

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF CALIFORNIA



**FILED**

02/13/19  
04:59 PM

Order Instituting Investigation on the  
Commission's Own Motion to Determine  
Whether Pacific Gas and Electric Company  
and PG&E Corporation's Organizational  
Culture and Governance Prioritize Safety

I.15-08-019

---

**OPENING COMMENTS OF SHELL  
ENERGY NORTH AMERICA (US), L.P.**

---

John W. Leslie  
Dentons US LLP  
4655 Executive Drive, Suite 700  
San Diego, California 92121  
Tel: (619) 699-2536  
Fax: (619) 232-8311  
E-Mail: [john.leslie@dentons.com](mailto:john.leslie@dentons.com)

Date: February 13, 2019

Attorneys for Shell Energy North  
America (US), L.P.

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF CALIFORNIA

Order Instituting Investigation on the  
Commission's Own Motion to Determine  
Whether Pacific Gas and Electric Company  
and PG&E Corporation's Organizational  
Culture and Governance Prioritize Safety

I.15-08-019

---

**OPENING COMMENTS OF SHELL  
ENERGY NORTH AMERICA (US), L.P.**

---

In accordance with the "Assigned Commissioner's Scoping Memo and Ruling," dated December 21, 2018, and consistent with the extension of time granted by the Presiding Administrative Law Judge pursuant to Rule 11.6, Shell Energy North America (US), L.P. ("Shell Energy") submits its opening comments in the Commission's investigation ("OII") into the organizational culture and governance of Pacific Gas and Electric Company ("PG&E").<sup>1</sup> In its opening comments, Shell Energy advances an alternative to PG&E's current corporate structure that, if adopted, will enhance the Commission's ability to ensure safe and reliable service on the PG&E system.

---

<sup>1</sup> Shell Energy filed a motion for party status in this proceeding on January 22, 2019. Shell Energy's motion was granted in a Presiding Judge's Ruling issued on February 8, 2019.

Specifically, PG&E's regulated utility functions should be limited to natural gas and electric transmission and distribution services. PG&E's procurement of natural gas, and its procurement and generation of electricity, should be separated from its monopoly utility functions. Limiting PG&E's regulated utility service to its "pipes" and "wires" business will enable the Commission to focus greater attention on the safety, reliability and cost-effectiveness of PG&E's transportation-related services provided through the operation of its monopoly assets.

## **I.**

### **INTRODUCTION**

The Scoping Memo states that the Commission will examine, in the next phase of this OII, PG&E's "current corporate governance, structure, and operations to determine if the utility is positioned to provide safe electrical and gas service . . . ." Scoping Memo at p. 2. The Scoping Memo states further that the Commission "will review alternatives to the current management and operational structures of providing electric and gas service in Northern California." *Id.* The Scoping Memo proclaims: "[T]he Commission must evaluate whether there is a better way to serve Northern California with safe and reliable electric and gas service at just and reasonable rates." *Id.* at p. 8.

Among other issues, the Scoping Memo solicits comments on whether PG&E's gas and electric distribution and transmission divisions should be separated into separate companies. Scoping Memo at p. 11. The Scoping Memo also asks whether PG&E should be a "wires-only company" that exclusively provides electric distribution and transmission services, with other entities providing "generation" services. *Id.* at p. 12.

The Commission should be commended for recognizing the connection between ensuring safety and reliability, on one hand, and limiting the scope of the utility's operations, on the other. The expansive breadth of PG&E's gas and electric operations has contributed to the Commission's difficulty in effectively regulating PG&E's operations.<sup>2</sup> The "better way" to ensure that PG&E provides safe and reliable utility service, at reasonable rates, is to limit PG&E's utility operations to those functions for which PG&E maintains a natural monopoly.

The Commission should focus its regulatory oversight on those operations and activities that are necessary to provide utility service. Other PG&E services and operations that can be provided on a competitive basis should be divested.

