

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



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In the Matter of the Application of Pacific Gas
and Electric Company for Recovery of Costs
of Gas Compressor Station Compliance with
AB 32

U 39 G

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**AB 32 GAS COMPRESSOR STATION COST RECOVERY
APPLICATION OF PACIFIC GAS AND ELECTRIC
COMPANY (U 39 G)**

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I. INTRODUCTION

By this Application and in compliance with the California Air Resources Board's (ARB's) AB 32 greenhouse gas (GHG) cap-and-trade rulemaking, PG&E asks the California Public Utilities Commission (Commission or CPUC) to authorize PG&E to increase natural gas rates and charges to collect the reasonable level of revenue requirements necessary for PG&E to recover the costs of compliance with AB 32 relating to PG&E's natural gas compressor stations as described in this Application and PG&E's prepared testimony. PG&E forecasts that the level of revenue requirements for AB 32 compliance by its gas compressor stations will be \$3.335 million in 2013 and \$4.268 million in 2014. PG&E will include the forecast of these GHG Costs in its Gas Transmission and Storage Rate Cases for recovery for periods after 2014.

In addition, because PG&E is likely to begin incurring these gas compressor station compliance costs effective January 1, 2013, the starting date for compliance with ARB's AB 32 cap-and-trade rule, PG&E requests that the Commission issue an interim order immediately in this proceeding, authorizing PG&E to establish a memorandum account to record its gas compressor station AB 32 compliance costs pending disposition of this Application for cost recovery on its merits.

II. SUMMARY OF COST RECOVERY PROPOSAL FOR GAS COMPRESSOR STATION AB 32 COMPLIANCE COSTS

California Assembly Bill (AB 32) requires the reduction of statewide GHG emissions to 1990 levels by 2020. As part of this legislation, the California Air Resources Board (ARB) has adopted a Cap-and-Trade regulation, which became effective on January 1, 2012. This regulation intends to establish a market-based price for GHG emissions and, over time, provide market signals for efficient resource utilization and procurement activities to reduce GHG emissions.

Compliance with the emissions cap established in the ARB Cap-and-Trade regulation begins in 2013 and is broken up into three compliance periods. The first compliance period—for the years 2013 through 2014—is scheduled to commence on January 1, 2013. Subsequent compliance periods will continue until January 1, 2020 or later. Covered entities in all three compliance periods include operators of any facility that annually emits at least 25,000 metric tons carbon dioxide equivalent (mtCO₂e).^{1/} As such, operators of facilities like PG&E’s natural gas compressor stations are required to obtain and surrender compliance instruments equivalent to the annual GHG emissions for each such facility.

PG&E is currently the owner and operator of six (6) natural gas compressor stations (“compressor stations”) that emit over the 25,000 mtCO₂e threshold.^{2/} These compressor stations are located along PG&E’s natural gas transmission pipelines in California. Compressor stations increase the pressure of natural gas in order to move it through transmission pipelines or into natural gas storage facilities. At gas-fired compressor stations, GHGs are emitted by the burning of some of that gas in order to run the compressors.

California Public Utilities Commission (CPUC or Commission) Decision 12-04-046 granted PG&E authority to procure GHG compliance instruments in accordance with the

^{1/} Units of GHG are typically measured in terms of mtCO₂e.

^{2/} For reporting year 2011, these compressor stations were: Burney, Delevan, Gerber, Hinkley, Kettleman, and Topock. PG&E also owns and operates an additional four compressor stations that emit under the 25,000 mtCO₂e threshold: Los Medanos, McDonald Island, Pleasant Creek, and Tionesta.

Decision and with PG&E's conformed GHG Procurement Plan (Plan), which was filed with the Commission on May 21, 2012. The conformed Plan stipulates that PG&E's Energy Procurement (EP) Department will procure GHG compliance instruments for all of PG&E's GHG emissions subject to Cap and Trade, including the emissions from compressor stations, and PG&E's Gas Transmission and Distribution (GT&D) Department^{3/} will account for the compliance instruments attributable to the operations of PG&E's natural gas utility, including gas compressor stations, at PG&E's weighted-average cost.^{4/} The plan further details PG&E's GHG obligations and Commission-approved GHG-related products and procurement processes, as well as its GHG procurement strategy. The products, procurement processes, and GHG procurement strategy establish the upfront achievable standards for PG&E's procurement activities consistent with AB 57.

PG&E requires compliance instruments for the emissions from its compressor stations that emit over the 25,000 mtCO₂e compliance threshold. This estimate is an average of the 2008-2011 emissions from these stations reported to ARB or to The Climate Registry (TCR), a voluntary GHG reporting program. Reports to both ARB and TCR are third-party verified.^{5/} TCR data was used when a facility's emissions were below the CARB compliance threshold. Since the total emissions from these stations do not vary significantly year over year, the forecasts for 2013 and 2014 are the same for purposes of this Application.

