commission have increased their efforts to ensure that public utilities deliver their services in a safe manner. PG&E states that it is "continuing down the path of minimizing risk and improving safety"[3] and 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.'"[4] PG&E continues:

> 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.[5]

[3] Application, p. 1.

[4] *Id.*, p. 2, *citing* Pub. Util. Code § 963(b).

[5] Application, p. 2.

PG&E has modified its forecast in this proceeding compared to previous GT&S rate cases, structuring its forecast around "asset families."[6] PG&E is proposing: a balancing account mechanism for noncore revenues, discontinuing its current revenue sharing mechanism;[7] "a two-way balancing account for Transmission Integrity Management Costs;"[8] more streamlined reporting requirements to explain PG&E's "risk-based asset management approach to its investment decisions";[9] and equalization of rates on its Baja and Redwood paths.[10]

III. RATE CASE ISSUES

PG&E requests a 121% increase in authorized revenue requirement for 2015 over the authorized revenue requirement in 2014, and a 160% increase in authorized revenue requirement for 2017 over the authorized level in 2014. A proposed revenue increase of this size is extraordinary. A primary issue in this proceeding is reviewing whether or not PG&E, in estimating its revenue requirement, has appropriately considered risk and threats not only to its assets but also to the health and safety of the public and to property owned by third parties. PG&E must also adequately explain how the measures it is proposing addresses these risks and threats. The Legislature in promulgating new laws pertaining to safety priority "of the public and gas corporation employees" explicitly referenced the continued requirement of utilities to charge "just and reasonable" rates,[11] and utilities have always had the responsibility of ensuring the safety of their systems prior to San Bruno. PG&E's application and testimony contains grand statements

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[6] Application, p. 8.

[7] Application, p. 13.

[8] *Id.*

[9] *Id.*, p. 14.

[10] *Id.,* p. 15.

[11] Public Utilities Code Section 963(b) (3) states that "It is the policy of the state that the commission and each gas corporation place safety of the public and gas corporation employees as the highest priority. The Commission shall take all reasonable and appropriate actions necessary to carry out the safety priority of this paragraph consistent with the principle of just and reasonable cost based rates." Public Utilities Code Section 451 requires that all utility rates "be just and reasonable."

describing its new, improved and continually evolving approach to incorporating risk in its "investment decisions," but a lack of quantification underlying how its proposed spending reduces the risks it claims to have found and evaluated. For example, the absence of any workpapers accompanying Chapter 2 of PG&E's Testimony, "Safety and Risk Management," is significant and troubling, as PG&E explains but fails to quantify its proposed attempts to reduce risk on its system through its greatly increased spending.

PG&E's Application and Testimony misrepresents the reports of Safety and Enforcement Division Consultants Cycla Corporation ("Cycla") and Liberty Consulting Group ("Liberty") in PG&E's most recent and pending gas distribution and electric general rate case, A. 12-11-009, on PG&E's requirement to file a "Risk Assessment" in its application in that proceeding as directed by the March 5, 2012 Letter by the Commission Executive Director.[12] PG&E states that "Cycla found that PG&E's showing for its 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."[13] PG&E also noted that some of Liberty's recommendations regarding PG&E's electric system, which included a review of PG&E's joint budgeting process, were "equally applicable"[14] to PG&E's gas operations, and asserted that PG&E's current Application meets Liberty's recommendation that PG&E be more transparent in identifying safety risks and addressing such risks through specific means:

> We want the Commission and stakeholders to understand: the threats and risks our GT&S assets face; our understanding of those threats and risks and how we identified them; how we determined the appropriate risk mitigation measures, including the alternatives we considered; and how we determined the appropriate timeframe to achieve our risk reduction goals.[15]

[12] "PG&E should give a risk assessment of its physical system as well as a description of and a justification for the company's risk mitigation programs and policies." March 5, 2011

[13] Application, pp. 9-10.

[14] Prepared Testimony of Nickolas Stavropoulos, pp. 1-4.

[15] *Id.*, pp. 1-11.