## **II.**

### **PG&E SHOULD BE A "PIPES AND WIRES" UTILITY**

PG&E should continue to own and operate the monopoly distribution and transmission systems that deliver gas and electricity to retail customers throughout PG&E's service territory. PG&E should divest its gas and electric "procurement" operations, however, including all generation-related activities and assets. Limiting the regulated utility to "pipes" and "wires" service will limit the scope of the Commission's regulatory oversight, allowing the Commission to focus on ensuring the safety and reliability of the utility's monopoly functions.

PG&E should not continue to provide "procurement-related" services for or on behalf of its gas or electric customers. Rather, non-IOU LSEs and other third parties should be allowed to offer competitive options in energy, demand response, energy efficiency, and other supply-

---

<sup>2</sup> The NorthStar Consulting Group's final report, adopted by the Commission in D.18-11-050 (November 29, 2018), stated that the absence of a comprehensive safety plan among various PG&E lines of business "creates the potential for differing messages and inconsistent communication." Report at p. 1-8.

related and behind-the-meter services, subject to light-handed Commission regulation, as necessary. Limiting the scope of PG&E's activities will enable the Commission to regulate PG&E's monopoly functions more effectively. Procurement is not a monopoly function. PG&E's participation in gas and electric procurement distracts the Commission from focusing on the safety and reliability of PG&E's gas pipelines and its electric transmission and distribution systems.

PG&E engages in extensive gas and electric procurement, all of which is subject to Commission regulation. The Public Advocates Office reported that in the procurement year 2015-2016, PG&E purchased more than 213 million MMBtus of natural gas to serve its core procurement customers, at a cost (including interstate and backbone pipeline capacity and storage) of more than \$638 million. In its most recent ERRA forecast application (A.18-06-001), PG&E reported that its total 2019 electric procurement revenue requirement will be \$2.9 billion. PG&E recently (January 29, 2019) reported to the U.S. Bankruptcy Court that it is a counterparty (buyer) under 298 RPS PPAs, amounting to 7,779 MW. PG&E has nine energy storage contracts, for 540 MW of contracted capacity, and 80 non-RPS PPAs amounting to 5,349 MW of contracted capacity. PG&E also has built (or has contracted for) utility-owned generation ("UOG") facilities, including Diablo Canyon and more than sixty hydroelectric facilities.

PG&E's gas and electric procurement contracts and electric generation operations require extensive Commission oversight. The Commission's focus on PG&E's procurement activities and generation operations diverts staff resources and attention from the Commission's review and assessment of PG&E's transmission and distribution operations.

The Commission should separate PG&E's procurement function from its regulated utility functions. The Commission should adopt a transition plan that eliminates PG&E from procurement-related activities within six years (by January 1, 2025). On both the gas side and

the electric side, the Commission should establish rules for one or more provider(s) of last resort (“POLR”) to serve customers that do not otherwise select a retail supplier. When POLR service is assigned to one or more third parties, PG&E can and should exit the energy procurement/generation business.

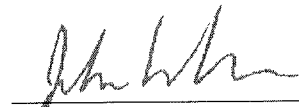
The Commission’s objective of ensuring that PG&E provides safe and reliable service will be substantially aided by separating PG&E’s “pipes” and “wires” businesses from other, procurement-related functions operated by PG&E. The Commission should draw a bright line between “utility” services that are provided on a monopoly basis, and other, competitive services that can be provided by third parties, including but not limited to unregulated PG&E affiliates. The Commission should begin immediately to take the steps necessary to direct PG&E to separate its gas and electric procurement operations from its gas and electric transmission/distribution operations.

### **III.**

#### **CONCLUSION**

Shell Energy looks forward to participating actively in this OII proceeding.

Respectfully submitted,



---

John W. Leslie  
Dentons US LLP  
4655 Executive Drive, Suite 700  
San Diego, California 92121  
Tel: (619) 699-2536  
Fax: (619) 232-8311  
E-Mail: john.leslie@dentons.com

Attorneys for Shell Energy North  
America (US), L.P.

Date: February 13, 2019