Per ARB's AB 32 cap-and-trade regulation, should a gas compressor station that is below the compliance threshold emit above the threshold in any compliance year, it would then have a compliance obligation for its emissions. Should a compressor station that is above the threshold

^{3/} PG&E's EP Department will only act as the buying agent for GHG Products requested by the GT&D Department for the limited GHG obligations associated with its gas compressor stations. A forecast of GHG position will be conducted by GT&D, who will then request a quantity of compliance products from the EP Department.

^{4/} Weighted-average cost is the weighted-average cost of PG&E's allowances and offsets in a given compliance year.

^{5/} The 2011 ARB reports have not yet completed third-party verification.

emit below the threshold for an entire compliance period, then that facility would no longer have a compliance obligation. In either case, PG&E’s GHG compliance instrument obligation need would be adjusted accordingly.

III. STATEMENT OF RELIEF AND AUTHORITY SOUGHT

A. Estimated Revenue Requirements

Table 2 sets forth PG&E’s estimated revenue requirements the first two years associated with this request (in millions of dollars), including Franchise Fees & Uncollectibles, calculated by multiplying an estimated cost of compliance instruments by the number of compliance instruments projected to be required. This amount will vary and be subject to annual true-up based on changes in compressor station emissions and the actual cost of AB 32 cap-and-trade compliance instruments procured.

Table 2		2013	2014
Annual Cost (\$ millions)		\$3,335,000	\$4,268,000

B. Cost Recovery

PG&E requests that the Commission approve the establishment of an interim Greenhouse Gas Compressor Station Memorandum Account (GHGCSMA) to record actual GHG compliance costs incurred by PG&E. This proposal is similar to the establishment of a memorandum account approved by the Commission for AB 32 implementation fee costs in Decision (D.)10-12-026. In this decision, the Commission recognized the fact that PG&E would incur AB 32 implementation costs prior to a final decision in Application (A.) 10-08-002 addressing cost recovery. D.10-12-026 allowed PG&E to establish a memorandum account “to record its expenditures for complying with AB 32 Fees before receipt of the first AB 32 Fee invoice.”^{6/}

As the owner of six natural gas compressor stations that meet the emissions thresholds for

^{6/} D.10-12-026, Conclusions of Law No. 2.

compliance obligations under AB 32, PG&E expects to incur GHG costs beginning January 1, 2013. Accordingly, PG&E requests that the Commission: (1) authorize the establishment of PG&E's proposed GHGCSMA upon the filing of this application; and (2) allow PG&E to record the actual GHG cost incurred in GHGCSMA, effective January 1, 2013 until a final decision in this application is issued.

Upon issuance of the final decision in this application, the GHGCSMA will be closed and the entire balance will be transferred to the Electric Cost Balancing Account (ECBA)^{7/} for recovery in rates.

PG&E further requests that the Commission authorize the creation of a subaccount within the Electric Cost Balancing Account (ECBA) to recover PG&E's GHG cost. The ECBA was established in D.11-04-031^{8/} to record the difference between the Gas Accord V Settlement adopted cost of electricity used by electric compressors needed to provide gas transmission and storage services and PG&E's recorded cost of electricity used by electric compressors needed to provide gas transmission and storage service.^{9/} Similar to the cost currently recorded in ECBA, the GHG costs described in this application are a mandatory operational cost that will be incurred by PG&E to operate gas compressor stations. PG&E proposes to create two subaccounts in the ECBA. One subaccount will be used to record the existing cost of electricity for electric compressors as established in D. 11-04-031. The second subaccount will be used to record PG&E's GHG cost associated with PG&E's gas compressors. In order to more accurately reflect the purpose of the ECBA, PG&E also proposes to revise the name of the ECBA to the Gas Operational Cost Balancing Account (GOBA).

PG&E requests that the Commission find its forecast revenue requirement associated with the GHG costs reasonable and authorize revenue recovery in gas rates beginning January 1,

^{7/} To be renamed to Gas Operational Cost Balancing Account (GOCBA) in this application.

^{8/} See D. 11-04-031, Appendix A, "Gas Accord V Settlement Agreement", Section 7.3.2.

^{9/} See PG&E's Gas Preliminary Statement CM.

2013. PG&E will record the difference between the Commission adopted forecast and actual GHG costs in a subaccount in ECBA (revised to GOBA) and consolidate it with the true-up of other authorized account balances in PG&E's Annual Gas True-Up (AGT) advice filings.