However, both Cycla and Liberty pointedly noted that PG&E failed to provide the required risk assessment in their 2014 Gas Distribution and Electric GRC. Cycla stated PG&E's GRC filing did "not explicitly include such a risk assessment and justification of its risk mitigation programs and policies."[16] ORA believes this conclusion is applicable to the application in the current proceeding. Cycla's findings included: "PG&E's GRC filing does not present a clear logical linkage between safety risks and activities intended to control them,"[17] and that "PG&E's response to this directive [of a risk assessment] would be much easier to understand if the GRC filing included a section describing the linkage among: identified risks, the relative importance of these risks, activities designed to control these risks, costs associated with these control measures, and indicators PG&E proposes to monitor to evaluate the effectiveness of selected control measures."[18] ORA posits that the current application similarly lacks such a section. Liberty stated that "we could not assess whether the degree of risk reduction can be expected to reach a level considered satisfactory from customer, public, and employee perspectives. Nor could we apply any PG&E risk assessments to determine the appropriateness of related projects and programs and of the costs associated with them."[19] Again, ORA posits that the SED consultant's conclusions are similarly appropriate for the current application. Finally, Liberty's report explicitly stated that PG&E's own expectations of incorporating risk assessment into budgeting were that such efforts would not be completed even by the next Gas Distribution and Electric GRC filing in late 2015,[20] let alone by the late 2013 time of the filing of the current application. Rather than being transparent, PG&E's GT&S application and testimony are opaque as to how PG&E's budget process

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[16] Cycla Corporation, Evaluation of PG&E's 2014 Gas Distribution Filing, May 16, 2003 (A.12-11-009, Exhibit 167), pp. iii, 3.

[17] *Id.*, Finding No. 11, p. 61.

[18] *Id.*, p. 62.

[19] Liberty Consulting Group, Study of Risk Assessment and PG&E's GRC, May 16, 2013 (A.12-11-009, Exhibit 168), p. 19.

[20] *Id.*, pp. 55-56.

incorporates risk assessment and links specific risk reduction to programs with specific costs.

ORA reviews all the costs associated with all of PG&E's GT&S activities, safety-related or otherwise, for the purpose of determining a revenue requirement that allows PG&E to provide its service safely and reliably, as required by law and as ORA has always done. ORA is keenly aware of the consequences of the failure of PG&E to meet this obligation, and our recommendations are always made keeping safety in mind. But safety is not achieved merely by setting a larger revenue requirement, or by proclamations of the importance of safety. The Commission has numerous ratemaking options at its disposal to influence safety spending, in addition to considerable enforcement powers to ensure utilities meet their legal obligations. Assessing risk necessarily involves ranking threats and prioritizing resources to prevent or at least reduce the consequences of failure, and utilities and the Commission must explicitly connect spending to reduction of risk in GRCs. In addition to the PG&E 2014 Gas Distribution and Electric GRC, the Commission is considering issues regarding how General Rate Cases should incorporate risk-based decisionmaking in Rulemaking (R.) 13-11-006. While the current Application was filed before the resolution of those proceedings and the PSEP proceeding directly investigating the safety efforts and spending of PG&E's gas transmission section in the time leading up to the San Bruno explosion and fire, the Commission must consider the imminent decisions in these proceedings when it rules upon the current Application.

In addition to the issues identified above, ORA has identified the following issues raised by the Application. ORA reserves the right to raise additional issues that may be identified as ORA continues its examination and review of PG&E's proposed:

- revenue requirements for natural gas transmission and storage services for 2015, 2016 and 2017;
- the adherence to ratemaking policies adopted in D.12-12-030;
- post test-year attrition adjustments for 2016 and 2017;

- rates for natural gas transmission and storage services for 2015, 2016 and 2017;
- balancing account treatment for noncore revenues, and the discontinuance of its current revenue sharing mechanism for GT&S;
- cost allocation recommendations and rate design structures, including equalization of rates on its Baja and Redwood paths;
- two-way balancing account for Transmission Integrity Management Costs;
- more streamlined reporting requirements to explain PG&E's risk-based asset management approach to its investment decisions;
- tracking of PSEP costs /how PSEP costs are rolled in, abandonment of PSEP after 2014 and moving work into the Transmission Integrity Management Program;
- changes in Major Work Category (MWC) designations;
- corrosion control program costs of $100 million, as compared to $3 million in 2011;
- Administrative and General (A&G) Expenses;
- Operations and Maintenance (O&M) Expenses, including pipeline and station expenses, and costs associated with pipelines such as fees and permits;
- policy of continuing to programmatically reduce the Normal Operating Pressure (NOP) of its transmission systems;
- Information Technology (IT) costs and how various upgrades and replacements to telemetry and related systems enhance PG&E's ability to monitor and control its gas transmission and storage system;
- wholesale customer service program improvements, including replacement of the Gas Transaction System, institution of a fifth nomination cycle, and Customer Nomination redirect project;
- new pipeline facilities, including Line 407;
- Gas Transmission Control Center costs;
- pipeline transmission and storage marketing costs;
- increase in storage withdrawal and injection capacity;
- removal of leased compressors at the MacDonald Island Storage facility;

- GT&S Support System costs, including environmental operations;
- pension costs;
- depreciation;
- taxes;
- backbone load factor;
- reduction of intrastate pipeline capacity held for core customers.

