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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company
for Authority, Among Other Things, to Increase
Rates and Charges for Electric and Gas Service
Effective on January 1, 2017. (U39M)

Application 15-09-001
(Filed September 1, 2015)

**JOINT COMMENTS OF
COALITION OF CALIFORNIA UTILITY EMPLOYEES,
ENVIRONMENTAL DEFENSE FUND, AND
PACIFIC GAS AND ELECTRIC COMPANY
ON THE SECOND CONTESTED ISSUE
IN THE SETTLEMENT AGREEMENT**

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I. INTRODUCTION AND REQUEST FOR COMMISSION ACTION

The Coalition of California Utility Employees (CUE), Environmental Defense Fund (EDF), and Pacific Gas and Electric Company (PG&E) hereby submit these comments on the second contested issue in the Settlement Agreement (the Agreement) submitted in this matter on August 3, 2016.^{1/} Specifically, these comments recommend that the Commission authorize a balancing account for requirements arising from the Commission’s gas leak abatement proceeding (Rulemaking (R.) 15-01-008).

II. THE COMMISSION SHOULD AUTHORIZE A BALANCING ACCOUNT FOR NEW GAS LEAK ABATEMENT REQUIREMENTS

A. Background

1. Senate Bill 1371 and the Establishment of R.15-01-008

In 2014, California passed Senate Bill (SB) 1371, codified in Public Utilities Code Sections 975, 977 and 978, which ordered the Commission to establish rules and procedures regarding pipeline operation, maintenance and repair to minimize the release of natural gas. In particular, Section 975(e)(4) requires the Commission to “[e]stablish and require the use of best practices for leak surveys,

^{1/} These comments are filed pursuant to Rule 12.2 of the California Public Utilities Commission’s (Commission or CPUC) Rules of Practice and Procedure, as well as the August 10, 2016 Assigned Commissioner’s Ruling and Second Amended Scoping Memo. Separately, PG&E is joining in comments filed by the Office of Ratepayer Advocates (ORA) on the first contested issue in the Agreement.

patrols, leak survey technology, leak prevention, and leak reduction.” The Commission opened R.15-01-008, the Leak Abatement OIR, in January 2015 to implement SB 1371.

The Commission divided the Leak Abatement OIR into two phases, Phase I to identify best practices, and Phase II to address ratemaking issues.^{2/} In connection with Phase I, the Commission has held workshops on leak abatement and emissions reduction practices that included all stakeholders, including gas operators, ratepayer advocates, labor representatives and environmental advocates. In March 2016, based on these workshops, the CPUC and the California Air Resources Board (CARB) published a Natural Gas Leakage Abatement Summary of Best Practices Working Group Activities and Staff Recommendations (Joint Staff Report).^{3/} CPUC and CARB staff proposed a number of “Mandatory Requirements and Best Practices.” These included a recommendation to “[c]onduct leak surveys of the gas distribution system outside business districts, every 3 years instead of every 5 years.”^{4/} Other recommendations include additional special annual, or even quarterly, leak survey of high-risk pipe, accelerated repair of Grade 2 or Grade 3 leaks, and scheduling leak repairs based on the size of the leak, rather than just the safety hazard it poses.^{5/} The Commission has not yet issued its final decision in Phase I. Phase II is scheduled to begin in the fourth quarter of 2016.^{6/}

2. PG&E’s GRC Forecast and Parties’ Positions

PG&E filed its GRC application before CPUC and CARB staff published the Joint Staff Report, so PG&E did not have the benefit of these recommendations when developing its GRC forecast. PG&E’s forecast did, however, include funding to perform a number of leak abatement/emissions reduction activities, including;

- Using the Picarro Surveyor;
- Performing leak survey on a minimum 4-year cycle;
- Performing annual leak survey of integrity management-identified high-risk pipe;

^{2/} R.15-01-008, *Scoping Memo of Assigned Commissioner* (July 24, 2015), p. 11.

^{3/} See Exh. (EDF-3-Attachment 2 to the Opening Testimony of Timothy J. O’Connor).

^{4/} *Id.*, p. 16.

^{5/} *Id.*, pp. 16 and 19.

^{6/} R.15-01-008, *Scoping Memo of Assigned Commissioner* (July 24, 2015), p. 18.