C. Reasons for Requested Relief

PG&E has provided detailed support for its request in this Application and the attached prepared testimony. In addition, PG&E's Application is supported by the facts and policies included in Decision 12-04-046 and in the ARB's AB 32 cap-and-trade rulemaking. The key reasons for the requested increase in revenue requirements are:

- To comply with the ARB's AB 32 cap-and-trade rulemaking as it applies to GHG emissions from PG&E's natural gas compressor stations; and
- To recover PG&E's reasonable costs incurred to comply with the ARB's cap-and-trade rulemaking as it applies to GHG emissions from PG&E's natural gas compressor stations.

D. Summary Supporting Increase

This Application and prepared testimony attached hereto provide a summary of the support for the increase in natural gas rates requested in this Application.

IV. COST OF CAPITAL/AUTHORIZED RATE OF RETURN

The Rate Case Plan requires a utility to "use the most recently authorized rate of return in its calculations" supporting its results of operations presentation.^{10/} Accordingly, PG&E has used the authorized cost of capital information set forth in Decisions (D.) 07-12-049 and 08-05-035.

V. REVENUES AT PRESENT RATES IN THE RESULTS OF OPERATIONS REPORT

PG&E's rates and charges for natural gas service are set forth in PG&E's gas tariffs on

^{10/} D.89-01-040; 30 CPUC 2d 576, 606.

file with this Commission. The Commission has approved these tariffs in decisions, orders, and resolutions. Exhibit B sets forth PG&E's present gas rates.

VI. EXHIBITS

PG&E's prepared testimony provides support for the Application.

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

A. Statutory Authority

PG&E files this Application pursuant to Sections 451 and 453 of the Public Utilities Code, the Commission's Rules of Practice and Procedure, and prior decisions, orders, and resolutions of this Commission, particularly Commission Decision No. 12-04-046.

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 that evidentiary hearings may not be needed. PG&E's proposed schedule is set forth in subsection E, below.

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

The principal issues are whether:

1. PG&E's Cost Recovery Proposal for Natural Gas Compressor Station AB 32 Compliance Costs complies with law and Commission orders and decisions.

2. The revenue requirements for PG&E's Cost Recovery Proposal for Natural Gas Compressor Station AB 32 Compliance Costs are just and reasonable and PG&E's Application should be approved.

E. Proposed Schedule – Rule 2.1(c)

File Application	June 18, 2012
Protests Due	July 18, 2012
Reply to Protests	July 30, 2012
Prehearing Conference	August 2, 2012
Scoping Memo	August 16, 2012
Draft interim decision on memo account issued	August 16, 2012
Opening comments on interim decision	September 5, 2012
Reply comments on interim decision	September 10, 2012
Interim decision on memo account	September 13, 2012
Proposed Decision on Merits	October 19, 2012
Opening Comments on Proposed Decision	November 8, 2012
Reply Comments on Proposed Decision	November 13, 2012
Decision on Merits	November 29, 2012

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 Christopher J. Warner and Daniel Patry at the addresses listed below:

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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 Rule 2.2 of the Commission's Rules.

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

PG&E's balance sheet and an income statement for the three months ending March 31, 2012, are contained in 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 in revenues are not in excess of one percent.

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

Because this submittal is not a general rate application, this requirement is not applicable.

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

Exhibit C shows for the recorded year 2010, the revenues, expenses, rate bases and rate of return for PG&E's Electric and Gas Departments.

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

Because this submittal is not a general rate application, this requirement is not applicable.

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

Because this submittal is not a general rate application, this requirement is not applicable.

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

This proposed change reflects changes in PG&E's base revenues to reflect the costs PG&E incurs to own, operate and maintain its gas plant and to enable PG&E to provide service to its customers.

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

Within twenty (20) days after filing this Application, PG&E will mail a notice stating in general terms the proposed revenues, rate changes, and ratemaking mechanisms requested in this Application to the parties listed in Exhibit D, including the State of California and cities and counties served by PG&E. A copy of the Application and attachments is being served on the parties of record in R.10-05-006 and A.09-09-013.

PG&E will publish in newspapers of general circulation in each county in its service territory a notice of filing this Application. PG&E will also include notices with the regular bills

mailed to all customers affected by the proposed changes.

R. Exhibit List and Statement of Readiness

PG&E is ready to proceed with this case based on the Application and the prepared testimony in the accompanying exhibits in support of the revenue request set forth in this Application.

VIII. REQUEST FOR COMMISSION ORDERS

PG&E requests that the Commission issue appropriate orders:

1. Finding that PG&E's Cost Recovery Proposal for Natural Gas Compressor Station AB 32 Compliance Costs complies with law and Commission orders;
2. Approving PG&E's revenue requirements requested in this Application as just and reasonable, and
3. Granting such additional relief as the Commission may deem proper.

Respectfully Submitted,

CHRISTOPHER J. WARNER

By: _____ /s/
CHRISTOPHER J. WARNER

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Dated: June 18, 2012

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PACIFIC GAS AND ELECTRIC COMPANY

