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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 REPLY 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

The Coalition of California Utility Employees (CUE), Environmental Defense Fund (EDF), and Pacific Gas and Electric Company (PG&E) submit these reply comments on the second contested issue in the Settlement Agreement (the Agreement) submitted in this matter on August 3, 2016.[1/] Specifically, these comments respond to the joint opening comments of The Utility Reform Network (TURN) and Collaborative Approach to Utility Safety and Enforcement (CAUSE) and the opening comments of the Consumer Federation of California (CFC) (collectively referred to as the Opposing Parties).[2/]

The Opposing Parties' comments all suffer from the same flaw: they fail to recognize the importance of immediately implementing Senate Bill (SB) 1371's greenhouse gas emissions reduction requirements and would result in needlessly delaying PG&E's ability to fully implement SB 1371 for up to another four or more years. The State Legislature passed this greenhouse gas reduction legislation in

1/ These reply 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 reply comments filed by the Office of Ratepayer Advocates (ORA) on the first contested issue in the Agreement.

2/ CUE, EDF and PG&E are not responding to the separate comments served by CAUSE because the Commission's Docket Office rejected CAUSE's filing. If those comments are refiled and accepted, we reserve the right to respond.

2014, recognizing the need to promptly reduce methane emissions.[3/] The Commission, in its gas leak abatement rulemaking proceeding (Rulemaking 15-01-008, the Leak Abatement OIR), is on the brink of identifying "best practices" for all California gas operators to implement under SB 1371. Section 4.2 of the Agreement is designed to provide PG&E with an interim funding mechanism so it can begin performing these new best practices immediately, rather than waiting for the Commission to adopt a separate funding mechanism in the Leak Abatement OIR, or another proceeding.

Though in this proceeding,TURN and CAUSE propose that cost recovery to implement new leak management requirements be addressed in the Leak Abatement OIR, TURN is taking a contrary position in that proceeding. In that proceeding (R.15-01-008), TURN stated that cost recovery should be addressed in the utility's next general rate case.[4/] Thus, if TURN prevailed, it would not be until 2020 or 2021 that PG&E is provided the funding to implement the new emissions reduction practices the Commission adopts in the Leak Abatement OIR. Delaying until ***at least 2020*** the urgent methane leak reductions mandated by law in ***2014*** is inconsistent with the law and inconsistent with California climate policy.

The Commission should not and need not delay implementing SB 1371's important greenhouse gas reduction mandate any longer than necessary, much less until 2020. Contrary to the implications of the Opposing Parties, approving Section 4.2 would not amount to a "blank check" for PG&E. It would only allow PG&E to recover the cost of new practices that the Commission adopts in the Leak Abatement OIR, and only if PG&E can demonstrate that its costs are, in fact, incremental to the costs PG&E forecast in this GRC.

CUE, EDF and PG&E respond more specifically to the Opposing Parties' opening comments below.

3/ Senate Bill 1371, Section 1.

4/ 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 (a copy of the relevant excerpt is attached hereto as Attachment A).

II. RESPONSE TO THE JOINT COMMENTS OF TURN AND CAUSE

A. Contrary To TURN and CAUSE's Implications, The Proposed NERBA Is Lawful And Consistent With Precedent.

TURN and CAUSE do not *directly* assert that it would be unlawful for the Commission to adopt the proposed New Environmental Regulation Balancing Account (NERBA). They *imply* otherwise, however, by citing to Water Industry Rule 1.1 and to a 1992 PG&E dictionary that is not in the record.[5/] The Water Rule merely refers to a balancing account as a "deferred charge or credit account approved by the Commission for recovery or refund."[6/] There is nothing inconsistent between the proposed NERBA and that definition. If the Commission authorizes the NERBA, it will have approved the costs (subject to Energy Division approving PG&E's advice letter filing). Even if the PG&E dictionary could be read as supporting TURN and CAUSE's position, the PG&E dictionary is not law.

TURN and CAUSE are right not to take on the legality of the proposed balancing account directly. If they were to do so, they would fail. TURN and CAUSE's comments ignore the precedent CUE, EDF and PG&E cited in their opening comments, precedent that is directly on point. In D.14-08-032, the Commission approved two new balancing accounts for recovery of yet-to-be-known requirements precisely because "the uncertainties associated with the effects of these [new] rules make it difficult to develop accurate forecasts."[7/]

TURN and CAUSE also argue that approving the NERBA is somehow premature because the Commission has yet to establish new requirements in the Leak Abatement OIR.[8/] Approving the NERBA here is, however, appropriate, for the same reasons it was appropriate in PG&E's last GRC to adopt the new balancing accounts, and in Sempra's GRC to approve a comparable balancing account:

> Since the settlement terms…do not prejudge 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.[9/]

5/ TURN/CAUSE Opening Comments, p. 16.