IV. PROCEDURAL AND SCHEDULING ISSUES

ORA agrees with the designation of this proceeding as "ratesetting."

The Commission's Rate Case Plan governs this proceeding and provides for hearings in major general rate cases such as the current application. PG&E's proposed schedule provides for hearings to start on May 27, 2014, barely five months after the application was initially noticed.[21] The proposed schedule would have ORA and intervenor testimony due April 18, less than three months from now.[22] PG&E proposes a final Commission decision by the end of 2014, and states that "[a]lthough 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."[23] PG&E referenced a "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."[24]

The Gas Accord V does not mandate a decision by December 31, 2014, but rather explicitly provides for interim rates to be implemented in case approved rates are not

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[21] Application, p. 22.

[22] *Id.*

[23] *Id.*, p. 22 fn. 24.

[24] *Id.*

implemented by January 1, 2015.[25] While PG&E did meet the Gas Accord V requirement of filing its rate case by February 3, 2014, PG&E's proposed schedule fails to conform with the Rate Case Plan, which typically provides for a nine month period between a pre-filing or application of a GRC and ORA testimony. PG&E's filing of its current Application in late December, 2013, was later in the year than its most recent GT&S application, A.09-09-013, in September, 2009, which had a similar deadline in Gas Accord IV of February, 2010. PG&E's current filing was much later in the year than its most recent Gas Distribution and Electric GRC pre-filing in August, 2012 for A. 12-11-009. The Gas Accord V was not approved until April, 2011, and the Presiding ALJ has yet to issue a Proposed Decision in A. 12-11-009.

ORA proposes a reasonable, attainable schedule in which ORA and intervenor testimony is due September 26, 2014, approximately nine months after the filing of the Application, in conformance with the general rate case plan and recent GRC schedules. PG&E rebuttal testimony would be filed four weeks later, Friday October 24, 2014. Evidentiary hearings would start Monday November 10, 2014. Based on recent experience with rate case proceedings and the size of the rate increase and filing, ORA envisions many more hearing days than the nine provided for in PG&E's application (starting the day after the Memorial Day holiday weekend), and thus hearings would break for the week of Thanksgiving and resume the Tuesday after the holiday weekend:

[25] D.11-04-032, Appendix A, Gas Accord V, Section 2.4.

Friday Sept. 26, 2014	ORA/Intervenor Testimony
Fri. Oct. 24, 2014	PG&E Rebuttal Testimony
Monday Nov. 10, 2014 – Fri. Nov. 21,	Evidentiary Hearings
Tuesday Dec. 2 – Fri. Dec. 12	(as needed)
Fri. Jan. 16, 2015	Concurrent Opening Briefs
Fri. Feb. 6, 2015	Concurrent Reply Briefs

ORA's proposed schedule provides for a meaningful time frame for intervenor and Commission review of this exceptionally important and complex general rate case, involving new safety procedures and the largest revenue requirement increase in GT&S history. ORA's proposed schedule also should allow for consideration in ORA and intervenor testimony of the holdings in relevant, pending proceedings: PG&E's Gas Distribution and Electric GRC, A.12-11-009, which involves many similar safety and risk-related issues and will provide ratemaking guidance that should be applicable, at least in part, to this Application, as well as direct inputs to some rate elements; and the PSEP rulemaking and safety investigations [26] into PG&E's actions leading up to the San Bruno explosion and fire, which includes costs that flow into the current GT&S proceeding.

Moreover, as detailed in ORA's Motion to Hold in Abeyance the Proceeding Addressing the Application of Southern California Gas Company and San Diego Gas & Electric Company for Authority to Recover North-South Project Revenue Requirement in Customer Rates and for Approval of Related Cost Allocation and Rate Design Proposals in A. 13-12-013 for a period of nine months filed January 23, 2013, ORA and the Commission's gas staff are currently fully engaged in an abnormally large number of

[26] R.11-02-019. PG&E filed a PSEP update in A.13-10-017. Based on the PSEP decision in D.12-12-030, all increases in the revenue requirement authorized for the PSEP are subject to refund pending further Commission decisions in I.11-02-016, I.11-11-009, and I.12-01-007.

active, important natural gas proceedings. PG&E's proposed schedule is impossible for the Commission and parties to this proceeding to fulfill. ORA has not exaggerated the time it needs to process this application in its proposed schedule, and would vigorously oppose any schedule that would "split the difference" between ORA's and PG&E's proposals.

V. CONCLUSION

ORA respectfully recommends that this matter be set for evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this protest. ORA also requests that the Commission adopt a procedural schedule that provides adequate time for discovery, analysis, preparation of testimony and preparation for evidentiary hearings.

Respectfully submitted,

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