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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 (U39G)	Application 13-12-012 (Filed December 19, 2013)
And Related Matter	Investigation 14-06-016

NOTICE OF EX PARTE COMMUNICATION OF THE INDICATED SHIPPERS

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June 17, 2016

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NOTICE OF EX PARTE COMMUNICATION OF THE INDICATED SHIPPERS

Pursuant to Rule 8.4 of the California Public Utilities Commission's Rules of Practice and Procedure, the Indicated Shippers[1], hereby gives notice of an ex parte communication in this matter. The communication was initiated by Evelyn Kahl, on behalf of the Indicated Shippers, and was held on June 15, 2016, at 2:30 p.m. with John Reynolds, advisor to Commissioner Peterman, at the Commission's offices. Ms. Kahl reviewed the points on the attached handout and encouraged adoption of the modifications to the Proposed Decision proposed in the Indicated Shippers' comments. The handout is appended to this ex parte notice.

Respectfully submitted,

Evelyn Kahl

June 17, 2016

Evelyn Kahl
Counsel to the Indicated Shippers

[1] Member companies include Aera Energy LLC, Chevron U.S.A. Inc., Phillips 66 Company, Tesoro Refining & Marketing Company LLC and Shell Oil Products US.

ATTACHMENT

PG&E 2015 GT&S (A.13-12-012)

INDICATED SHIPPERS – JUNE 15, 2016

Modify the PD: (1) to remove application of the $850 million San Bruno Penalty disallowance to a separate phase; (2) to adequately address PG&E's risk management approach; and (3) to reduce ratepayer funding for certain Facilities, Corrosion Control and certain Transmission Pipe programs.

THE PD WOULD RESULT IN UNJUST AND UNREASONABLE RATES.

- Rate case decision excluding $850 million penalty results in: (Updated Tables J-1 and J-1A)
    - Industrial Transmission rates increase 84% by 2017 before amortization of the undercollection and 139% after amortization
    - Electric Generation Trans/Dist increases 186% by 2017 before amortization and 300% after amortization
- Application of $850 million penalty to CapEx has limited impact (Compare Updated Tables G-15A and J-1A)
    - Industrial transmission rate increase declines from 139% to 118%
    - Electric Generation Trans/Dist rate increase declines from 300% to 256%

MAINTAIN THE SCHEDULE OUTLINED IN THE JUNE 2015 SCOPING RULING, ISSUING A RATE CASE DECISION BEFORE CONSIDERING APPLICATION OF THE $850 MILLION SAN BRUNO PENALTY DISALLOWANCE.

- Phasing addresses the problem arising with the sequencing of the delay disallowance and the San Bruno Penalty disallowance. (See PD Table G-3, line 37)
  Phasing provides additional time to assess alternative scenarios, including allocation of a greater portion to expenses rather than capital.
- Phasing ensures greater transparency of the Commission's rate case decision.

MODIFY THE PD'S FINDINGS AND CONCLUSIONS REGARDING PG&E'S RISK MANAGEMENT APPROACH.

- Risk management merits greater analysis in the final decision.
    - The Commission required PG&E to present a risk-based application.
    - PG&E claimed that risk management was the foundation for its investment plan.
- Acknowledge that PG&E continues to make progress in refining its risk management approach and that further progress is expected in the Safety Model Assessment Proceeding.
- Find that PG&E's risk management approach does not provide sufficient information to determine the extent to which programs or projects are safety driven.
    - PG&E could not explain "which proposed activities were selected primarily to mitigate safety risk, versus to mitigate risk associated with other attributes." (IS Opening Brief § 2.6 beginning at 43)
    - PG&E instead claimed that "virtually every dollar that's spent on the gas network relates to safety," a characterization that confirms Liberty Reports GRC observation that PG&E "overused" the safety label in justifying its work. (IS Opening Brief § 2.6 beginning at 44)