6/ TURN/CAUSE Opening Comments, p. 16.

7/ D.14-08-032, *mimeo*, p. 420.

8/ TURN/CAUSE Opening Comments, pp. 13-14.

9/ D.16-06-054, *mimeo*, p. 140.

Whatever leak management and emissions reduction practices the Commission adopts will necessarily be important to implement immediately. The Commission will have found that they are "best practices" and necessary to comply with SB 1371. It is hard to imagine a better reason to approve a new balancing account than to facilitate implementation of new greenhouse gas emission reduction regulations.

B. TURN Is Taking Inconsistent Positions In The Leak Abatement OIR And In This GRC.

Just three months ago, in the Leak Abatement OIR, TURN wrote: "Rather than mandating certain Best Practices, 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."[10/] Now, in its comments on Section 4.2 of the Agreement, TURN and CAUSE write: "TURN and CAUSE are not aware of any filing in R.15-01-008 by PG&E, or any other utility, seeking authority to establish a balancing account or a memorandum account or any other cost-tracking mechanism that would address this potential disconnect affecting all utilities in that rulemaking. ***That proceeding, rather than this GRC, would be the appropriate forum to seek authorization for such account***."[11/] TURN cannot have it both ways. Adopting TURN's position would delay implementation of SB 1371 until PG&E's next GRC (2020 or 2021). Six or seven years after the passage of SB 1371 is too long to wait.

C. A Tier 2 Advice Letter Would Be An Appropriate Mechanism To Recover Costs Recorded To The Proposed NERBA.

TURN and CAUSE argue that "a Tier 2 advice letter is an inappropriate vehicle" for rate recovery of amounts recorded to the NERBA.[12/] The advice letter process for PG&E is governed by General Order 96-B. General Order 96-B provides in relevant part:

> Matters appropriate to Tier 2 are:
>
> ...

10/ 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.

11/ TURN/CAUSE Opening Comments, pp. 13-14 (emphasis added).

12/ TURN/CAUSE Opening Comments, p. 14.

> (2) A tariff change that is consistent with authority the Commission previously has granted to the Utility submitting the advice letter, such as a rate change within a price floor and ceiling previously approved by the Commission for that Utility.
>
> [or] ...
>
> (6) Amortization of a balance in a balancing account if the Commission has specified both (i) the amortization period, and (ii) the rate component by which the balance will be amortized.[13/]

Notably, sub-part (6) does not require, as TURN and CAUSE suggest, a floor or ceiling to be previously approved by the Commission; such a requirement is only found in sub-part (2).

Energy Division is more than qualified to evaluate whether any costs PG&E records to the NERBA are, in fact, incremental to the work PG&E forecast in this GRC. For example, the greatest cost element at issue is the move from a 4-year to a 3-year leak survey cycle. In this regard, incrementality is easily measured by a simple comparison of the miles of pipe PG&E would have surveyed on a 4-year cycle to the miles of pipe it will have surveyed under a 3-year cycle, assuming the Commission so orders in the Leak Abatement OIR. To the extent PG&E's advice filing were to fail to sufficiently prove incrementality, Energy Division would reject the filing. Further, to the extent that parties, such as TURN or CAUSE, were to believe that PG&E had not sufficiently demonstrated incrementality, they could file protests to PG&E's advice filings. Energy Division is practiced at evaluating such protests and, where appropriate, rejecting advice filings and directing utilities to file an application.

D. There Is No Requirement For Advance Reasonableness Review Of Amounts To Be Recorded To A Balancing Account.

TURN and CAUSE assert that "a balancing account is inappropriate before there has been any review of the reasonableness of amounts that would be recorded to the account."[14/] They cite no legal authority to support this argument. As far as CUE, EDF and PG&E are aware, the Commission has never held that costs must first be forecasted before they can be recovered through a balancing account. Indeed, the concept that they must first be forecasted is undermined by the Commission's adoption of balancing accounts for the costs of implementing new FERC requirements and new Nuclear Regulatory

13/ General Order 96-B, Industry Rule 5.2.

14/ TURN/CAUSE Opening Comments, p. 16.

Commission regulations where the Commission found this because the "uncertainties" associated with the new regulations made it "difficult to develop accurate forecasts."[15/]

Moreover, contrary to TURN and CAUSE's claim, there *is* an initial forecast in the record. In its opening testimony, CUE included a forecast for implementing a 3-year leak survey cycle, as well as a forecast for performing annual leak survey of Aldyl-A pipe, both possible outcomes of the Leak Abatement OIR.[16/] CUE, EDF and PG&E could have proposed a baseline amount for the NERBA based on these forecasts. The fact that the Agreement would set the initial balance in the NERBA at $0.00, rather than at a higher number based on CUE's testimony, makes the approach conservative, not unlawful.

