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

NORTHERN CALIFORNIA GENERATION COALITION NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rule 8.4 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, the Northern California Generation Coalition (NCGC)[1] hereby submits notice of the following ex parte communications.

On May 24, 2016, representatives of NCGC met with (1) Scott Murtishaw and Kenneth Koss, Advisors to President Picker, at 4:00 pm; and (2) with Rachel Peterson, Chief of Staff to Commissioner Randolph, at 4:30 pm. Both meetings took place at the Commission's offices at 505 Van Ness Avenue, San Francisco, California and were initiated by NCGC. Each meeting lasted for approximately thirty minutes. NCGC was represented by Gillian Biedler, Energy Resource Analyst, Northern California Power Agency (NCPA); Steve Hance, Senior Division Manager for Resources, City of Santa Clara, Silicon Valley Power (SVP); Gerry Stillwagon, Resource Planner, Modesto Irrigation District (MID); and Susie Berlin, counsel for NCGC.

Following introductions, Ms. Berlin noted that the Proposed Decision (PD), if not revised to correct the legal and factual errors, would result in rates that are neither just nor reasonable. The resulting rates would have a severe adverse impact on each of the NCGC members. She noted that the Turlock Irrigation District (TID) estimates that the differential between the electric generation-local transmission (EG-LT) and electric generation-backbone

[1] The members of NCGC are the City of Redding, the City of Santa Clara (doing business as Silicon Valley Power), Modesto Irrigation District, the Northern California Power Agency (NCPA), the Project Participant Committee of the NCPA Lodi Energy Center, and Turlock Irrigation District.

(EG-BB) rates that will result under the PD will lower TID's consumption in 2017 by almost 55% compared to 2015, resulting in a material reduction in the economic value of TID's power plants. Ms. Berlin also noted that based on the rates in Appendix G of the PD, the City of Redding anticipates a cost increase of approximately $1.15 million dollars for 2016. This is an impact of nearly $4.25/mwh and approximately 100% rate increase. Ms. Biedler noted that many of the publicly owned utilities that invested in the NCPA Lodi Energy Center are small municipalities who will have a difficult time absorbing the rate impacts from the increased gas transportation costs. Mr. Hance estimated that the PD would result in a $3.7 million adder to the gas transportation cost for SVP's 147 MW combined cycle power plant. This will require a $4 higher bid into the Cal ISO to cover marginal costs, which will reduce the dispatch of the facility. This will also result in higher local marginal prices in the region and a higher PG&E DLAP that will eventually be paid by all electric ratepayers. For SVP's peaker plants, the PD will cause the bid price of these facilities to increase by $7.50/MWh, and for their cogen facility it will cause them to raise their steam price to the Recycle Paper Mill by approximately $380,000 per year. Mr. Hance also noted that the since the PD incentivizes power plant construction closer to the backbone and further from load, SVP will also incur higher ISO transmission access charges to bring the electricity to its load. Mr. Stillwagon noted that MID has an annual throughput of 4.9 million Dth, which means a $2.9 million impact on MID. These costs will be borne by MID's approximately 118,000 customers, a large portion of which are lower-income, resulting in a substantial hit to the local economy, as well as MID.

Ms. Berlin noted that the PD is fundamentally flawed in that it treats the entire application like "business as usual," rather than the extraordinary case that it is and which even PG&E's own witnesses acknowledge it is. In doing so, the PD would adopt a cost allocation and rate design that results in rates that are not just and reasonable for all PG&E customers; the Commission cannot lawfully approve such rates. Ms. Berlin stated that the record shows that the underlying basis for the increased revenue requirement is directly attributable to the need to address safety on PG&E's entire system; the PD errs in relying on the existing rate design to allocate those costs since neither the local transmission cost allocation methodology nor the current EG rate design that was adopted as the result of a settlement process are adequate to address the sea change resulting from the need for additional safety spending.

NCGC noted that (1) the PD is based on a flawed analysis that does not separately acknowledge the incremental safety-related costs that are the basis for the significant revenue requirement requested in PG&E's application; (2) the PD errs in failing to provide any findings to support rejecting NCGC's proposal to allow LT-connected generators access to the backbone rate by revising PG&E's Gas Rule 1; (3) the PD unlawfully authorizes a rate design and cost allocation that will result in an unprecedented increase in EG-LT rates with an exponential increase in the differential in rates between EG-LT and EG-BB to the detriment of EG-LT customers; and (4) the PD errs in not reviewing the existing local transmission cost allocation methodology to more appropriately allocate costs associated with the incremental safety expenditures driving the enormous revenue requirement.