- Find that PG&E's approach was materially flawed.
    - Overreliance on subjective inputs (IS Opening Brief §2.10 beginning at 67)
    - No risk tolerance or budget constraints (IS Opening Brief §2.9.1 at 53-58)
    - No optimization of the investment portfolio (IS Opening Brief §2.9.4 at 65-67)
    - Erroneous calculation of "likelihood of failure" (IS Opening Brief §2.9.2 at 58-62)
- Find that PG&E has not provided any means of gauging the safety benefits that will result from the substantial increase in ratepayer funding. (IS Opening Brief §2.5 at 33-40)
    - PG&E provided no objective or quantitative assessment of the risk reduction value of ratepayer dollars.
        - Testimony stated in some areas that risk reduction value had been quantified, but witnesses in cross examination said that there had been no quantification
        - PG&E implemented a form of risk reduction value quantification in 2000 for its transmission pipeline assets
    - PG&E articulated benefit subjectively: its investment portfolio "aims to provide the greatest level of risk reduction in the shortest amount of time while considering resource and execution constraints."
    - Ratepayers are being asked to bear unprecedented rate increases without an explanation of the level of benefit PG&E will achieve through the investments.
- Conclude that concerns raised regarding PG&E's risk management approach create uncertainty in finding that PG&E's revenue forecasts for specific programs and projects are reasonable, warranting a higher level of scrutiny in reviewing individual programs and projects.

FURTHER REDUCE RATEPAYER FUNDING FOR CERTAIN PROGRAMS.

- *Hydrostatic Testing of Transmission Pipe.* The PD states that PG&E shareholders should bear the costs of testing post-1961 pipelines with no pressure records but does not remove the costs of the associated 97 miles from the forecast. Removing these costs reduces test year expenses by an additional $34 M. (TURN Opening Brief at 100-103)

- *Facilities.*

    - The PD recognizes that the Engineering Critical Assessment (ECA) Phase 1 and Phase 2 programs "will allow PG&E to perform the scope of work contemplated to ensure that records for its C&P and M&P Stations are traceable, verifiable and complete." It finds that PG&E will be responsible for costs "to address station components installed on or after January 1, 1956…." Instead of excluding some of these costs, the PD authorizes PG&E's forecast subject to one-way balancing. One-way balancing is an important protection, but authorizing 100% of the revenue forecast in light of the magnitude of the pending rate increase is unreasonable. We propose a reduction in forecast expenses of $13.3 million for ECA 1 and $7.4 million for ECA 2 based on the age of PG&E's Facilities. (IS Opening Brief §§9.2 & 9.3 at 179-183); TURN Comments on PD at 6-8)

- The same issue arises with Critical Documents. The PD recognizes that the forecast of the "Critical Documents" program may include costs that are not just or reasonable: "it would be reasonable to conclude that some of the missing documents are due to deficient records and management practices." Instead of reducing the authorized revenues, however, it approves 100% of PG&E's forecasts subject to a one-way balancing account. We propose a $10 million reduction in expense applying the same principle applied to ECA 1 and ECA 2 disallowances. (IS Opening Brief §9.5 at 183-186)

- *Corrosion Control*. The record, including the Exponent Report commissioned by PG&E, leaves no doubt that PG&E has historically neglected corrosion control and in some cases has been non-compliant with regulations. Because corrosion is a time-dependent threat, simple logic suggests that neglecting work in the past has led to a greater cost to address corrosion today. The PD nonetheless largely adopts PG&E's forecast revenues for corrosion control programs. Additional reductions are necessary. (IS Opening Brief §10.1 at 192-202)

    - D.14-06-007 (Sempra PSEP R.11-11-002) concluded that "costs are just and reasonable when they have been prudently incurred by competent management exercising the best practices of the era, and using well-trained, well informed and conscientious employees and contractors who are doing their jobs properly." Applying this standard, and given the level of neglect in this area, none of PG&E's proposed corrosion work appears reasonable.

    - PG&E proposes to begin mitigating a backlog of over 300 unmitigated contacted casings, fully funded by ratepayers. Facts suggest PG&E's program has been non-compliant with PHMSA regulations by delaying action on identified casings; delaying action on a time-dependent threat can only increase mitigation costs. PG&E does not have adequate documentation of contacted casing corrective action. ORA's recommended disallowance of $46 million in expense and $20 million in capital should be adopted. (IS Comments on PD §VII.E at 18-19)

    - The Corrosion Investigation Program should have been implemented earlier because PG&E's program was out of compliance. Delay was imprudent and likely contributed to increased corrosion work. The associated $5.455 million in expense should be disallowed. (IS Comments on PD §VII.B at 16-17)

    - Similar problems were identified in other areas, including AC Interference, DC Interference, Atmospheric Corrosion, and Internal Corrosion. Expense disallowances of more than $26 million should be adopted. (IS Comments on PD §VII.C, F. & E at 17-19)