- Repairing Grade 2+ leaks within 90 days;
- Rechecking Grade 3 leaks within 15 months;
- Repairing most Grade 2 leaks within the same calendar year they are found;
- Repairing above-ground Grade 3 leaks; and
- Repairing a percentage of below-ground Grade 3 leaks to prevent an increase in the number of known, unrepaired leaks.^{7/}

Most of the leak management practices PG&E proposed in its testimony were supported by the parties providing testimony on leak management. The Utility Reform Network (TURN) and ORA, however, recommended that the Commission fund only a 5-year leak survey cycle, and TURN recommended against funding repair of below-ground Grade 3 leaks.^{8/} ORA's recommendation was based on the fact that regulations only require a 5-year survey, among other things, and ORA recommended that the Commission await the outcome of the Leak Abatement OIR before funding more frequent leak surveys.^{9/} TURN's recommendation regarding leak survey cycle was based on TURN's opinion that PG&E has failed to demonstrate that reducing the survey cycle is a cost-effective use of funds.^{10/}

CUE, on the other hand, based in part on the Joint Staff Report, and in part on PG&E's best practices benchmarking, recommended that the Commission fund a 3-year leak survey cycle now.^{11/} CUE also recommended that the Commission fund and require PG&E to perform annual leak survey of Aldyl-A pipe.^{12/}

EDF recommended that the Commission, in this GRC, ensure that PG&E has adequate funding to implement any new requirements the Commission adopts in the Leak Abatement OIR.^{13/} As EDF

^{7/} Exh. (PG&E-3), p. 6C-15, line 26 to p. 6C-16, line 25 and p. 6C-21, line 11 to p. 6C-28, line 2.

^{8/} Exh. (ORA-6), p. 29, lines 3-7; Exh. (TURN-2), p. 34, lines 18-22 and p. 39, lines 12-13.

^{9/} Exh. (ORA-6), p. 29, line 3 to p. 30, line 17.

^{10/} Exh. (TURN-2), p. 34, lines 18-19.

^{11/} Exh. (CUE-8-Errata to Prepared Direct Testimony of David Marcus), p. 48, line 12 to p. 50, line 13.

^{12/} *Id.*, p. 51, line 1 to p. 52, line 10.

^{13/} Exh. (EDF-1-Opening Testimony of Timothy J. O'Connor), p. 7, line 19 to p. 8, line 3 and p. 9, line 19 to p. 10, line 5.

explained, “the Staff Report contains known measures that natural gas utilities will most likely have to undertake during the rate period at issue in this proceeding. The recommendations in the [Joint] Staff Report were made after input from all the parties to the [Leak Abatement] proceeding and are not likely to change significantly.”^{14/} EDF also expressed strong support for a 3-year leak survey cycle.^{15/} EDF recommended that the Commission adopt a balancing account to enable PG&E to recover the cost of work that will be required in the Leak Abatement OIR above historical leak management costs.^{16/}

3. Section 4.2 of the Agreement

To resolve the differences discussed above, PG&E, EDF and CUE agreed that PG&E would support adoption of a minimum 3-year leak survey cycle in the Leak Abatement OIR.^{17/} (ORA opposes this provision of the Agreement.) Further, PG&E, EDF and CUE agreed that a New Environmental Regulatory Balancing Account (NERBA) should be adopted to enable PG&E to recover the costs of implementing measures adopted in the Leak Abatement OIR (i) to the extent that the work is incremental to the work PG&E already forecast in this GRC and (ii) only until such time as the Commission issues its Phase II decision on costs in the Leak Abatement OIR.^{18/} The NERBA would only facilitate recovery of costs to implement work that the Commission requires in the Leak Abatement OIR. (TURN, Collaborative Approaches to Utility Safety Enforcement, and the Consumer Federation of California oppose the above provisions.)

B. Discussion

Adoption of the proposed NERBA is reasonable in light of the record, consistent with law, and in the public interest. The NERBA does not decide whether PG&E should increase its leak survey cycle or implement any new leak abatement or emissions reduction practices. Rather, all it does is establish a mechanism whereby, if, in the Leak Abatement OIR, the Commission establishes new leak abatement/emissions reductions requirements, PG&E will have authorization to fund such new work

^{14/} Exh. (EDF-1-Opening Testimony of Timothy J. O’Connor), p. 9, lines 4-7.