Ms. Berlin stated that the PD errs in failing to provide any analysis or findings to support rejecting NCGC's proposal to require PG&E to amend Gas Rule to allow LT-connected generators to connect to the backbone and receive the BB-rate. The PD also oversimplifies the ability of generators to access the BB-rate, since that option is currently only available to two LT generators.

The PD mischaracterizes NCGC's request. Ms. Berlin noted that NCGC is not proposing that backbone-connected generators share in the cost of local-transmission service, but that all EG customers share in the costs of PG&E safety upgrades, and that BB-connected EGs should not be the only class of customers that do not contribute to the extraordinary rate increase resulting from cost of safety-related projects.

Ms. Berlin also noted that the PD errs in rejecting proposals for alternative EG rate designs in the face of record evidence demonstrating the adverse and anti-competitive impacts of PG&E's proposal on LT-connected electric generators resulting from the significant differential between the transportation rates for local transmission- versus backbone-connected generators. PG&E's own throughput forecasts demonstrate that dispatch will shift from LT plants to BB plants. The PD errs in dismissing the impacts of this shift by relying on PG&E's PLEXOS; that analysis does not demonstrate that there are no significant impacts, and in fact, the results demonstrate that the large gas transmission price differential impacts EG capacity factors and therefore, their dispatch. What the study shows is that BB-connected units operated at higher capacity factors than LT-connected units under PG&E's proposed rate, and that under the same transportation rate for all EGs there was a much narrower margin. Mr.

Hance noted that the PD's reliance on this study to show that there is minimal impact on the actual operation is flawed because the study does not carry forward its assessment to the electricity markets, which it purports to do. The analysis only shows the results of a hypothetical single EG rate and the PG&E-proposed rate, but does not show the effects on the wholesale electricity market. Ms. Berlin pointed out that the witness testified that he was not familiar with the "merchant side of the house," and that his expertise was limited to resource planning and not the electric procurement perspective. The PLEXOS model was a very narrow study that does not support the PD's conclusion. It was also noted that the PD erroneously relies on incorrect inferences and errs in concluding that backbone-connected customers bear the equivalent of local transmission costs via the laterals that connect their plans to the backbone system. Mr. Hance stated that the laterals built to the backbone do not replace or displace costs that LT-connected customers must incur to connect their facilities to the local transmission system and there is evidence in the record to demonstrate these costs. NCGC acknowledged that SMUD has invested in lengthy laterals to the backbone, but Mr. Hance also noted that SMUD's position is unique.

Ms. Berlin reiterated that because the PD totally ignores the considerable increase in the rate differential between the EG-LT and EG-BB customers, as well as the rate impacts on EG-LT customers and record evidence regarding the adverse impact that results, the PD is legally flawed. The rate differential under the PD – even with the disallowances and $850 million penalty – is extreme, and the PD never addresses this disparity. Ms. Berlin also observed that the PD errs in attempting to dismiss the disparity by referencing the penalty amount, as the penalty should be determinative of whether PG&E's request and what the PD proposes, is reasonable or affordable.

Ms. Berlin noted that the PD's local transmission cost allocation analysis is similarly flawed in that it fails to acknowledged the significance of the safety-related costs that are the genesis for the extraordinary increase. The PD retains the *status quo* LT-cost allocation without addressing the fact that the significant rate increases are precipitated by the need to pay for the increased safety-related costs. NCGC proposed that the incremental costs associated with the additional safety measures be looked at separately, and allocated on a customer-count, and the PD errs in failing to address the distinction between the overall revenue requirement and the incremental safety-related costs.

Ms. Berlin expressed support for the PD's conclusions that PG&E shareholders should be responsible for the maximum disallowance under the Ex Parte Sanctions Decision and recommended that the PD be further clarified to ensure that this amount be calculated before the $850 million penalty is deducted. NCGC also supports the PD's conclusion that PG&E not be allowed to establish a two-way balancing account for Transmission Revenue Balancing Account.

May 27, 2016

Respectfully submitted,

C. Susie Berlin

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