Finally, TURN and CAUSE are wrong to suggest that there will be no advance review by the Commission to ensure that the amounts recorded to the NERBA will be reasonable. That review will take place in the Leak Abatement OIR. The NERBA will only allow PG&E to recover the costs of incremental work to implement best practices the Commission adopts in the OIR.

III. RESPONSE TO CFC'S COMMENTS

CFC asserts a concern that the NERBA "creates a wide opening for seemingly unlimited gas leak spending. CFC is concerned that NERBA could be used to circumvent revenue requirement reductions which have already been established in these settlement negotiations; that the NERBA would be used simply to recover those costs under different guises at a later date."[17/] CFC's concern is without merit.

The NERBA would only allow PG&E to recover the costs to implement "incremental Gas Distribution Emission Reduction Costs associated with new regulatory requirements pertaining to gas distribution leak management activities, adopted in Phase I of R.15-01-008, until the Commission makes a decision regarding costs in Phase II."[18/] This is not unlimited. Rather, it is limited to the cost of work the Commission orders in the Leak Abatement OIR.

15/ D.14-08-032, *mimeo*, p. 420.

16/ Exh. (CUE-8-Errata to Prepared Direct Testimony of David Marcus), p. 48, line 12 to p. 52, line 10.

17/ CFC Opening Comments, p. 7.

18/ Agreement, Section 4.2.2.

Nor would it allow PG&E to recover costs removed from PG&E's forecast under the Agreement. PG&E agreed to a $2.5 million reduction to its leak management expense forecast.[19/] As already discussed, Section 4.2 would only allow PG&E to recover the costs of "incremental" work mandated in the Leak Abatement OIR. Any work that was already contemplated in PG&E's forecast cannot, by definition, be "incremental." The NERBA thus cannot be used as a back door to allow PG&E to recover costs it agreed to forego under the Agreement.

Finally, CFC's suggestion that the concept of the NERBA came too late for discovery and analysis[20/] is without merit. EDF proposed such a balancing account in its opening testimony.[21/] The NERBA is thus not a new concept first introduced in the Agreement. Rather, the Agreement simply accepts what EDF proposed in its testimony and gives it a name.

IV. CONCLUSION

No party has raised a legitimate concern with approving the NERBA recommended in Section 4.2 of the Agreement. As demonstrated in CUE, EDF and PG&E's Opening Comments, the NERBA would enable PG&E to more quickly implement the leak management and greenhouse gas emission reduction measures mandated by SB 1371 that will be adopted by the Commission in the Leak Abatement OIR. It is most certainly in the public interest to do so.

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19/ Agreement, Section 3.1.2.

20/ CFC Opening Comments, p. 7.

21/ Ehx. (EDF-1-Opening Testimony of Timothy J. O'Connor). p. 11, lines 5-6 and p. 18, line 17 to p. 19, line 16.

Pursuant to Commission Rule 1.8(d), counsel for CUE, and EDF have authorized PG&E to submit these comments on their behalf.

Respectfully Submitted,

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Attachment A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Adopt Rules and Procedures Governing Commission-Regulated Natural Gas Pipelines and Facilities to Reduce Natural Gas Leakage Consistent with Senate Bill 1371.	Rulemaking 15-01-008 (Filed January 15, 2015)

COMMENTS OF THE UTILITY REFORM NETWORK ON JOINT STAFF REPORT AND RECOMMENDATIONS FOR MANDATORY REQUIREMENTS AND BEST PRACTICES

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all technologically feasible and cost effective methods to identify, reduce and eliminate fugitive methane emissions on the utility gas transmission and distribution systems.

TURN's concern is exacerbated by the fact that there is little explanation in the Staff Report for why the identified Best Practices were selected. The Staff Report would be considerably stronger if identified Best Practices were somehow ranked based cost and an ability to reduce methane emissions. Then, it would be possible to determine whether some Best Practices were truly "no regrets" strategies due to very low cost; or should be adopted due to the significant methane reduction potential. As it stands, it is difficult to judge the validity of the staff's choices based on the information presented in the entire spreadsheet of best practices in Attachment A.

Rather than mandating certain Best Practices, 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. The Commission should then adopt the most effective and cost-effective measures in the rate case. In this proceeding, the Commission could adopt: 1) a cost-effectiveness benchmark (dollar per methane emission reduction) that could be used to select best practices in utility-specific rate cases; and/or 2) a performance benchmark (total methane emission reduction as a percentage of leaked methane) to be met by some combination of best practices in the rate case.

B. Response to Other Questions

1. Four Principles

TURN does not disagree with the proposed four principles; though TURN is unclear on the exact meaning or the second principle.