^{15/} *Id.*, p. 15, lines 9-16.

^{16/} *Id.*, p. 18, line 17 to p. 19, line 9.

^{17/} Agreement, Section 4.2.1.

^{18/} Agreement, Section 4.2.2.

upon issuance of the Leak Abatement OIR decision, rather than being required to wait for another ratemaking proceeding.

Without the NERBA, there will be a gap between when the Commission identifies best leak abatement practices and when it authorizes funding to implement them. That gap could be years. TURN, for example, has taken the position in the Leak Abatement OIR that, after identifying best practices, the Commission should defer its cost recovery decision until the utilities' next GRCs, which in PG&E's case will be 2020 at the earliest.^{19/} The NERBA merely closes that gap by providing a mechanism to recover those costs that PG&E can demonstrate are, in fact, incremental to its 2017 GRC forecast, and only until such time as the Commission issues its Phase II decision in the OIR. Failing to close that gap – such that gas leaks were allowed to go undetected and unrepaired for longer than the Commission determines is “best practice” – would be contrary to the public interest as well as the legislative direction given to the Commission in SB 1371. The legislature has explicitly recognized the climate imperative to minimize leaks of methane – a powerful greenhouse gas. NERBA would allow PG&E to begin implementing best practices as soon as they are determined by the Commission.

There is ample legal authority for the Commission to adopt a balancing account to facilitate recovery of costs to comply with yet-to-be-known regulatory requirements. In Decision (D.)14-08-032, the Commission adopted a two-way balancing account for recovery of Federal Energy Regulatory Commission hydroelectric licensing and license implementation costs.^{20/} The Commission also adopted a two-way balancing account for costs associated with the Nuclear Regulatory Commission's (NRC) rulemakings resulting from the Fukushima Daiichi Nuclear Station incident.^{21/} As the Commission explained with respect to the NRC balancing account:

We agree...that the uncertainties associated with the effects of these NRC rules make it difficult to develop accurate forecasts. The future costs in these categories will be unclear until the NRC rulemakings are complete,

^{19/} See R.15-01-008, Comments of The Utility Reform Network on Joint Staff Report and Recommendations for Mandatory Requirements and Best Practices (May 6, 2016), p. 8 (“TURN recommends that the Commission identify a list of potential best practices, and require each gas corporation to provide the costs and estimated leak reduction benefits of each practice or procedure on its system in its next general rate case.”).

^{20/} D.14-08-032, *mimeo*, pp. 379-380 and p. 736, OP 25.

^{21/} D.14-08-032, *mimeo*, pp. 419-420 and p. 736, OP 26.

plant-specific requirements are clarified, and the implementing projects are scoped and estimated. The balancing account will provide a vehicle to cover PG&E's reasonably-incurred costs while ensuring that ratepayers do not pay for forecast costs that are not incurred associated with these activities.^{22/}

Even more on point, as part of the recent settlement of the Sempra utilities' 2016 GRC, the Commission adopted an analogous mechanism, also called the NERBA, for the Sempra gas utilities. While the multi-party settlement is not precedential, and is not cited herein as such, it provides another instance of the Commission using such a balancing account to achieve a legitimate public interest. The Commission there explained:

Since the settlement terms...do not prejudice what the Commission is doing in other proceedings, agree to continue ongoing discussions and negotiations regarding the abatement of methane leaks, and provide support for seeking the recovery of costs which exceed the [Leak Detection and Repair] forecast through the NERBA, the...Settlement Agreement is reasonable and should be adopted.^{23/}

The NERBA is in the public interest. By definition, it would only fund work that the Commission has already determined is a best practice and should be performed by PG&E and by all California gas operators. Once that work is identified, it is in the public interest to begin performing it as quickly as possible. The NERBA provides a reasonable mechanism to facilitate implementation of any leak abatement best practices the Commission should identify that are not already part of PG&E's 2017 GRC forecast.

III. CONCLUSION

For the reasons set forth above, CUE, EDF and PG&E respectfully request that the Commission authorize a balancing account for requirements arising from the Commission's gas leak abatement proceeding.

^{22/} D.14-08-032, *mimeo*, p. 420.

^{23/} D.16-06-054, *mimeo*, p. 140.

